ANNUAL REPORT
AND
ACCOUNTS

ISLE OF WIGHT COUNCIL
PENSION FUND
2012-13

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

Contents

Foreword

I am pleased, as the new Chairman of the Pension Fund Committee, to present the annual report of the Pension Fund Committee for 2012/13.

The overall Fund value at 31st March 2013 was £391.0m up from £334.9m as at 31st March 2012.

Performance in 2012-13 has been good despite a backdrop of continued volatility and uncertainty in the Eurozone. The overall fund performance was a healthy return of 17.6%. The WM League Tables for 100 Local Authority Pension Funds put us in overall 2nd place (first place excluding property) compared to 72nd the previous year. For UK Equities 10th, UK Bonds 73rd and Property 26th. The overall performance was particularly good in global equities where we were 7th compared to a very disappointing 96th the year before.

As always with performance we need to take a longer term view and in August 2012 we reviewed the current investment structure following the fund managers inception three years ago and the committee did a review of the overall performance and asset allocation.

In November 2012 the Committee decided to appoint Mercer as an independent advisor to the Fund to undertake a mini procurement exercise and the previous Committee agreed that the fund should disinvest 15% of the fund held by Schroder in UK equities and re-invest in a Diversified Growth Fund.

This exercise has now taken place and the Committee has appointed Baillie Gifford to manage a Diversified Growth Fund.

Councillor Robert Blezzard
Chairman of the Isle of Wight Pension Fund Committee
18 July 2013

Management Structure

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

		Appointed	Resigned
Councillor R Mazillius			as Chair and from committee May 2012
Councillor P Bingham		as Chair May 2012	as Chair and from committee May 2013
Councillor R Blezzard	Chair	to committee and as Chair May 2013	
Councillor R Abraham			May 2013
Councillor R Barry			
Councillor V Churchman			May 2013
Councillor L Hillard		May 2013	June 2013
Councillor T Hunter-Henderson			May 2012
Councillor S Hutchinson		June 2012 June 2013	May 2013
Councillor J Jones-Evans		May 2013	
Councillor G Kendall		May 2013	
Councillor D Pitcher		May 2013	
Councillor I Ward		May 2012	May 2013
Councillor I Warlow		May 2013	
Councillor W Whittle			June 2013

The Committee is advised by:

Strategic Director of Resources, Mr D Burbage
Ms J Holden, Investment Consultant – Mercer Limited

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

Investment Managers
Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Majedie Asset Management Ltd
5th Floor
10 Old Bailey
London EC4M 7NG

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

Actuarial Services
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Investment Consultants
Mercer Limited
Belvedere
12 Booth Street
Manchester M2 4AW

AVC Provider
Prudential
AVC Customer Services
Stirling FK9 4UE

Custodian
JP Morgan Chase Bank NA
Chaseside
Bournemouth BH7 7DA

Auditors
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading RG1 1YE

Bankers
National Westminster
Nat West House
Riverway
Newport
Isle of Wight PO30 5UX

Scheme Administrator
Isle of Wight Council
County Hall
Newport
Isle of Wight PO30 1UD

Statement of Responsibilities for the Statement of Accounts

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

The duties of the Chief Financial Officer are carried out by the Strategic Director of Resources.

The Strategic Director of Resource's responsibilities

The Strategic Director of Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Strategic Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Strategic Director of Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts for the year ended 31 March 2013 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 6 to 32.

I further certify that the statement of accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

Date: 12 September 2013

D Burbage
Strategic Director of Resources

Stuart L Fraser

S Fraser
Head of Financial Management
(Section 151 Officer)

Date: 12 September 2013

Fund Account

2011-12 £000		Notes	2012-13 £000
	Dealings with members, employers and others directly involved in the fund		
17,766	Contributions	7	15,691
1,751	Transfers in from other pension funds	8	506
12	Other income	9	16
19,529			16,213
(18,894)	Benefits	10	(18,307)
(1,418)	Payments to and on account of leavers:	11	(1,247)
(352)	Administrative expenses	12	(422)
(20,664)			(19,976)
(1,135)	Net withdrawals from dealings with members		**(3,763)**
	Returns on investments		
9,717	Investment income	13	9,738
(578)	Taxes on income	14	(517)
(1,703)	Profit and losses on disposal of investments and changes in the market value of investments	17	49,465
(1,002)	Investment management expenses	15	(1,177)
(4)	Interest payable	16	(6)
6,430	Net returns on investments		57.503
5,295	**Net increase in the net assets available for benefits during the year**		**53,740**

Net Assets Statement

2012 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2013 £000
330,646	Investment assets	17	386,669
4,335	Cash deposits	17	4,364
334,981			391,033
(66)	Investment liabilities	17	(15)
(1,285)	Borrowings	18	(2,020)
1,022	Current assets	22	337
(562)	Current liabilities	23	(1,505)
334,090	**Net assets of the fund available to fund benefits at the period end**		**387,830**

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 21.

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 2012-13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for the majority of local government employees throughout the Isle of Wight, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers 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 an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund at 31 March 2013 are:

Chale Parish Council	Ryde Town Council
Cowes Town Council	Sandown Bay Academy
Isle of Wight College	Weston Primary Academy (NEW)
Newport Parish Council	Wootton Bridge Parish Council
Northwood Parish Council	Yarmouth Town Council
Ryde Academy	

The admitted bodies of the fund at 31 March 2013 are:

The Childrens Society	Southern Vectis
Cowes Harbour Commissioners	Spurgeons
Isle of Wight Society for the Blind	St Catherine's School Ltd
Medina Housing Association Ltd (Spectrum Housing)	Trustees of Carisbrooke Castle Museum
Planet Ice (IOW) Ltd	Ventnor Botanic Gardens (NEW)
Riverside Centre Ltd	Visit IOW Limited (NEW)
South Wight Housing Association Ltd (Southern Housing)	Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:
Year ended 31 March 2013

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	11	14	**26**
Number of contributors (Active members)	3,344	404	135	**3,883**
Number of frozen refunds [1]	607	10	4	**621**
Number of deferred pensioners [2]	4,326	227	91	**4,644**
Number of pensioners	2,866	112	108	**3,086**
Number of widows/dependant pensioners	439	16	17	**472**
	11,582	769	355	**12,706**

Year ended 31 March 2012

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	10	13	**24**
Number of contributors (Active members)	3,470	385	122	**3,977**
Number of frozen refunds [1]	623	-	-	**623**
Number of deferred pensioners [2]	4,190	204	80	**4,474**
Number of pensioners	2,734	106	120	**2,960**
Number of widows/dependant pensioners	455	6	10	**471**
	11,472	701	332	**12,505**

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Scheme during their employment but have not yet claimed the refund

[2] A deferred pensioner is a former employee who has accrued pension rights within the Scheme but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Scheme/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 (Benefits, Membership and Contributions) Regulations 2007. The pay bands and rates applicable for the year ended 31 March 2013 are detailed below.

Range (Annual full-time equivalent pay)	Contribution rate
Up to £13,500	5.5%
£13,501 – £15,800	5.8%
£15,801 – £20,400	5.9%
£20,401 – £34,000	6.5%
£34,001 – £45,500	6.8%
£45,501 – £85,300	7.2%
More than £85,300	7.5%

Employee contributions are matched by employers' contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2010. The current and future employer contribution rates as determined by that valuation are detailed in note 20.

d) Benefits

Pension benefits under the LGPS are based on pensionable pay and length of pensionable service, summarised below:

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website: http://www.iwight.com/council/OtherServices/Pensions-IWC

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS2014

New regulations have been issued setting out the details of the new LGPS scheme effective from 1 April 2014. In summary:

- All pensions in payment or built up before April 2014 will be fully protected. If you are currently in receipt of a pension or have left with a deferred pension these changes do not affect you. If you are currently a contributing scheme member your pre April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age.
- For service accruing after April 2014, pensions will be based on Career Average Revalued Earnings (CARE), rather than final salary.
- Each year worked will be worth 1/49 x CARE.
- There will continue to be no automatic lump sum, but (as currently) a lump sum of £12 will be paid for each £1 of pension given up.
- The normal pension age, at which benefits will be payable without reduction, will change from 65 to the individual member's State Retirement Age.

Further details on the new LGPS scheme can be found here: http://lgps2014.org/

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2012-13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts 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 21 of these accounts.

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 at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. 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 LGPS Regulations (see notes 8 and 11).

Individual transfers in/out are accounted for when paid/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 on an accruals basis 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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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) Movements in the net market value of investments

Movements in the net market 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.

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) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Newton Investment Management Limited – Global Equities
- Majedie Asset Management Limited – UK Equities

Performance-related fees were £58.0 thousand in 2012-13 (2011-12: nil)

Where an investment manager's fee note has not been received by the balance sheet 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 2012-13 no fees are based on such estimates (2011-12: nil)

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

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

h) 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

i) Financial assets
Financial assets are included in the net assets statement on a fair value basis 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. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

j) 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, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

k) Cash and cash equivalents
Cash comprises cash in hand and demand deposits.

Cash equivalents 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.

l) Financial liabilities

The fund recognises financial liabilities at fair values at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) 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 IAS 26, 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 21).

n) Additional Voluntary Contributions

Isle of Wight Council Pension 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(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 24).

o) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

p) Provisions, Contingent Liabilities and Contingent Assets

i) Provisions

Provisions are made where an event has taken place that gives the fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance, the fund may be involved in a court case that could result eventually in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the fund account in the year that the fund becomes aware of the obligation, and are measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the net assets statement. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

ii) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the fund a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the net assets statement but disclosed in note 26 to the accounts.

iii) Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund.

Contingent assets are not recognised in the net assets statement but disclosed in note 26 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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 and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and summarised in note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to items in the notes to the accounts within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £34m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £9m. A one-year increase in assumed life expectancy would increase the deficit by approximately £9m

6. Events after the balance sheet date

Change in membership of committee

Following the local elections on 3 May 2013, there were significant changes to the membership of the pension fund committee.

Members at 31 March 2013 were Councillors Bingham (chair), Abraham, Barry, Churchman, Hutchinson, Ward and Whittle.

Members at 21 June 2013 were Councillors Blezzard (chair), Barry, Hutchinson, Jones-Evans, Kendall, Pitcher and Warlow.

Asset allocation

At its meeting on 15 May 2013, the committee agreed to progress with a change in asset allocation, disinvesting the portion of its UK Equity allocation managed by Schroder Investment Management in favour of a Diversified Growth Fund. The decision on the appointment of the fund manager to manage this element of the portfolio will be taken in July 2013. The transition is expected to be complete by September 2013.

There are no other 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:

2011-12 £000		2012-13 £000
	Employers	
12,197	Normal	11,761
1,775	Special (Capitalisation)	192
249	Additional (deficit funding and cessations)	384
14,221		12,337
	Members	
3,514	Normal	3,332
31	Additional	22
3,545		3,354
17,766		**15,691**

By authority:

2011-12 £000		2012-13 £000
15,560	Administering authority	12,922
1,221	Scheduled bodies	1,532
985	Admitted bodies	1,237
17,766		**15,691**

8. Transfers in from other pension funds

2011-12 £000		2012-13 £000
-	Group transfers	-
1,751	Individual transfers	506
1,751		**506**

9. Other income

2011-12 £000		2012-13 £000
12	Miscellaneous income	16
-	Contribution Equivalent Premiums	-
12		**16**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 26).

10. Benefits payable

By category:

2011-12 £000		2012-13 £000
13,482	Pensions	14,585
5,109	Commutation of pension and lump sum retirement benefits	3,440
303	Lump sum death benefits	282
18,894		**18,307**

By authority:

2011-12 £000		2012-13 £000
17,377	Administering authority	16,711
519	Scheduled bodies	547
998	Admitted bodies	1,049
18,894		**18,307**

11. Payments to and on account of leavers

2011-12 £000		2012-13 £000
1	Refund of contributions	-
-	Group transfers	-
1,417	Individual transfers	1,247
1,418		**1,247**

12. Administrative expenses

2011-12 £000		2012-13 £000
254	Administering authority	257
52	IT costs	77
-	External audit fees	19
43	Actuarial fees	61
3	Other expenses	8
352		**422**

In 2012-13, external audit fees have been charged directly to the fund, and are disclosed separately above. In previous years, external audit fees in respect of the pension fund were paid by the Isle of Wight Council and recharged to the fund. In 2011-12, external audit fees of £32.2 thousand were included in administering authority expenses.

13. Investment income

2011-12 £000		2012-13 £000
5,629	Equity dividends	5,340
	Income from pooled investment vehicles:	
785	- Property	763
3,247	- Bonds	3,492
46	- Unit Trusts	35
10	Interest on cash deposits	6
-	Other	102
9,717		**9,738**

14. Taxation

2011-12 £000		2012-13 £000
578	Withholding tax - equities	517
578		**517**

15. Investment management

2011-12 £000		2012-13 £000
972	Management fees	1,123
16	Custodian fees	16
9	Performance monitoring fees	9
5	Investment consultancy	29
1,002		**1,177**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charges on pooled fund investments.

16. Interest payable

2011-12 £000		2012-13 £000
4	Interest on short term borrowing	6
4		**6**

17. Investments

Market value 31 March 2012 (restated) £000		Market value 31 March 2013 £000
	Investment assets	
117,935	Equities	140,671
212,056	Pooled Investment Vehicles	245,182
4,335	Cash deposits	4,364
512	Investment income due	668
42	Amounts receivable for sales	72
101	Recoverable withholding tax	76
334,981	**Total investment assets**	**391,033**
	Investment liabilities	
(66)	Amounts payable for purchases	(15)
(66)	**Total investment liabilities**	**(15)**
334,915	**Net investment assets**	**391,018**

In 2011-12, and in previous years, the Newton Global Equities portfolio was classed as "Overseas Equities" in notes 17 (investments) and 18 (financial instruments). The fund has not directly held these individual stocks, rather has always invested in units of a pooled fund. Accordingly, the Newton portfolio should always have been classed as a pooled investment vehicle.

The 31 March 2012 comparative figures in both notes have been adjusted to reflect the correct disclosure of this part of the investment portfolio from Equities into Pooled Investment Vehicles.

An analysis of the market value at 31 March 2013 by industrial sector can be found at Appendix B.

17a) Reconciliation of movements in investments

	Market value 1 April 2012 (restated)	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2013**
	£000	£000	£000	£000	**£000**
Equities	117,935	48,793	(46,132)	20,075	**140,671**
Pooled Investment Vehicles					
Global Equities	106,962	-	-	25,622	**132,584**
Property	18,888	402	-	(414)	**18,876**
Bonds	77,103	3,492	-	3,334	**83,929**
Unit Trusts	9,103	114	(283)	859	**9,793**
	329,991	52,801	(46,415)	49,476	**385,853**
Cash with custodian	4,335			(11)	**4,364**
Amounts receivable for sales of investments	42				**72**
Investment income due	512				**668**
Recoverable withholding tax	101				**76**
Amounts payable for purchases of investments	(66)				**(15)**
Net investment assets	334,915			49,465	**391,018**

All restated	Market value 1 April 2011	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2012**
	£000	£000	£000	£000	**£000**
Equities	113,753	42,240	(36,263)	(1,795)	**117,935**
Pooled Investment Vehicles					
Global Equities	111,810	-	-	(4,848)	**106,962**
Property	17,818	704	-	366	**18,888**
Bonds	68,491	4,046	-	4,566	**77,103**
Unit Trusts	9,353	168	(426)	8	**9,103**
	321,225	47,158	(36,689)	(1,703)	**329,991**
Cash with custodian	4,671			-	**4,335**
Amounts receivable for sales of investments	630				**42**
Investment income due	469				**512**
Recoverable withholding tax	176				**101**
Amounts payable for purchases of investments	(477)				**(66)**
Net investment assets	326,694			(1,703)	**334,915**

17b) Analysis of investments

31 March 2012 (restated) £000		31 March 2013 £000
	EQUITIES	
	UK	
117,759	Quoted	130,806
	Overseas	
176	Quoted	9,865
117,935		**140,671**
	POOLED FUNDS – ADDITIONAL ANALYSIS	
	UK	
212,056	Quoted	245,182
212,056		**245,182**
329,991		**385,853**

Investments analysed by fund manager

Market value 31 March 2012			Market value 31 March 2013	
£000	%		£000	%
77,103	23.0	Schroder Investment Management – Bonds	83,929	21.5
51,564	15.4	Schroder Investment Management – UK Equities	59,842	15.3
19,215	5.7	Schroder Investment Management – Property	19,618	5.0
106,962	32.0	Newton Investment Management – Overseas Equities	132,584	33.9
79,970	23.9	Majedie Asset Management – UK Equities	94,969	24.3
334,814			**390,942**	
101	0.0	Recoverable withholding tax	76	0.0
334,915			**391,018**	

All the above companies are registered in the United Kingdom.

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

Market value 31 March 2012			Market value 31 March 2013	
£000	% of total fund		£000	% of total fund
106,962	32.02	Newton International Growth X Account	132,584	34.19
77,103	23.08	Schroder Institutional Sterling Broad Market X Account	83,929	21.64
18,888	5.65	Schroder Exempt Property Unit Trust	-	0.0
-	0.0	Schroder UK Property Fund	18,876	4.87

The following investments represent more than 5% of their asset class

Market value 31 March 2012			Market value 31 March 2013	
£000	% of asset class		£000	% of asset class
		Equities		
8,328	7.07	Vodafone Group	8,547	6.07
7,211	6.11	BP plc	7,898	5.61
8,004	6.79	GlaxoSmithKline plc	6,308	4.48
6,829	5.79	Royal Dutch Shell	5,793	4.11

Market value 31 March 2012			Market value 31 March 2013	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
106,962	100.00	Newton International Growth X Account	132,584	100.00
		Bonds		
77,103	100.00	Schroder Institutional Sterling Broad Market X Account	83,929	100.00
		Property		
18,888	100.00	Schroder Exempt Property Unit Trust	-	0.0
-	0.0	Schroder UK Property Fund	18,876	100.00
		Unit Trusts		
7,495	82.33	Majedie Asset Management Special Situations Investment Fund	7,977	81.46
1,121	12.31	Schroder Recovery Fund A Inc	1,218	12.44
487	5.36	Schroder Institutional UK Smaller Companies Fund	598	6.10

18. Financial instruments

18a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets heading. No financial assets were reclassified during the period.

31 March 2012 (restated)				31 March 2013		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
117,935			Equities	140,671		
212,056			Pooled investment vehicles	245,182		
	4,335		Cash		4,364	
655			Other investment balances	816		
	2		Debtors		6	
330,646	**4,337**	**-**		**386,669**	**4,370**	**-**
			Financial liabilities			
(66)			Other investment balances	(15)		
		(138)	Bank overdraft			-
		(266)	Creditors			(414)
		(1,285)	Borrowings			(2,020)
(66)	**-**	**(1,689)**		**(15)**	**-**	**(2,434)**
330,580	**4,337**	**(1,689)**		**386,654**	**4,370**	**(2,434)**

18b) Net gains and losses on financial instruments

31 March 2012 £000		31 March 2013 £000
	Financial assets	
(1,703)	Fair value through profit and loss	49,476
-	Loans and receivables	(11)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
(1,703)	**Total**	**49,465**

18c) Fair value of financial instruments

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared to their fair values.

31 March 2012			31 March 2013	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
330,646	330,646	Fair value through profit and loss	386,669	386,669
4,337	4,337	Loans and receivables	4,370	4,370
334,983	**334,983**	**Total financial assets**	**391,039**	**391,039**
		Financial liabilities		
(66)	(66)	Fair value through profit and loss	(15)	(15)
(1,689)	(1,689)	Financial liabilities measured at amortised cost	(2,434)	(2,434)
(1,755)	**(1,755)**	**Total financial liabilities**	**(2,449)**	**(2,449)**

The carrying value of financial instruments and liabilities is the market value prevailing at the balance sheet dates.

The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information available to determine fair values.

Level 1

Financial instruments quoted 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 fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments 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.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

At 31 March 2013, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

At 31 March 2013			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	140,671	-	-
Pooled Investment Vehicles:			
Global Equities	132,584	-	-
Property	-	18,876	-
Bonds	83,929	-	-
Unit Trusts	9,793	-	-
Cash and Cash Equivalents	4,364	-	-
TOTAL	**371,341**	**18,876**	**-**

At 31 March 2012			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	117,935	-	-
Pooled Investment Vehicles:			
Global Equities	106,962	-	-
Property	-	18,888	-
Bonds	77,103	-	-
Unit Trusts	9,103	-	-
Cash and Cash Equivalents	4,335	-	-
TOTAL	**315,438**	**18,888**	**-**

19. Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's objective is to generate positive investment returns for a given level of risk. Therefore the fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

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 council's pensions operations, Policies are reviewed regularly to reflect changes in activity and market conditions.

The fund's investments are held by J P Morgan Chase Bank NA, who act as custodian on behalf of the fund.

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 represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the committee.

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

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Other price risk arises from uncertainty about the future value of the financial instruments that the fund holds. 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 risk through diversification in line with their own investment strategies and mandate guidelines.

Other price risk - sensitivity analysis
The sensitivity of the fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the reporting period. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the net assets, as held by the fund's custodian, by the amounts shown below.

	Value as at 31 March 2013	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	4,364	0.0	4,364	4,364
Investment portfolio assets				
Equities – UK	130,806	5.0	137,342	124,271
Equities – overseas	9,865	34.7	13,290	6,441
Pooled investment vehicles:				
Global equities	132,584	6.9	141,785	123,383
Property	18,876	0.3	18,941	18,810
Bonds	83,929	2.3	85,836	82,022
Unit Trusts	9,793	5.3	10,314	9,271
Amounts receivable for sales	72	0.0	72	72
Investment income due	668	0.0	668	668
Recoverable withholding tax	76	0.0	76	76
Amounts payable for purchases	(15)	0.0	(15)	(15)
Total	391,018		412,673	369,363

	Value as at 31 March 2012	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	4,335	0.0	4,335	4,335
Investment portfolio assets				
Equities – UK	117,759	3.6	121,959	113,559
Equities – overseas	176	38.2	244	109
Pooled investment vehicles:				
Global equities	106,962	5.8	113,114	100,810
Property	18,888	2.0	19,266	18,510
Bonds	77,103	3.4	79,722	74,485
Unit Trusts	9,103	7.5	9,787	8,419
Amounts receivable for sales	42	0.0	42	42
Investment income due	512	0.0	512	512
Recoverable withholding tax	101	0.0	101	101
Amounts payable for purchases	(65)	0.0	(65)	(65)
Total	334,916		349,017	320,817

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances will be affected by fluctuations in interest rates.

Interest rate risk - sensitivity analysis

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 the fair value of financial instruments when expressed in sterling, the fund's base currency, will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on investments denominated in a currency other than 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 2013, and as at the previous period end:

	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£'000	£'000
Equities	9,865	-
Investment income due	80	-
	9,945	**-**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 3.44% (as measured by one standard deviation), based on historical movements on the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 3.44% 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 2013	Value on increase +3.44%	Value on decrease -3.44%
	£'000	£'000	£'000
Equities	9,865	10,205	9,526
Investment income due	80	83	78
	9,945	**10,288**	**9,604**

The fund did not have any investments denominated in foreign currencies as at 31 March 2012; hence no sensitivity analysis table is produced.

d) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

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 not engage in securities lending activities, hence is not 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.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is 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. Therefore 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.

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 25 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 investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk
The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. Funding arrangements
In line with the Local Government Pension Scheme (Administration) Regulations 2008, 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 fund's most recent triennial actuarial valuation was undertaken as at 31 March 2010. The next valuation will take place as at 31 March 2013.

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

- To ensure the long term solvency of the Pension fund and of the share of the Pension Funds attributable to individual employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- 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 help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- To minimize the degree of short term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from and employer defaulting on its pension obligations;
- To address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- To minimise the cost of the Scheme to employers.

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 below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. 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 modelling, there is still as sufficiently high likelihood that the Fund will return to full funding over 21 years.

At the March 2010 valuation, the fund was assessed as 75.3% funded, compared to the previous valuation of 80.2%. The resulting deficit at the 2010 valuation was £97 million (2007: £64.9 million deficit).

Individual employer's contributions for the period 1 April 2011 to 31 March 2014 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		
	2012	2013	2014
	% of pay	% of pay	% of pay
Isle of Wight Council	22.0	22.0	22.0
Isle of Wight College (from 1 August)	20.2	21.7	22.8
Spectrum Housing Group (Medina HA)	24.6	26.6	28.6
Southern Housing Group (South Wight HA)	20.8	20.8	20.8
Yarmouth Harbour Commissioners	21.6	21.6	21.6
Cowes Harbour Commissioners	24.3	24.3	24.3
St Catherine's School Ltd	40.0	45.0	50.6
IOW Society for the Blind	45.1	45.1	45.1
Riverside Centre Ltd	15.9	15.9	15.9
Trustees of Carisbrooke Castle Museum	25.0	25.0	25.0
Planet Ice (IOW) Ltd	15.1	15.1	15.1
Osel Enterprises Ltd	22.0	22.0	22.0

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2012	2013	2014
	Lump sum £000	Lump sum £000	Lump sum £000
Southern Housing Group (South Wight HA)	132	132	132
Yarmouth Harbour Commissioners	42	44	47

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

Financial Assumptions

Assumption	Derivation	Rate at 31 March 2010	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date, less 0.5% p.a.	3.3%	-
Pay Increases*	CPI plus 2.0% p.a.	5.3%	2.0%
Gilt Based Discount Rate	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	"Gilt based" discount rate plus an asset out-performance assumption of 1.6% p.a.	6.1%	2.8%

* 1% p.a. for 2010-11 and 2011-12, reverting to 5.3% thereafter. Plus an allowance for promotional pay increases.

(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.)

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 valuation report and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

21. 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 IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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 20). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £564 million (31 March 2012: £480 million). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2010 triennial valuation (see note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Year ended	31 March 2013 % p.a.	31 March 2012 % p.a.
Pension Increase Rate	2.8%	2.5%
Salary Increase Rate *	5.1%	4.8%
Discount Rate	4.5%	4.8%

* Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

(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.)

Longevity assumption

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners *	24.9 years	27.7 years

* Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-fee cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

22. Current assets

31 March 2012 £000		31 March 2013 £000
	Debtors	
38	• Contributions due - employees	43
945	• Contributions due - employers	228
37	• Taxation	60
2	• Sundry debtors	6
-	Cash balances	-
1,022		**337**

Analysis of debtors

31 March 2012 £000		31 March 2013 £000
37	Central government bodies	60
781	Local authorities	58
204	Other entities and individuals	219
1,022		**337**

23. Current liabilities

31 March 2012 £000		31 March 2013 £000
138	Bank overdraft	-
	Creditors	
158	• Taxation	169
259	• Accruals	1,013
7	• Sundry creditors	37
-	Short term provisions	286
562		**1,505**

Analysis of creditors

31 March 2012 £000		31 March 2013 £000
158	Central government bodies	169
-	Local authorities	66
266	Other entities and individuals	984
424		**1,219**

24. Additional voluntary contributions (AVCS)

Market value 31 March 2012 £000		Market value 31 March 2013 £000
1,086	Prudential Life and Pensions	1,115

AVCs of £100 thousand were separately invested with Prudential Life and Pensions (2011-12: £118 thousand).

25. 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.

The council incurred costs of £257 thousand (2011-12: £254 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 £10.1 million (2011-12: £12.5 million) to the fund in 2012-13. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £58 thousand (2012: £780 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was 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 2012-13 was £2.1 million (2011-12: £2.0 million). The balance due to the council at 31 March 2013 is £2.02 million (2012: £1.285 million), repayable within 1 month. Interest of £5.6 thousand (2011-12: £4.3 thousand) was paid on these borrowings (see note 16).

Governance

There are three members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, Blezzard and Kendall). In addition committee members Cllrs Barry, Jones-Evans, Warlow and Whittle are active members of the pension fund.

Each member of the pension fund committee is required to declare their interests at each meeting.

Council members named in note 28 form the Pension Fund Committee as trustees.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Isle of Wight Council Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of Isle of Wight Council.

IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

The fund is advised by the Strategic Director of Resources. As he is not a member of the Isle of Wight Council Pension Fund, no separate disclosures are made in the fund accounts.

26. Contingent assets and liabilities

At 31 March 2013 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand (2012: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £44 thousand (2012: £186 thousand and £44 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is on-going. The sums do not form part of the net assets of the fund.

27. Capital commitments

There were no capital commitments as at 31 March 2013 (2012: nil)

28. Trustees report 2012-13

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2013 were Councillors Bingham (chair), Abraham, Barry, Churchman, Hutchinson, Ward and Whittle. Changes to committee membership after the year end, following the local elections, are detailed in note 6.

The committee is advised by the Strategic Director of Resources, Mercer Limited, the fund's investment consultants, and Hymans Robertson, the fund's actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

<u>Investment Performance</u>

The net assets of the fund at 31 March 2013 were £387.8 million, a rise of 16.1% on the 31 March 2012 valuation of £334.1 million. The fund's total investments out-performed the agreed benchmarks by 3.3% during the year, due to particularly strong performance by Majedie in UK equities and Newton's global equity fund.

<u>Funding Level</u>

The fund's last triennial actuarial valuation was undertaken at 31 March 2010, showing a funding level of 75.3%, compared to 80.2% at the previous valuation at 31 March 2007. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2011.

The actuary's funding projection report at 31 March 2013 showed that the notional funding level had declined to 71.6% (2012: 67.3%). The increase in the notional funding value from last year is as a result of higher than expected asset returns during the year. However since the last full valuation this has been negated by reductions in bond yields throughout the period, leading to increases in the future cost of liabilities.

The next triennial valuation will be undertaken as at 31 March 2013, with the results being known during the autumn of 2013.

<u>Governance</u>

The committee continues to keep its governance arrangements under review. It created and regularly reviewed a risk register to identify, monitor and control, as far as possible, the risks to the fund. It also considered an internal audit report on the administration of the pension scheme. In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including benchmarking (delivered by State Street), asset allocation models, fund manager performance reviews and current investment issues.

In 2012-13, the committee considered the strategic asset allocation of the fund, and the performance of the fund managers after the third year of the current investment management arrangements. As a result, the committee agreed to pursue a Diversified Growth Fund allocation, and reduce the fund's exposure to UK equities during 2013-14.

It also received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and Governance Compliance Statement; and received regular updates on proposed changes to the Local Government Pension Scheme following the Hutton review of public service pensions, including LGPS 2014 and the Public Services Pension Act, which received Royal Assent in April 2013.

In addition, the committee continues to receive presentations from its fund managers on the pension fund performance as well as performance benchmarking and advice from its independent adviser, Mercer Limited.

Knowledge and Skills Framework Compliance Statements

Dated: 13 May 2013

Policy statements

1. This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2. This organisation recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Strategic Director of Resources, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

Member training report

A training plan for delivery in 2012-13 was formulated following a training needs analysis undertaken in January 2012.

Members have agreed that they will undertake training before the start of each of the scheduled committee meetings in future. These training sessions will be delivered by a combination of officers, external advisers and fund managers. Separate agendas will be issued for these sessions and a record of member and officer attendance will be maintained.

During 2012-13, the committee received presentations from each of the fund managers in respect of the performance of their particular portfolios, briefings from the investment consultants on monitoring the performance of fund managers, the strategic asset allocation of the fund and alternative asset classes, and from officers in respect of the latest developments affecting the LGPS.

In addition, members of the committee attended external conferences for further development, including:

- Councillor Churchman attended the National Association of Pension Funds conference
- Councillor Mazillius and Mr Burbage attended the annual LGC summit

Reports from these conferences were provided to the committee at subsequent meetings.

The committee members' attendance at the scheduled committee meetings during 2012-13 is set out in the table below:

	18 May 2012	13 Jul 2012 (AGM)	30 Nov 2012	15 Feb 2013	%
Councillor P Bingham (Chair)	√	√	√	√	100%
Councillor B Abraham	apols	√	√	√	75%
Councillor R Barry	apols	√	√	√	75%
Councillor V Churchman	√	apols[1]	√	apols	50%
Councillor S Hutchinson	n/a	√	√	√	100%
Councillor I Ward	apols	√	√	√	75%
Councillor W Whittle	√	√	apols	apols	50%
	50%	86%	86%	71%	74%

[1] Councillor I Stephens attended the AGM in place of Councillor Churchman.

Communications Policy Statement

Effective communication between the Isle of Wight Council (the council), the scheme members, and the employers within the fund is essential to the proper management of the Isle of Wight Council Pension Fund (the fund) on a transparent and accountable basis.

This document sets out a policy framework within which the council, as administering authority for the fund, will communicate with:-

- Members of the scheme (current, deferred and pensioner)
- Representatives of members
- Employing bodies and
- Prospective members

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

Members of the scheme:

The key point of contact for members is the pension administration team. They can be contacted by telephone, email or in writing.

Although the pensions team operate an open door policy for visitors, pre booked appointments are preferable.

A pensions page is maintained on the council's website, http://www.iwight.com/council/OtherServices/Pensions-IWC, which provides:

- Guides to the Local Government Pension Scheme (LGPS) including pension sharing on divorce, increasing pension benefits and the appeals process
- Policy Statements, including the Statement of Investment Principles, the Funding Strategy Statement, and Governance Compliance Statement.
- Annual Reports
- Pensions Bulletins
- Contact list for Pensions Team
- Links to other useful sites including the Local Government Pensions Committee (LGPC), the Department for Communities and Local Government (DCLG) and the LGPS Regulations.

The information held on the pensions page will be reviewed and updated on a regular basis.

Frequency of Communication:

Monthly:

Payslips (if required) to Pensioner Members

Annually:

Benefits Statements to contributing members
Notification of pensions pay award every April.
Publication of the Annual Report of the fund
Annual General Meeting for all employing bodies

Ad hoc:

Statutory notices
Amendments to membership (changes in hours, etc.)
Notice of proposed changes to the scheme
Workshops/employee briefings
General policy is to issue statutory notifications and statements within the prescribed limits and to respond to written enquiries within 10 working days.

Representatives of members

A representative sits on the Pension Fund Committee in a non-voting capacity
Employee representatives are invited to the Annual General Meeting

Employing bodies

A representative sits on the Pension Fund Committee in a non-voting capacity
Invitation to the Annual General Meeting
Consultation on changes to the Funding Strategy Statement
Notification of changes or proposed changes to scheme conditions

Consultation on actuarial valuation prospects and options
Advice on statutory framework.

Prospective members
All new starters receive information about the scheme and how to join.

This policy statement will be reviewed annually.

Governance Policy Statement

Isle of Wight Council ("the council"), as the administering authority to the fund, has delegated its functions with regard to the fund to its Pension Fund Committee ("the committee").

The committee oversees the proper administration and management of the fund. It is responsible for:

- appointing external fund managers and advisers
- making suitable custody arrangements for the fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in Local Government Pension Scheme ("LGPS") regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' asset allocation and investment strategies
- monitoring the investment performance of the managers against the scheme specific benchmarks
- the periodic review of this statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy

The committee normally meets with its fund managers and investment advisor four times each year, in February, May, July and November. Each meeting considers the strategy and performance of the managers, together with any business matters that require attention. These include, at least once per annum, consideration of fund management and investment advice arrangements, and the investment strategy of the fund.

The July meeting also forms the annual meeting to which all employers and employee representatives are invited to discuss fund performance and developments in the statutory framework.

As well as these formal meetings, ad hoc sessions are arranged as required, principally in order to explore available investment strategy options in some depth.

The committee is constituted to reflect the views of the council as administering authority and the largest member employer with 86% of the contributing membership.

The committee consists of

- seven councillors with voting rights plus the Leader of the Council in an ex-officio capacity
- one representatives of the admission bodies/scheduled bodies in an observer capacity
- one representative of the trade unions in an observer capacity

Terms of Reference of Pension Fund Committee

The Constitution of Isle of Wight Council, version 3.15 dated January 2013, includes the following Terms of Reference for the Pension Fund Committee

Membership
7 elected members
1 non-voting employee representative nominated by Unison
1 non-voting representative nominated by Admitted Bodies
Committee to be quorate when 3 elected members are in attendance

In Attendance
Strategic Director of Resources (or his nominated representative)
Leader of the Council can attend as necessary
2 representatives as required from Pension Fund Investment Managers (currently Schroder Investment Management, Majedie Asset Management and Newton Investment Management)
1 representative from Investment Advisors (currently Mercer Ltd)
1 administrative support
1 representative from Actuaries (currently Hymans Robertson) will be invited to attend as required e.g. to consider annual report and after triennial fund valuations

Terms of Reference
- Annually, to elect a chairman (when full Council has decided not to so appoint)
- To hold an annual meeting of employer representatives
- To periodically review the Funding Strategy Statement and Statement of Investment Principles of the fund
- To determine strategic investment policy
- To appoint, and regularly monitor performance of fund managers, investment advisors and actuaries
- To periodically review the structure of investment management for the fund and implement new arrangements as appropriate
- To periodically review and set limits for the overall asset allocation of the fund
- To periodically review issues which have an impact on the fund’s long term solvency including those issues over which the administering body has discretion.
- To tender and/or re-tender contracts for the provision of all actuarial and investment management services required by the fund in accordance with the council’s standing order.
- To undertake member training on investment issues
- To consider applications for admitted body status

Annual Report
The Committee will produce an annual report on the performance of the Investment Fund and this will be circulated to all members and will be formally reported to the Audit Committee.

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 organisations pension scheme.

Actuarial assumptions
The assumptions that an actuary must make in order to arrive at a valuation for a pension fund. These include life expectancy, rates of inflation, expected earnings and the income that will be received from pension scheme investments.

Actuarial liability
The value placed on the accrued benefits of the fund using actuarial methods and assumptions for outgoings, including expenses, expected to fall on the fund after the valuation date based on benefits accrued for service up to the valuation date.

Actuarial valuation
A review of the pension fund, which takes place every three years, to ensure that employers' contributions are sufficient to maintain the solvency of the fund.

Actuary
An independent consultant who carries out the actuarial valuation and may also advise on changes in benefit structure 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 state 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 (also see Bet). 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 actively to decide to leave the scheme.

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

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 Services Authority (FSA)
The lead regulator. An agency which is not a government department.

Fund managers
Firms of investment professionals appointed by an investments 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 constant 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 stocks on which the interest and eventual repayment of the loan are based on movements in the retail price index.

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.

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

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.

Socially responsible investment (SRI)
Investment where social, environmental or ethical 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.

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 FSA 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.

APPENDIX B – Analysis of market value by Industrial Sector

	Schroder UK Equities	Majedie UK Equities	Majedie Overseas Equities	Newton Overseas Equities	Schroder Property	Schroder Bonds	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Oil & Gas							
Oil & Gas Producers	6,985	9,911	-	-	-	-	16,896
Oil Equipment, Services & Distribution	860	-	-	-	-	-	860
Basic Materials							
Forestry & Paper	-	1,207	-	-	-	-	1,207
Mining	4,418	2,212	-	-	-	-	6,630
Industrials							
Aerospace & Defence	2,766	2,690	-	-	-	-	5,456
Construction & Materials	-	139	-	-	-	-	139
General Industrials	-	134	221	-	-	-	355
Industrial Engineering	2,104	-	-	-	-	-	2,104
Support Services	2,321	5,721	-	-	-	-	8,042
Consumer Goods							
Automobiles & Parts	-	177	-	-	-	-	177
Food Producers	1,957	859	-	-	-	-	2,816
Household Goods & Home Construction	-	473	-	-	-	-	473
Personal Goods	820	-	654	-	-	-	1,474
Tobacco	1,266	-	-	-	-	-	1,266
Healthcare							
Healthcare Equipment & Services	-	518	-	-	-	-	518
Pharmaceuticals & Biotechnology	5,446	4,385	-	-	-	-	9,831
Consumer Services							
Food & Drug Retailers	521	1,979	-	-	-	-	2,500
General Retailers	1,513	5,854	-	-	-	-	7,367
Media	3,881	3,715	-	-	-	-	7,596
Travel & Leisure	2,896	6,065	806	-	-	-	9,767
Telecommunications							
Fixed Line Telecommunications	1,514	2,278	-	-	-	-	3,792
Mobile Telecommunications	2,842	5,706	2,911	-	-	-	11,459
Utilities							
Electricity	350	334	-	-	-	-	684
Gas, Water & Multi Utilities	1,049	1,137	-	-	-	-	2,186
Financials							
Banks	6,025	10,656	2,205	-	-	-	18,886
Life Insurance	5,185	1,354	-	-	-	-	6,539
Non-Life Insurance	-	2,333	-	-	-	-	2,333
Financial Services	2,210	1,401	-	-	-	-	3,611
Technology							
Software & Computer Services	592	645	-	-	-	-	1,237
Technology Hardware & Equipment	-	1,403	3,068	-	-	-	4,471
Pooled Funds							
Bonds Managed Fund	-	-	-	-	-	83,929	83,929
Managed Funds	1,816	7,977	-	-	-	-	9,793
Overseas Equities Managed Fund	-	-	-	132,584	-	-	132,584
Property Managed Fund	-	-	-	-	18,875	-	18,875
Total Market Value, excluding cash	**59,337**	**81,263**	**9,865**	**132,584**	**18,875**	**83,929**	**385,853**

APPENDIX C – Statement of Investment Principles

Dated: 10 May 2013

This is the Statement of Investment Principles ("the statement") required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").

The statement has been adopted by the Isle of Wight Pension Fund Committee ("the committee"), which acts on the delegated authority of Isle of Wight Council ("the council"), the administering authority for the Isle of Wight Council Pension Fund ("the fund"). The statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this statement the committee has consulted with the administrating authority and has taken and considered written advice from the actuaries.

In Annex 1, the committee has set out details of the extent to which the fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy ("CIPFA") publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Fund Objective

The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme "the scheme" regulations and statutory provisions.

The committee aims to fund the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The committee has translated its objectives into a suitable strategic asset allocation benchmark for the fund (Annex II). The strategic benchmark is reflected in the investment structure adopted by the committee; this comprises a mix of segregated and pooled manager mandates. The fund benchmark is consistent with the committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the fund's liabilities.

The committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the fund.

Schedule 1 of the 2009 Regulations: Limit on Investments

At their meeting on 24 July 2009, the committee agreed to an increase in the limit on investments in units subject to the trusts of unit trust schemes managed by any single entity, from 25% to 35% (the upper limit specified in Schedule 1). Before taking this decision, the committee took proper advice from its then investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the fund and how the committee monitors and manages that risk. The decision was taken because making use of the pooled funds concerned was considered to be effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.

The committee reviewed the strategic asset allocation of the fund at its meeting on 30 November 2012, following advice from its current investment advisers, Mercer Ltd. No change was made to the limits on investments above.

Types of investment to be held

The fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

The fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The committee considers all of these classes of investment to be suitable in the circumstances of the fund.

The strategic asset allocation of the fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments
The committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the fund. The fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

Risk
In order to achieve its investment objective the fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime.

The fund's risk register is appended to this statement at Annex III.

Expected return on investments
Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the fund.

Realisation of investments
The majority of assets held within the fund may be realised quickly if required.

Social, Environmental and Ethical Considerations
The committee recognises that social, environmental and ethical 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 managers has produced a statement setting out its policy in this regard. The managers have been delegated by the committee to act accordingly.

Exercise of Voting Rights
The committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending
Within segregated mandates, the committee has absolute discretion over whether stock lending is permitted. The committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the committee has decided not to permit stock lending within any of its segregated investment mandates.

The committee has no direct control over stock lending in pooled funds as it is for the managers of those pooled funds to determine whether to undertake a certain amount of stock lending on behalf of unit holders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. None of the managers of the pooled funds in which the fund invests engages in stock lending.

Additional Voluntary Contributions (AVCs)
The committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Annex I: Myners Principles

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the committee which is responsible for the management of the fund. The committee has support from council officers with sufficient experience to assist them. The committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. A training needs analysis was undertaken by the committee in January 2012, resulting in a training plan being developed and delivered for the financial year 2012-2013. Following the appointment of a new committee in May 2013, the training needs analysis will be refreshed to inform a new training delivery plan for 2013-14 and beyond. The committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The committee has established objectives for the fund which takes account of the nature of fund liabilities and the contribution strategy. This involved discussions with the actuary to enable the committee to set the overall risk budget for the fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. The committee is developing formal processes to measure its own effectiveness.

<table>
<tr><th>Principle</th><th>Response on Adherence</th></tr>
<tr><td>Principle 5 Responsible Ownership:
Administering authorities should
Adopt, or ensure their investment managers adopt, the Institutional Shareholders’ Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
Include a statement of their policy on responsible ownership in the Statement of Investment Principles.
Report periodically to scheme members on the discharge of such responsibilities.</td><td>Partially Compliant
The committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the fund’s behalf This Statement of Investment Principles includes a statement on the fund’s policy on responsible ownership.
The committee needs to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.</td></tr>
<tr><td>Principle 6 Transparency and Reporting:
Administering authorities should
Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Should provide regular communication to scheme members in the form they consider most appropriate.</td><td>Compliant
The committee maintains minutes of meetings which are available on the council website. The committee holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend committee meetings. The Statement of Investment Principles is published on the council website and is available to members on request. Other information on the scheme is available to members on the council website.</td></tr>
</table>

Annex II: Strategic Asset Allocation

The strategic asset allocation of the fund, together with control ranges and the benchmark index for each asset class is as follows:

Asset Class	Strategic Allocation %	Control Range %	Benchmark Index
UK Equities	37.5	+/-3%	FTSE All-Share index
Global equities (ex UK)	32.5	+/-3%	MSCI AC (All Countries) World index (net dividends re-invested)
TOTAL EQUITIES	**70.0**	+/- 5%	
Bonds	22.0	+/- 4%	Merrill Lynch Sterling Broad Market
Property	8.0	+/- 4%	IPD Pooled Property Fund indices All Balanced Funds Median
Cash	-		
TOTAL ASSETS	**100.0**		

For the purpose of measuring performance, an appropriate benchmark index is used. Where this is not possible or appropriate, for example, where an asset is illiquid or is not reflected in a measurable index, the committee will consider an appropriate performance benchmark. At present, all investments are made in assets where appropriate benchmarks exist.

At its meeting on 30 November 2012, following advice from its investment adviser, Mercers Ltd, the committee agreed to amend the asset allocation as follows:

Asset Class	Strategic Allocation %
UK Equities	22.5
Global equities (ex UK)	32.5
TOTAL EQUITIES	**55.0**
Diversified Growth Fund	15.0
Bonds	22.0
Property	8.0
Cash	-
TOTAL ASSETS	**100.0**

Fund Managers

As at 10 May 2013, the following fund managers are appointed within each of the above asset classes

Asset Class	**Fund Managers**	**Note**
UK Equities	Schroder Investment Management Limited Majedie Asset Management Limited	 1
Global equities (ex UK)	Newton Investment Management Limited	
Bonds	Schroder Investment Management Limited	
Property	Schroder Investment Management Limited	
Cash	All	

Note 1: Although the Majedie Asset Management portfolio remains a UK Equity portfolio, it has been agreed that a maximum of 20% of the portfolio may be invested in non-UK equities.

During 2013-14, the selection of a new Diversified Growth Fund manager will be undertaken, and funds will be disinvested from the Schroder UK Equity portfolio to facilitate the change in asset allocation.

Annex III: Pension Fund Risk Register

Risks identified by the committee as at 18 May 2012

Risk Ref	Details	Initial risk score	Target risk score	Target date	Risk Owner
PF0001	Investment Managers Performance Poor performance by Fund Managers resulting in Pension Fund assets failure to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	9	5	28 Feb 2013	David Burbage
PF0002	Cash Flow/Opt Outs/Maturity of Fund/Liabilities. Failure to plan effectively for variances in cash flow.	9	5	31 Dec 2013	David Burbage
PF0003	Valuation vs. contributions: Failure to provide accurate and timely data to enable correct actuarial valuations	5	3	31 Dec 2012	David Burbage
PF0004	Financial failure of Admitted Bodies.	1	1		David Burbage
PF0005	Effectiveness of Decision-making and Governance by the Pension Fund Committee	6	3	31 May 2013	Jo Thistlewood
PF0006	Pension Fund accounting and reporting processes need to be reviewed and updated.	5	3	31 Mar 2013	David Burbage
PF0007	External Advisors to the Pension Fund Failure of external advisors to provide adequate service	5	5		David Burbage

Risk scoring matrix

Likelihood/Probability					
	4 *V likely*	7 Medium	11 Medium	14 High	16 VERY HIGH
	3 *Likely*	4 Low	8 Medium	12 High	15 VERY HIGH
	2 *Unlikely*	2 Low	5 Low	9 Medium	13 High
	1 *Remote*	1 Low	3 Low	6 Low	10 Medium
	Scale	*1* *Low*	*2* *Medium*	*3* *High*	*4* *Major*
	Impact/Severity				

APPENDIX D – Funding Strategy Statement

Updated: 10 May 2013

1 Introduction

This is the Funding Strategy Statement (FSS) of the Isle of Wight Council Pension Fund ("the fund"), which is administered by Isle of Wight Council, ("the administering authority").

It has been prepared by the administering authority in collaboration with the fund's actuary, Hymans Robertson LLP, and after consultation with the fund's employers and investment advisers will be effective from 22nd July 2011.

1.1 Regulatory Framework

Local Government Pension Scheme ("scheme") members' accrued benefits are guaranteed by statute. Scheme members' contributions are fixed in the scheme regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to scheme members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant); replaced from 1st April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles (SIP), this is the framework within which the fund's actuary carries out triennial valuations to set employers' contributions, and provides recommendations to the administering authority when other funding decisions are required, such as when employers join or leave the fund. The FSS applies to all employers participating in the fund.

The key requirements relating to the FSS are that:

- After consultation with all admitted bodies involved with the fund, the administering authority will agree and publish their funding strategy.
  - In preparing the FSS, the administering authority must have regard to:
    - FSS guidance produced by Chartered Institute of Public Finance & Accountancy (CIPFA); and
    - Its Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

The 2010 revaluation results and report have now been finalised with implementation from 1st April 2011. This review takes into account the latest position on that review and the updated position on 'pools' and admitted bodies.

2 Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the administering authority to implement and maintain.

This statement sets out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the fund

The fund is a vehicle by which scheme benefits are delivered. The fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the fund are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the fund's funding policy include the following:

- to ensure the long-term solvency of the fund and of the share of the fund attributable to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the Investment Strategy of the fund so that the administering authority can seek to maximise investment returns (and hence meet the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the administering authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the administering authority considers it reasonable to do so;
- 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;
- to address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- to minimise the cost of the scheme to employers.

3 Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus
b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the fund's solvency target, "past service adjustment". Where there is a funding surplus then there may be a contribution reduction and, conversely, if there is a funding deficit then contributions may increase. The surplus or deficit is spread over an appropriate period.

The fund's actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the deficit under (b) is currently spread over a period of 20 years.

The fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer, together with individual past service adjustments according to employer-specific spreading and phasing periods.

The circumstances in which it is agreed to pool contributions for some employers are set out in sections 3.7.8 and 3.7.9.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the Common Contribution Rate. It also identifies which employers' contributions have been pooled with others.

Any costs of non-ill-health early retirements must be paid as lump sum payments in addition to the contributions described above, either at the time of the employer's decision or by instalments shortly thereafter.

Employers' contributions are expressed in the Rates and Adjustments Certificate as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss the impact of making one-off capital payments with the administering authority before making such payments.

3.2 Solvency and Target Funding Levels

The fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for on-going employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the fund actuary's on-going funding basis. This ratio is known as a funding level.

The on-going funding basis is that used for each triennial valuation and the fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority. The **on-going funding basis** assumes employers in the fund are an on-going concern and is described in section 3.3.

The on-going funding basis has traditionally been used for each triennial valuation for all employers in the fund. However, the fund reserves the right to adopt the following approach for Admission Bodies (other than Transferee Admission Bodies) where:

- the Admission Body's admission agreement has no guarantor;
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe;
- the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Contribution rates will be set by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment out-performance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the admission agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all on-going employers or pools of employers of 100% of accrued liabilities valued on the on-going funding basis. Please refer to section 3.8 for the treatment of departing employers.

3.3 On-going Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the fund based on past experiences of scheme funds advised by the fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the fund's investments. The investment return assumption makes allowance for anticipated returns from the fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2.0% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the other non-equity assets.

The same financial assumptions are adopted for all on-going employers. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the fund actuary's formal valuation report.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the on-going valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

Where it is considered appropriate to do so then the administering authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for Admission Bodies that are not a Transferee Admission Body and that have no guarantor in place).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that Admission Bodies must specify in their admission agreement and employment contracts, the conditions for admission to the Fund for all eligible new staff.

3.4.1 Employers which admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the **Projected Unit Method** with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers which do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the **Attained Age** funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the fund and include an allowance for benefits payable on death in service and ill health retirement. They also make allowance for members who are expected to leave before retirement with a deferred pension.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual, part-time and full-time);
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed leavers;
- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non-ill-health retirements relative to any extra payments made; over the period between the 2007 and 2010 valuations and subsequent triennial valuation period.

Actual investment returns achieved on the fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the fund occur automatically within this process. Unless the actuary is advised otherwise, it is assumed that a sum broadly equivalent to the reserve required on the on-going basis is exchanged between the two employers (where the transfer is on a "fully funded" basis).

The fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation (and see also section 3.6 below), including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other pension funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The administering authority does not account for each employer's assets separately. The fund's actuary is required to apportion the assets of the whole fund between the employers or pools of employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the fund. The asset apportionment is capable of verification but not to audit standard.

The administering authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency issues and target funding levels

A key challenge for the administering authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the fund. With this in mind, there are a number of prudential strategies that the administering authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution increases / decreases.

The administering authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. The administering authority may, at its sole discretion, agree alternative funding approaches on a case by case basis but will at all times taking into account its responsibilities in regard to the security of the fund.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the administering authority has commissioned the fund actuary to carry out extensive modelling to explore the long term effect on the fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the administering authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there were no material events occurring before 1 April 2011 which rendered the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the administering authority, on the advice of the fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the fund if possible.

The scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the fund actuary, in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements, the approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The administering authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The administering authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	Maximum Length of Deficit Recovery
Statutory bodies with tax raising powers or government funded	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract

Type of Employer	Maximum Length of Deficit Recovery
Community Admission Bodies which are closed to new entrants but whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers

This **maximum** period is used in calculating each employer's **minimum** contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate, which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The administering authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions but this will be at the discretion of the administering authority.

3.7.5 Phasing in of Contribution Rises

Requests from employers to phase in contribution rises will be considered by the administering authority if stability of contributions is an issue.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions may be phased in over a period agreed with the administering authority for all employers except:

- Transferee Admission Bodies; and
- employers where the contribution reduction is due to significant additional contributions having been paid to the fund since the last valuation for the purpose of reducing the deficit; who for the 2010 valuation, may elect to reduce their contribution rate with effect from 1 April 2012 or from 1 April 2011 with the agreement of the administering authority and the actuary.

3.7.7 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed, for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.8 Pooled Contributions

There are no pooled arrangements within the fund other than the administering authority.
Any new admission bodies will be admitted on the basis of being an individual employer.

3.8 Admission Bodies Ceasing

Admission agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until the last active member leaves. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point.

The fund, however, considers any of the following as triggers for the termination of an admission agreement:

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the fund;
- A failure by the Admission Body to pay any sums due to the fund within the period required by the fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the administering authority instructs the fund actuary to carry out a special valuation, as required under Regulation 78 of the 1997 Regulations (38 of the 2008 Regulations), to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies at the end of the contract, the assumptions would be those used for an on-going valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
(b) For Community Admission Bodies which elect to voluntarily terminate their participation, the administering authority must look to protect the interests of other on-going employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Body's members and assets to the guarantor, without needing to crystallise any deficit.
(d) Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment. Spreading of any payment will only be permitted in special circumstances and with the agreement of the administering authority and the actuary.

In the event that the fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

(a) In the case of Transferee Admission Bodies the awarding authority will be liable;
(b) In the case of Admission Bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing Admission Body is continuing in business the fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an on-going valuation basis. This approach would be monitored as part of each triennial valuation and the fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

3.9 Early Retirement Costs

3.9.1 Non Ill-Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions to the fund. These contributions may, at the absolute discretion of the administering authority, be spread over an appropriate period of time to be advised by the administering authority. In any event the spread period cannot exceed the period to the **member's normal retirement date.**

3.9.2 Ill-health monitoring

The fund will monitor each employer's, or pool of employer's, ill health experience on an on-going basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non-ill-health cases.

3.9.3 Ill health insurance

Employers have the ability to insure ill health early retirement strains through an appropriate policy. Where this insurance is effected:

- the employer's contribution to the fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;
- there is no need for monitoring of allowances.

3.10 Admitted Bodies with new Admission Agreements

The fund requires the following from Admission Bodies wishing to join the fund or Admission Bodies entering into further admission agreements.

Transferee Admission Bodies will be required to have a guarantee from the transferring Scheduled Body

The administering authority will only consider requests from Community Admission Bodies to join the fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to Investment Strategy

The Funding and Investment Strategy are inextricably linked. The Investment Strategy is set by the administering authority after taking investment advice from the scheme's investment advisers.

4.1 Investment Strategy

The Investment Strategy currently being pursued is described in the fund's Statement of Investment Principles.

The Investment Strategy is set for the long-term, but is reviewed regularly, to ensure that it remains appropriate to the fund's liability profile. The administering authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2013, the proportion held in equities and property was approximately 78.5% of the total fund assets.

The Investment Strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be one which provides cash flows which replicate the expected benefit cash flows (i.e. the liabilities). Equity investment would not be consistent with this.

The fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The administering authority's strategy recognises the relatively immature liabilities of the fund and the secure nature of most employers' covenants.

The same Investment Strategy is currently followed for all employers. The administering authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The fund's investment adviser's current best estimate of the long-term real return from equities is around 4% a year in excess of the return available from investing in index-linked government bonds.

The funding policy anticipates returns of around 1.6% a year above index linked yields, that is, 2.4% a year less than the best estimate return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the fund's assets invested in equities (or equity type investments), as at 31 March 2013, approximately 73.5% of all the fund's assets.

Assets invested in property holdings are assumed to deliver long-term real returns of 1% more than the prevailing redemption yield on Government bonds. As at 31 March 2013, 5.0% of the fund's assets are invested in property.

Non-equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.4% p.a. more than the prevailing redemption yield on Government bonds.
Thus, the employer contributions anticipate returns from the fund's assets which in the fund actuary's opinion have a better than 50:50 chance of being delivered over the long-term (measured over periods in excess of 20 years).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in section 3 will damp down, but not remove, the effect on employers' contributions.

The fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current Investment Strategy, the administering authority considered the balance between risk and reward. The strategy has been set to achieve a long term return on investing the assets in order to assist in controlling the level of employer contributions, with sufficient diversification across asset classes to reduce risk.

4.4 Inter-valuation Monitoring of Funding Position

The administering authority monitors investment performance relative to the growth in the liabilities by means of interim valuations. It reports back to employers through issuing reports and letters and by inviting the actuary to speak to the Annual Employers meeting.

5 Key Risks and Controls

The administering authority has an active risk management programme in place. The measures that the administering authority has in place to control key risks are summarised below.

5.1 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations at whole fund level.
Inappropriate long-term investment strategy	Set fund specific benchmark after taking advice from investment advisers balancing risk and reward. Review asset allocation annually. Appointment of Independent advisor to Committee.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark	Short term investment monitoring analyses market performance and active managers relative to their index benchmark. This will be supplemented with an analysis of absolute returns against those underpinning the valuation. This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if under-performance is sustained over periods over 5 years employer contributions would rise more. Investment managers would be changed following persistent under-performance.
Pay and price inflation significantly more than anticipated	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and Admission / Scheduled Bodies	Seek feedback from employers on their ability to absorb short-term contribution rises. Mitigate impact through stabilisation, deficit spreading and phasing in of contribution rises where security is not an issue.

5.2 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an on-going basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.
Pensioners living longer	Set mortality assumptions with some allowance for future increases in life expectancy. The fund actuary monitors combined experience of around 50 pension funds to look for early warnings of lower pension amounts ceasing than assumed in funding. Administering authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements	Employers are charged the extra capital cost of non-ill-health retirements following each individual decision. Employer ill-health retirement experience will be monitored.

5.3 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	The administering authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. tax relief changes	It considers all consultation papers issued by the CLG and comments where appropriate. The administering authority will consult employers where it considers that it is appropriate. Copies of all submissions are available for employers on request. The administering authority may seek actuarial advice on the cost of impact of any regulatory changes.

5.4 Governance

Risk	Summary of Control Mechanisms
Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The administering authority will monitor membership movements on a quarterly basis, via a report from the administrator.
Administering authority not advised of an employer closing to new entrants.	The actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 regulations; 38 of the 2008 regulations) between triennial valuations. Deficit contributions are expressed as monetary amounts for employers whose membership profile is subject to change. (see Annex A).
Administering authority failing to commission the fund actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the administering authority monitoring membership movements on a quarterly basis, it requires employers with contractors to inform it of forthcoming changes. Admission agreements are drafted in such a way that the financial risks of departing admission bodies are borne by the council as Letting Authority. The contract end dates are monitored on the administering authority's employers' database.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The administering authority believes that it would normally be too late to address the position if it was left to the time of departure. As a result, Admission Agreements are worded in such a way as to eliminate the risk to the fund in respect of an admission body ceasing to exist. The risk is mitigated by: • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations, and where it is deemed appropriate, requiring a bond to protect the fund from the extra cost of early retirements on redundancy if the employer failed and other factors.

Annex A: Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) of the 1997 regulations (36(4) of the 2007 regulations) to each employer's contributions from the 'Common Contribution Rate'.

STATEMENT TO THE RATES AND ADJUSTMENTS CERTIFICATE

Employer Code	Employer Name	Minimum Contributions for the Year Ending					
		31 March 2012		31 March 2013		31 March 2014	
		% of pay	Lump sum (£000)	% of pay	Lump sum (£000)	% of pay	Lump sum (£000)
	Isle of Wight Council	22.0	0	22.0	0	22.0	0
1	Isle of Wight College (1st August)	20.2	0	21.7	0	22.8	0
2	Spectrum Housing Group	24.6	0	26.6	0	28.6	0
3	Southern Housing Group	20.8	132	20.8	132	20.8	132
4	Yarmouth Harbour Commissioners	21.6	42	21.6	44	21.6	47
5	Cowes Harbour Commissioners	24.3	0	24.3	0	24.3	0
7	St Catherine's School Ltd	40.0	0	45.0	0	50.6	0
8	IOW Society for the Blind	45.1	0	45.1	0	45.1	0
9	Riverside Centre Ltd	15.9	0	15.9	0	15.9	0
10	Trustees of Carisbrooke Castle Museum	25.0	0	25.0	0	25.0	0
11	Planet Ice (IOW) Ltd	15.1	0	15.1	0	15.1	0
13	Osel Enterprises Ltd	22.0	0	22.0	0	22.0	0

Annex B: Responsibilities of Key Parties

The administering authority is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in the LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding and review the Funding Strategy Statement and Statement of Investment Principles
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- advise the actuary of any new or ceasing employers.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill health early retirements if appropriate
- notify the administering authority promptly of all changes to active membership which affect future funding
- adhere to Employer obligations set out in the Administration Strategy

The fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- provide advice and valuations on the termination of admission agreements
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by the regulations
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund
- advise on the Funding Strategy Statement and comment on the Statement of Investment Principles.

APPENDIX E - Governance Compliance Statement

Dated: 13 May 2013

Principle	Detailed Best Practice Principle	Compliance statement
A. Structure	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Fully compliant** a) The Isle of Wight Pension Fund Committee forms part of the council's constitution, which includes the terms of reference for the committee. b) The terms of reference for the committee specify that the membership should include employer and member representatives. c) There is no secondary committee. d) Not applicable.
B. Committee Membership and Representation	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Fully compliant** a) The membership committee includes 7 elected members (the council being the largest employer), 1 employee representative (UNISON) and 1 employer representative nominated by the admitted bodies).The committee is advised by fund managers and independent investment advisers. b) All members are given equal access to meetings and papers, which are published on the council's website. All members are invited to attend all training sessions, and to any ad-hoc meetings convened for specific purposes (for example appointment of advisers)
C. Selection and role of lay members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	**Fully compliant** a) The role of the committee is fully explained in the council's constitution. b) There is a standing agenda item at the start of each committee meeting to record declarations of interest.
D. Voting	a) The policy of individual administering authorities on voting rights is	**Fully compliant**

Principle	Detailed Best Practice Principle	Compliance statement
	clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	a) Voting rights for each type of membership are set out in the council's constitution.
E. Training/Facility time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Fully compliant** a) These items are set out in the council's constitution. b) All items contained in the constitution are applicable to all members of the committee. c) A training needs analysis was undertaken in January 2012, which formed the basis for the training plan for the year ended 31 March 2013. An updated training needs assessment will be undertaken in May 2013. The attendance at training sessions is reported in the fund's Knowledge and Skills Compliance Statement.
F. Meetings (frequency/quorum)	a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	**Fully compliant** a) The committee meets four times a year. b) Not applicable c) All employers are invited to the annual general meeting of the committee in July. Employers are also invited to meetings to consider the triennial valuation results.
G. Access	a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Fully compliant** a) All agendas, papers and minutes are available to members and the public via the council's website.
H. Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Fully compliant** a) Regular reports are made to the committee on latest developments in the Local Government Pension Scheme, including LGPS 2014 and auto-enrolment.
I. Publicity	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Partially compliant** a) All statutory statements and policies form part of the fund's annual report, which is published on the council's website. Following the council's upgrade of its external website, reference to some of the policy documents have been removed from the Pensions Administration webpages. This needs to be updated as soon as possible – action with the Pensions Administration team.

APPENDIX F - Investment review – Schroder Investment Management Ltd

Schroders Investment Review
12 Months to 31 March 2013

Isle of Wight Council Pension Fund

Global Market Review

Most financial markets have delivered positive returns over the past twelve months, with the exception of commodity markets.

Equity markets in particular have provided strong returns; in fact the US S&P 500 index hit an all-time high. The last minute agreement in the US to put off the looming 'fiscal cliff' (sharp tax hikes and spending cuts) has helped to support renewed confidence among equity investors.

There is also a prevailing sense that the 'worst is over' in the eurozone, although concerns came to the fore again towards the end of the period with some disappointing data from Spain and political gridlock in Italy following the elections. Cyprus was also in the headlines, and at the end of March a €10 billion bailout deal was announced.

In terms of economic news, data from the US has generally been encouraging, which has also helped to support investors' appetite for risk. The slowing in the rate of growth in the Chinese economy also appears to have stopped; the economy is picking up speed again as the stimulus that the authorities put in place is beginning to bear fruit. We are also seeing a pick up in the wider emerging markets, such as Brazil. However, the eurozone is in recession – although this has not dampened returns from the region's equities.

APPENDIX G - Investment review – Majedie Asset Management Ltd

This review covers the period from 31st March 2012 to 1st April 2013. In that period the performance of the Majedie portion of the Fund was 21% against a benchmark return of 16.8%.

After the buoyant returns of early 2012 markets retrenched during the second quarter of 2012, with the FTSE All-Share index declining by 2.6%. Investors had little to cheer during the period, with the US treading water, China starting to struggle and Europe hit by another bond buyers' strike. Having sensed some opportunities thrown up by the general pessimism, we lessened the portfolio's defensive tilt, a little early with hindsight.

At this stage of the year there was very little on offer to encourage risk taking. US unemployment statistics refused to budge much and, despite some tentative signs of recovery in housing, there seemed little political appetite to solve anything in this election year, much to the frustration of the Federal Reserve. China's leadership seemed rather less confident about its ability to keep the expansionary plates spinning than many of its external admirers, admitting to lower growth in the future but wary of the sort of emergency action they directed in 2008, given the large debts already present in the banks and local authorities. It was Europe, however, that set the tone for the quarter: it was a familiar mix of German intransigence, French nonchalance, Europolitical paralysis, Mediterranean brinkmanship and Anglo Saxon tactlessness. Sadly, it might take a serious slowdown in Germany to persuade all parties to work together. The beginnings of a solution are emerging from the mist, involving a combination of a banking union, fiscal harmonisation and awesome intervention in the peripheral government bond markets. Like the Northern Ireland peace process, it will all hinge on how these parts are put together (and in what apparent order), to assuage all the different actors in the drama.

Other than the aforementioned bouts of tactlessness, the UK did not contribute too much to the global narrative during the first half of 2012. Economic growth was revised down for the first quarter, with government spending growth providing the biggest prop, somewhat counter to the widespread perception of drastic public spending cuts. The Bank of England Governor pronounced that the UK was not even half way through the recovery – and then wondered aloud why consumers were pessimistic, even with the Diamond Jubilee acting as a pleasing distraction. Another Diamond provided a reminder of how far the City of London’s reputation has fallen, with lurid evidence of LIBOR manipulation and a hubristic sense of being above the law.

In contrast, most markets made modest progress during the third quarter despite continued soggy news from many parts of the global economy. Hesitant US housing consolidation, the signs of a spine at the ECB and the sight of central bankers reaching for their collective chequebooks managed to outweigh the developing Chinese slowdown and the attendant ripples of commodity price weakness reaching previously canonised shares and economies. The FTSE All-Share index advanced by 4.7%.

Despite relatively buoyant equity markets, this was another quarter that confirmed the strength of the headwinds facing the global economy. Many mainstream investors were facing up to increasing evidence that China is, after all, subject to the economic cycle, in turn selling mining shares and emerging markets aggressively and, possibly, excessively. The sight of striking public sectors in France and Greece showed that the power of entitlement remains difficult to overcome in the name of prudent government. The frayed edges of democracy were also on show in the Middle East. Perhaps more disturbingly the beginnings of real upheaval could be seen in Spain, while the spat between Japan and China threatened to spiral out of control.

There were reasons for optimism, however, including real signs of resolve at the European Central Bank and, for all of their huff and puff, clues that the German political firmament is determined to choose a European future. The dark cloud that is China has produced (as we suspected) a glimmer of a silver lining in the form of softer inflation in developed nations, giving respite to consumers and allowing central bank monetary expansions the time to work on demand, without the attendant fear of Weimar-like hyperinflation. The UK bumbled along, with another quarter of contraction and much political handwringing about a lost generation; most of the population enjoyed the Olympics and got used to a world where government is not the answer. Surprisingly good employment numbers might indicate that a recovery is underway, outside the purview of the Westminster grandstanders.

Markets made further progress over the last quarter of 2012, driven by tentative signs of European restitution, US potential and a lack of any real alternatives. The FTSE All-Share index rose 3.8%.

Investor attention was again drawn to the political sphere. President Obama returned with a surprisingly strong mandate but the election re-emphasised the cavernous gap within US society, rather ominously ahead of talks designed to avert the sharp introduction of automatic budget tighteners known as the 'fiscal cliff'. Depressing familiarity was also the theme of the Chinese succession, where few of the staged speeches suggested any great break with the past. Politics continued to be the main event in the Middle East, where democracy is variously believed to enshrine personal rights or to impose the will of the majority, depending on who you ask. The landslide victory for the Liberal Democrats in Japan also promises to be impactful, determined as they are to weaken the yen and strengthen the military.

The UK, by contrast, contained little ground breaking politics. The Autumn Statement confirmed the scale of the country's debt problems, while the Leveson Enquiry gave the coalition government something to fight about. However, the big questions of our relationship with a centralising Europe and a decentralising northern periphery seem set for another day. The UK economy drifted, helped by better employment numbers but showing none of the promise of the US, where cheap energy and better housing data point to a brighter outlook.

The last quarter of this report was a period when political risk came roaring back into view. Investors in Europe were first worried by events in Italy, where Beppe Grillo's 5 Star Movement burst onto the Pink Pages, and then downright spooked by the sight of real implosion in Cyprus. Whether this episode proves the start of a worrying contagion, or just the slap in the face banks need to avoid moral hazard, only time will tell. Political dysfunction was not confined to Europe, however, as the US went into sequestration, a programme of cuts so awkward that no one in their right mind would let it happen. The fact that it did happen tells us much about American politics. There were bright spots: the US economy is starting to stir despite its politicians, and Mexico's new administration has succeeded in enacting biting structural reform with a startling political consensus.

This was a quarter for politicians to look to their central bankers to deliver what they cannot. Two small island monarchies with creaking finances, unaffordable welfare liabilities and stagnant politics appointed newcomers to their respective banks with thinly veiled demands to save the day: in Japan the new governor repaid his political masters with a warning that its national debt was "not sustainable" and the new Canadian incumbent at the Bank of England was reminded of his own insignificance by another government department, the Office for Budget Responsibility (OBR), whose forecasts of chronically weak future demand leave little hope for the efficacy of any dramatic monetary intervention.

APPENDIX H - Investment review – Newton Investment Management Ltd

During the 12-month period under review, there was significant uncertainty about the outlook for many of the world's leading debt-laden economies, but investors were swayed by the influence of policymaking by authorities in the main economic areas. Overall, equity returns were strong over the period, albeit that there were disparities in the fortunes of different regions, with emerging-market returns lagging markedly those of their developed counterparts.

Investors grappled throughout the period with fears about the outlook for the major economies, most prominent among challenges continuing to be the state of government finances in Europe. The policy response to Europe's woes was multi-faceted but, until the autumn, it appeared far from durable. Nonetheless, the measures announced by the world's leading central banks from September appeared to mark the adoption of a more 'inflationary' policy stance, and they were received well by equity investors. Against this backdrop, even recent turmoil in Cyprus (which was the fifth eurozone member to require a financial bail-out) and Italy (where the fragmented general election result showed significant support for anti-austerity parties) appeared to be received relatively nonchalantly by financial-market participants.

In September, the US Federal Reserve launched 'QE3', a third wave of quantitative easing, which will entail its buying of an unlimited quantity of mortgage-related debt until the labour market shows a substantial improvement. Meanwhile the European Central Bank, again in September, unveiled a programme of 'Outright Monetary Transactions', which could involve its buying (subject to some important conditions for governments to meet) peripheral European sovereign debt, in order to keep borrowing costs low and prevent the break-up of the eurozone. The US central bank subsequently loosened policy further by resuming its buying of longer-term US Treasuries at an initial rate of $45 billion a month from January 2013.

Over the 12 months to 31 March 2013, the markets of North America led the way with a return of +19.3% in sterling terms, with some relief greeting the New-Year agreement reached by Congress, which allowed the US economy to avoid going over the 'fiscal cliff' of automatic public spending cuts. Continental Europe also delivered a strong sterling return of +18.0%, despite the region's debt-related challenges. The UK returned +16.8%, where the markets of the Asia-Pacific (ex Japan) region generated an aggregate sterling return of +16.7%. Japan, owing largely to the impetus provided by the announcement of much more concerted (deflation-fighting) monetary policy by the bank of Japan during the first quarter of 2013) posted a return of +14.3%. Emerging markets, meanwhile, delivered a collective return of +7.7%.

In government bond markets, gilts made headway, with the FTA Government All Stocks Index returning +5.3%. Returns from overseas bonds were also positive, with the JPM Global Government Bond Index (ex UK) returning +4.5% in sterling terms.

In corporate bond markets, 'spreads' on higher-quality issues over equivalent-dated government bonds generally narrowed over the period, thereby meaning that such markets delivered returns significantly above those of government bond markets. The Merrill Lynch Non-Gilts Index returned +12.0% over the period.

For and on behalf of
Newton Investment Management Limited
Regulated by the FSA
April 2013

Independent auditor's report to the Members of Isle of Wight Council

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2913 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 5, the Strategic Director of Resources is responsible for the preparation of the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express and opinion on the financial statements in accordance with applicable law and International Standards of Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading

27 September 2013