

## ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

### PENSION FUND ANNUAL REPORT FOR THE YEAR ENDING 31 MARCH 2014



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# CAPITA

Contract Administrators

## BLACKROCK

Fund Manager



Capital  
International

Fund Manager

HYMANS  ROBERTSON

Actuarial and Investment Support

Being a public service pension scheme as defined by the Superannuation Act 1984 (an Act of Tynwald), the Isle of Man Local Government Superannuation Scheme is statutorily exempt from the overriding provisions relating to the issue and content of a pension scheme's annual report; nevertheless, every effort has been made to ensure that this Report meets the major requirements imposed on other schemes, allowing for the differences between statutory schemes and those operating under trust. Furthermore, the Pension Fund Annual Report has been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("the pensions SORP") as far as is practicable.

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# ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

**Administering Authority**

Douglas Borough Council  
PO Box 2  
Town Hall, Ridgeway Street  
Douglas  
Isle of Man IM99 1AD

**Scheme Administrator**

Capita Employee Benefits Limited  
Hartshead House  
2 Cutlers Gate  
Sheffield  
United Kingdom S4 7TL

**Chief Executive**

Miss K J Rice, BA (Hons) Solicitor

**Borough Treasurer**

Mr G M Bolt, CPFA

**Auditor**

Grant Thornton Limited  
PO Box 307  
Exchange House  
54/62 Athol Street  
Douglas  
Isle of Man IM99 2BE

**Investment Fund Managers**

BlackRock (Isle of Man) Limited  
3<sup>rd</sup> Floor Atlantic House  
4-8 Circular Road  
Douglas  
Isle of Man IM1 1AG

**Capital International Limited**

Capital House  
Circular Road  
Douglas  
Isle of Man IM1 1AG

**Bankers**

Isle of Man Bank  
Athol Street  
Douglas  
Isle of Man IM99 1AN

**Custodians of Securities**

BNP Paribas Securities Services S.C.A.  
Jersey Branch  
Liberte House  
19-23 La Motte Street  
St Helier  
Jersey  
Channel Islands JE4 5RL

**Consulting Actuary and Investment  
Consultant**

Hymans Robertson LLP  
Central Exchange  
20 Waterloo Street  
Glasgow  
United Kingdom G2 6DB

**Capital International Nominees Limited**

Capital House  
Circular Road  
Douglas  
Isle of Man IM1 1AG

**AVC Provider**

Aviva Life & Pension UK Limited  
Rose Lane Business Centre  
Norwich  
United Kingdom NR1 1BB

# Report by Douglas Borough Council

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## INTRODUCTION

The Isle of Man Local Government Superannuation Scheme (“the Scheme”) is a statutory public service pension scheme (as defined by the Superannuation Act 1984 (“the 1984 Act”), an Act of Tynwald) and following the repeal of the 1984 Act on the 17<sup>th</sup> day of January 2012 continues to apply to the Scheme pursuant to Schedule 1 of the Public Sector Pensions Act 2011. The Scheme operates under the Isle of Man Local Government Superannuation Scheme Regulations and provides retirement and dependants’ benefits for employees of local government employers (including resolution bodies) and other admitted bodies on the Isle of Man.

The Scheme is contracted-out of the State Second Pension Scheme (“S2P”) and is exempt approved for the purposes of the Income Tax (Retirement Benefit Schemes) Act 1978 and Part I of the Income Tax Act 1989 (Acts of Tynwald). Full tax relief is granted on members’ and the employers’ contributions paid to the Scheme and on all investment income.

## MANAGEMENT

### The Administering Authority’s Responsibilities

Douglas Borough Council as Administering 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 Responsible Financial Officer (i.e. the Borough Treasurer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Pension Fund Annual Report of the Isle of Man Local Government Superannuation Scheme.

The Pensions Committee delegates day to day monitoring responsibilities to the officers of Douglas Borough Council. This Committee, which comprises Members of the Council and one Independent Member, meets regularly to consider administrative and investment matters as informed by its officers. All minutes and resolutions of the Pensions Committee are subject to approval at the Borough’s full Council meetings.

### The Responsible Financial Officer’s Responsibilities

Under the Accounts and Audit Regulations 2013 made under the Audit Act 2006, the Responsible Financial Officer is responsible for the preparation of the Pension Fund Annual Report of the Isle of Man Local Government Superannuation Scheme in accordance with proper practices as set out in the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 (“the SORP”), as far as is practicable.

In preparing the Pension Fund Annual Report, the Responsible Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the pension SORP: Financial Reports of Pension Schemes (Revised May 2007) as far as practicable.

# Report by Douglas Borough Council – continued

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## **MANAGEMENT (continued)**

The Responsible Financial Officer has also:

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

### **General**

Responsibility for managing the Scheme's Fund investments has been delegated to two fund managers. BlackRock (Isle of Man) Limited managed 90% of the Scheme's investments and Capital International Limited managed 10%.

As well as providing actuarial services to the Scheme's Fund, Hymans Robertson LLP also provide investment consulting advice to the Pensions Committee.

The Administering Authority has a contractual arrangement with Capita Employee Benefits Limited, a trading division of Capita Group plc, to undertake the day to day administration of the Scheme.

The Administering Authority has appointed Aviva Life & Pension UK Limited to provide an AVC arrangement for members. AVC's are not reflected within these financial statements.

## **ADMINISTRATION**

### **The Regulations Affecting the Scheme**

The Isle of Man Local Government Superannuation Scheme Regulations apply to individuals who were contributing members of the Scheme on 1 April 2012 or who have since joined the Scheme. The Scheme is based on the regulations that applied to England and Wales with effect from 1 April 2008, and some provisions are effective from that date.

The Scheme rules and benefits are summarised at the back of this document. Full details of the rules and benefits are available to members on the Douglas Borough Council website ([www.douglas.gov.im](http://www.douglas.gov.im)).

### **Pensions Increase**

Pensions in payment and preserved benefits are subject to annual review under the Pensions (Increase) Act 1974 (an Act of Tynwald). There was an increase of 2.2% from 8 April 2013 (2012/2013: 5.2% from 9 April 2012) reduced proportionately for pensions in payment for less than 12 months. This corresponds to the increase applied to state retirement pensions and pensions paid by other public service pension schemes on the Isle of Man, being the rise in the UK's Consumer Prices Index during the 12 months ended 30 September 2012 (2012/2013: 30 September 2011).

# Report by Douglas Borough Council – continued

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## ADMINISTRATION (continued)

### Code of Best Practice

The *Governance Statement including Adherence to Best Practice* document sets out the governance of the administration of the Scheme and investment of funds therein.

The Scheme's investment practices are considered against the following Best Practice principles:-

- Effective decision making
- Investment objective
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

Separate documents entitled *Statement of Investment Principles* and *Governance Statement including Adherence to Best Practice* are in force. They are available to members on the Douglas Borough Council website ([www.douglas.gov.im](http://www.douglas.gov.im)). The Pensions Committee, working together with the Investment Consultant and Officers of the Borough Treasurer's Department, monitors and reviews these procedures, and updates the documents as required.

# Report by Douglas Borough Council – continued

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## MEMBERSHIP AND BENEFICIARIES

	2014	2013
	No.	No.
<b>Active Membership</b>		
<b>As at the beginning of the year (1 April)</b>	<b>413</b>	432
Late adjustments (new starters)	1	3
Late adjustments (leavers)	(7)	(8)
<i>Add:</i>		
Entrants - new starters	24	22
	-----	-----
	431	449
	-----	-----
<i>Less:</i>		
Exits - new retirement pensions	(19)	(13)
- Deferred benefits	(23)	-
- deaths in service	-	(2)
- preserved benefits	-	(21)
- refunds of contributions	(1)	-
	-----	-----
	(43)	(36)
	-----	-----
<b>As at the end of the year (31 March)</b>	<b>388</b>	413
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# Report by Douglas Borough Council – continued

## MEMBERSHIP AND BENEFICIARIES - continued

### Membership as at 31 March 2014 by employer

	Active	Deferred	Pensioners	2014 Total	2013 Total
<b>Local Authorities</b>					
Douglas Borough Council	218	135	136	489	475
Castletown Town Commissioners	10	5	11	26	26
Laxey Village Commissioners	2	-	-	2	2
Michael District Commissioners	1	1	-	2	2
Onchan District Commissioners	36	24	37	97	97
Peel Town Commissioners	18	4	11	33	34
Port Erin Village Commissioners	12	10	4	26	26
Port St Mary Village Commissioners	6	12	10	28	26
Ramsey Town Commissioners	39	17	21	77	74
<b>Resolution Bodies</b>					
(a) Parish Districts					
Braddan Parish Commissioners	6	-	-	6	6
Bride Parish Commissioners	1	-	-	1	1
Malew Parish Commissioners	6	3	3	12	11
Marown Parish Commissioners	1	-	-	1	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing Board	1	-	-	1	1
Marashen Crescent Housing Committee	5	-	1	6	6
Northern Local Authorities Swimming Pool Board	8	4	1	13	11
Peel & Western District Housing Committee	-	-	1	1	1
Ramsey & Northern District Housing Committee	4	1	5	10	10
Southern Civic Amenity Site Board	4	2	1	7	7
Southern Local Authorities Swimming Pool Board	8	10	7	25	25
<b>Admitted Bodies</b>					
Crossroads Caring for Carers – includes Manx Foundation for Physically Disabled Former Department of Tourism & Leisure – Villa Marina	-	4	3	7	7
Leonard Cheshire Foundation	-	1	3	4	4
Manx Blind Welfare	-	-	1	1	1
Manx Churches Adoption & Welfare Society	-	7	10	17	17
Vicar and Wardens of Kirk Braddan	2	1	-	3	3
Vicar and Wardens of St Peter Church Onchan	-	1	-	1	1
	<b>388</b>	<b>242</b>	<b>268</b>	<b>898</b>	<b>877</b>

# Report by Douglas Borough Council – continued

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## Membership as at 31 March 2014 (continued)

### Bodies with no Members

The following bodies had no members during the year:

#### Designate Bodies:

##### (a) Parish Districts

Andreas Parish Commissioners  
Arbory Parish Commissioners  
Ballaugh Parish Commissioners  
German Parish Commissioners  
Jurby Village Parish Commissioners  
Lezayre Parish Commissioners  
Lonan Parish Commissioners  
Maughold Parish Commissioners  
Patrick Parish Commissioners  
Rushen Parish Commissioners  
Santon Parish Commissioners

##### (b) Joint Boards and Committees

Cooil Roi Housing Authority  
Northern Parishes Refuse Collection Board  
Western Civic Amenity Site Board  
Western Local Authorities Swimming Pool Board

## ACTUARIAL VALUATION

The Scheme regulations require an actuarial valuation of the Scheme to be carried out every three years. The purpose of a valuation is to review the funding position and determine an appropriate level of employers' contributions.

A valuation of the Scheme was made as at 31 March 2013 which showed that it continued to be in deficit.

The Actuarial Statement from the 2013 valuation is reproduced on pages 20 and 21 of the Annual Report.

# Report by Douglas Borough Council – continued

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## **REGISTRATION UNDER THE DATA PROTECTION ACT 2002 (An Act of Tynwald)**

The data provided by members on their starter's forms is processed using information communications systems, with records held in both electronic and paper format. The use of the data is registered under the Data Protection Act 2002 for the purposes of pensions administration by the Borough and of personnel/employee administration by the employers.

## **CERTIFICATE BY THE RESPONSIBLE FINANCIAL OFFICER**

Under the Accounts and Audit Regulations 2013 these accounts are to be prepared by the 31 July and must be approved by the Responsible Financial Officer prior to submission to the auditor.

I certify that the financial statements give a true and fair view of the income and expenditure of the Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2014 and of its financial position at 31 March 2014.

**G M BOLT, CPFA**  
Borough Treasurer as Responsible Financial Officer  
Douglas Borough Council as Administering Authority

**10 July 2014**

# Investments

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## **INVESTMENT LIMITS**

The Isle of Man Local Government Superannuation Scheme Regulations require the Administering Authority to immediately invest any monies not needed to make payments from the Scheme. In doing so, it prescribes the limits on the type and extent of investments which the Administering Authority may pursue.

Although they may vary, the types of investment adopted are in accordance with the Scheme's investment policy which must be formulated with a view to:

- the advisability of investing Scheme money in a wide variety of investments; and
- the suitability of particular types of investments.

## **INVESTMENT STRATEGY AND MANAGEMENT**

The investment strategy developed by the Administering Authority aims to maximise the return of the Scheme consistent with the risk that is appropriate. It seeks to reduce risk by diversifying its investments over a mix of asset classes. The benchmark is weighted towards equities (the asset class expected to provide the highest return over the medium to long term). Within equities, diversification is achieved by investing in global markets with exposure to many different sectors and stocks. There is also significant exposure to bonds (which are lower risk relative to the Scheme's liabilities), a multi-asset Absolute Return Portfolio, and property. The Absolute Return Portfolio and property are "real" assets, with a different performance cycle from equities).

The Administering Authority employs BlackRock (Isle of Man) Limited as Investment Fund Manager for 90% of the Scheme's investments and Capital International Limited for 10% of the Scheme's investments in the Absolute Return Portfolio.

## **INVESTMENT PERFORMANCE BENCHMARKS**

The benchmarks are used as reference points to compare the performance of the portfolios.

The benchmark for BlackRock allows their overall performance to be compared with the overall performance of various indices. Any divergence between the benchmark and the Fund's return is due to the preferences of the Investment Fund Manager for particular markets or for individual stocks.

In the case of Capital International the performance objective is to exceed returns on cash deposits by 3% per annum measured on a rolling three year basis and so this is the benchmark against which they are measured.

# Investments - continued

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## BLACKROCK FUND MANAGER'S REPORT

### Summary

The portfolio increased in value by £3,442,628 over the year (with net inflows of £700,000). This equates to a rise of 6.8% over the period which outperformed the benchmark return of 6.0%.

### UK Equities

UK equities rose over the 12 month period, supported by highly accommodative monetary policy which overshadowed the headwinds of US government spending cuts, the UK debt downgrade and the bailout of Cyprus in the early part of 2013.

Moving into the New Year, the FTSE All Share paused for breath after the strong rally seen in 2013. Tensions rose sharply around the Ukraine, centred on Crimea, prompting an increase in the risk premium after a period of relatively subdued geopolitical tensions. UK economic growth exceeded market forecasts and the Bank of England gave comfort that, with inflation remaining subdued, low interest rates could be sustained. The Budget provided a shock to the life assurance sector as the Chancellor promised changes to the pensions market.

A recovering UK economy helped related sectors perform including household goods and home construction, general retailers and travel and leisure. Non-bank financials also performed strongly over the year, in particular the life insurance sector. Defensive sectors including utilities, tobacco, and beverages underperformed. The bank sector fell, whilst the oil and gas and mining sectors performed poorly due to cost inflation, coupled with uncertainty over the level of commodity demand.

### Overseas Equities

Overall, developed markets were the strongest performers with emerging market equities faring poorly.

Despite generally moving higher over the 12 month period, markets experienced periods of volatility. May and June 2013 witnessed the most extreme pick up in risk as markets were impacted by themes of tapering future bond purchases by the Federal Reserve and further evidence of weakness in the Chinese economy. The more choppy market conditions witnessed so far in 2014 have been largely symptomatic of softer than anticipated macro-economic data, geopolitical tensions in the Ukraine, and idiosyncratic issues in emerging markets. Consequently, developed market equities ended the first quarter more or less where they began- having been down almost 5.5% in early February. In light of the sharp rebound in late February, it is not unreasonable to attribute much of the developed market sell off to sentiment and positioning. However, this sharp turnaround does highlight the fragility of the developed market recovery story, specifically its sensitivity to emerging market volatility.

# Investments - continued

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## BLACKROCK FUND MANAGER'S REPORT (continued)

### Bonds

Major movements in UK fixed income markets were driven mainly by international events during the period. The speculation that the US Federal Reserve could wind down its asset purchase programme earlier than expected, known as 'tapering', caused gilt yields to rise sharply from May, in common with other major government bond markets. Over the reporting period the 10-year UK government bond rose to a high of 3.1% at the end of December before falling in the New Year driven mainly by the crisis in Emerging Markets which led to a risk-off environment. 10-year UK government bond ended the first quarter of 2014 at 2.7%.

### Property

The IPD/AREF Property Index rose by 12% over the twelve month period. Demand for property remained reasonably firm as investors continued to focus on prime, well located assets with secure income. The fund remains underweight relative to benchmark, as prospects are expected to remain challenged for some time yet.

### Inflation during the year

UK inflation has been trending down over the last year, falling below the Bank of England's target in December for the first time in 5 years. This reflects global disinflationary pressures notably from the Eurozone and Japan, continued slack in the UK economy and marked appreciation of the pound.

### Investment Performance

Portfolio	6.8%
Benchmark	6.0%
Value of Portfolio as at 31 March 2013	£45,073,285
Value of Portfolio as at 31 March 2014	£48,515,913

# Investments - continued

## BLACKROCK FUND MANAGER'S REPORT (continued)

### Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.	Closing Value £
<b>UK Equities</b>	10.7	7.6	15.8	6.2	12,081,326
<b>Overseas Equities</b>	5.9	6.1	14.6	6.8	19,078,452
<b>Fixed Income</b>	-0.6	-	-	-	9,475,160
<b>Property</b>	12.2	6.9	9.6	1.1	6,347,143
<b>Weighted Average</b>	6.8	7.1	12.4	6.2	
<b>Total Portfolio</b>					<b>46,982,081</b>

### Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
<b>UK Equities</b>	8.8	8.8	16.3	5.2
<b>Overseas Equities</b>	6.7	7.8	15.1	6.0
<b>Fixed Income</b>	-0.9	-	-	-
<b>Property</b>	11.9	5.8	7.5	3.8
<b>Weighted Average</b>	6.0	7.5	12.4	5.9

*Note: Due to the exclusion of cash balances, cash instruments and accrued income, the totals above may not agree to the valuations stated in note 9 to the accounts on pages 34 to 36.*

# Investments - continued

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## CAPITAL INTERNATIONAL FUND MANAGER'S REPORT

### Summary

The value of the portfolio managed by Capital International was £4,720,887 as at 31st March 2013. The fund increased to £5,473,450 as at 31st March 2014, a rise in value of £752,563. This includes £400,000 net inflows, being new monies received over the year. This equates to a rise of 6.88% over the period which outperformed the benchmark return of 3.50%.

### UK Equities

On a total return basis the FTSE All Share produced a positive return of 8.81% for the period. It has been another respectable year for UK equity investors, with signs that the UK economy is finally building positive momentum. Liquidity conditions have remained supportive and domestic focussed sectors such as house builders and retailers were the best performers. With increased disposable income and a lack of volatility in fuel prices, there was also a strong performance from the airline sector. Greater equity market confidence also led to the predictable increase in new listings on the market, although there were growing signs that investors were baulking at valuation levels. On the negative side, the Banking sector struggled in the face of rising litigation costs and continuing low interest rates. The level of Sterling has been buoyant in recent months, which has acted as a drag for the export sector. Finally, Pharmaceuticals have been positive given increasing signs of industry consolidation. The fund is overweight on the asset class.

### Overseas Equities

On a total return basis the MSCI World ex UK produced a positive return of 19.87% for the period. US equities continued to be the star performers with very healthy gains made over the year. The Federal Reserve has managed to assure investors that the tapering of Quantitative Easing will be both gradual and over an extended time period. Interest rate increases have been on hold, as inflation data has continued to undershoot expectations. US corporations are in positive mood, with capital expenditure plans rising and productivity also improving. Europe has been a surprise, this year from a positive perspective. The European Central Bank has made it clear that ample liquidity will be provided for the economic region and this has led the Peripheral countries to rally very strongly, both in bonds and equities. There is some concern that valuations have run ahead of themselves, given the moribund economic recovery experienced so far. Emerging Markets have struggled, with currency volatility and rising interest rates, damaging domestic economies. Japan remains on track for economic reform, though the equity market has been volatile in recent months. The fund is overweight on the asset class.



# Investments - continued

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## CAPITAL INTERNATIONAL FUND MANAGER'S REPORT

### Bonds

Corporate bonds continued their impressive outperformance over the year, although surprisingly for investors, Sovereign bond yields have recently started to fall, as geopolitical events in the Ukraine have unnerved investors. The FT-A UK Government All-Stocks Index declined by 2.70% on a total return basis, whilst the Sterling Broad Market Index declined by only 0.44%. With the five year Gilt yield at 1.9% and the equivalent German Bund yield at 0.6%; it highlights clearly just the slim pickings on offer for bond investors. The key for policy makers now is the unemployment data and the 'quality' of the labour force. The fund is underweight on the asset class.

### Commercial Property

The IPD UK Property Index gained an impressive 13.97% over the twelve months on a total return basis. The magnitude of capital gains has been surprising in the sector, with many prime metropolitan yields looking very low. Landlords will need to push through rental increases, but they are in an increasingly strong position as the UK economy recovers. The fund has a neutral weighting in the asset class.

### Economic/Inflation Update

In recent months the UK level of unemployment has fallen below the key 7% level, this really marks the end of the first phase for the Monetary Policy Committee. Their view is that there remains sufficient slack in the 'under employed' and the poor productivity levels to ensure that policy remains stimulative. Many of the lead economic indicators are consistent with 3.5% GDP growth and the retail sales figures have been remarkably robust. In the medium term there is some political uncertainty, created both by the Scottish referendum and the General Election in 2015. In the longer term, Government spending will continue to be restrained as the budget deficit still accounts for 6.6% of GDP. Inflation data has broken records on the low side, with the CPI readings registering the first ever, consecutive six monthly declines, to only 1.6% in March 2014; this represents a four year low.

### Investment Performance

Portfolio	6.88%
Benchmark	3.50%
Value of Portfolio as at 31 <sup>st</sup> March 2013	£4,720,887
Value of Portfolio as at 31 <sup>st</sup> March 2014	£5,473,450

# Investments - continued

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## CAPITAL INTERNATIONAL FUND MANAGER'S REPORT

### Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.	Closing Value £
<b>UK Equities</b>	2.96	n/a	n/a	6.26	1,207,562
<b>Overseas Equities</b>	3.86	n/a	n/a	5.79	1,150,467
<b>Fixed Income</b>	-0.10	n/a	n/a	1.16	1,348,209
<b>Property</b>	1.85	n/a	n/a	2.76	708,160
<b>Other / Cash</b>	-1.69	n/a	n/a	-1.84	1,059,052
<b>Weighted Average</b>	6.88	n/a	n/a	14.13	
<b>Total Portfolio</b>					<b>5,473,450</b>

### Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
<b>Weighted Average</b>	3.50	n/a	n/a	5.03

# Investments - continued

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## SUMMARY OF INVESTMENT PERFORMANCE OF THE SCHEME IN AGGREGATE

The tables below show the total performance of the fund by totalling together the funds managed by both BlackRock and Capital International.

### Performance of Fund

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
<b>TOTAL FUND</b>	<b>6.8</b>	<b>7.1</b>	<b>12.4</b>	<b>6.2</b>

### Performance of Benchmark

	Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
<b>TOTAL FUND</b>	<b>5.7</b>	<b>7.4</b>	<b>12.4</b>	<b>5.9</b>

# Investments - continued

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## **CUSTODIAL ARRANGEMENTS**

The Administering Authority has appointed BNP Paribas Securities Services S.C.A. and Capital International Nominees Limited as its custodians.

The custodians will arrange for the Fund's UK securities (other than bearer securities for which the custodian shall arrange safekeeping) to be registered in the name of a nominee company directly or indirectly as bare Trustee for the customer. The nominee will normally be either Securities Services Nominees Limited, a wholly owned subsidiary of BNP Paribas Securities Services S.C.A., or Capital International Nominees Limited.

Any non-UK securities of the Fund will be held by the custodian, or to the order of the custodian, by subcustodians chosen by it. Securities relating to investments of the Fund in BlackRock In-House Funds will normally be registered in the name of BNP Paribas Securities Nominees Limited, a Jersey-based Affiliated Company of the main custodian. Any securities registered in the name of a nominee company are designated. The custodian cannot pool such securities with its own property except when settling transactions.

Where the Scheme investments are held collectively in an omnibus account, its entitlements may not be identifiable by separate certificates or other physical documents of title and, should the custodian default, any shortfall in investments belonging to the Scheme and other customers of the custodian may be shared pro-rata among all customers whose investments are so held.

## **INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS**

The Administering Authority has authorised monies to be held on the Scheme's behalf on the following basis:

- In investment and income accounts with the custodians in the Administering Authority's or the Scheme's name. The Administering Authority has authorised BlackRock (Isle of Man) Limited to give BNP Paribas Securities Services S.C.A. instructions regarding such accounts on the Scheme's behalf and has authorised Capital International Limited to give Capital International Nominees Limited instructions regarding such accounts on its behalf.
- In BlackRock (Isle Of Man) Limited and Capital International Limited Specified Client Bank Accounts (as defined in Part 3 of the Financial Services Rule Book 2011) (the "Rule Book") with those institutions being Recognised Banks (as defined by the Rule Book) which meet the minimum short-term credit rating of A1/P1 and which may include the custodian or any of its associates.

Monies held awaiting delayed settlement are held by the custodian in a pooled settlement account.

# Investments - continued

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## INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS (continued)

Interest is paid on the investment and income accounts, and balances on the income accounts are dealt with on the basis set out below;

Interest period: Quarterly on all accounts

Interest Rate: A rate appropriate to the balances standing to the credit of the above accounts. The custodian benefits from the provision of banking services for clients.

Accounts are maintained in the currency of account and in such other currencies as may be required from time to time.

## REMUNERATION BASIS OF THE INVESTMENT FUND MANAGERS

### BLACKROCK

#### Ordinary Portfolio

BlackRock's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations. The fees are calculated on the basis of all portfolio assets (other than excluded funds). Any charges already paid within in-house funds and connected investment trust (other than excluded funds) are then deducted from this amount.

BlackRock's fees in respect of managing the portfolio are at the following rates between 1 April 2013 to 31 March 2014:

<b>Market Value</b>	<b>Rate per annum</b>
On the first £5,000,000	0.75%
Thereafter	0.51%

They include those of the custodian and are settled by transfers from the portfolio on the due dates and no interest is charged if such transfers are effected after the due date.

#### Property Fund

Charges are 1% of the underlying net asset value per annum.

## Charges Within In-House Funds and Connected Investment Trusts and Commissions

Initial (and in some cases conversion) charges are waived for investments made for the Isle of Man Local Government Superannuation Scheme. The price of each share or unit of certain In-House Funds and Connected Investment Trusts normally includes, on both subscriptions and redemptions, a 'rounding' of a maximum of one currency unit which is retained by the relevant manager or the relevant In-House Fund and Connected Investment Trusts.

# Investments - continued

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## REMUNERATION BASIS OF THE INVESTMENT FUND MANAGERS (continued)

### CAPITAL INTERNATIONAL

Capital International's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations. The fees are calculated on the basis of all portfolio assets. An annual management fee of 0.5% per annum of portfolio value is applied. A brokerage commission of 0.25% on all trades is also charged.

# Actuarial Statement

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This statement has been prepared in accordance with The Isle of Man Local Government Pension Scheme Regulations (Statutory Document No. 0104/12), and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

## Descriptions of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated February 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Scheme, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Scheme, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Rate payers); and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Rate payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Scheme and keeping employer contributions stable. The Scheme adopts a pooled approach for setting contributions, and contributions have been stabilised below the market-derived rate required to return their portion of the Scheme to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 65% chance that the Scheme will return to full funding over 20 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out was as at 31 March 2013. This valuation revealed that the Scheme's assets, which at 31 March 2013 were valued at £50.3 million, were sufficient to meet 71.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £19.7 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2018 were set in accordance with the Scheme's funding policy as set out in its FSS.

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

Full details of the methods and assumptions used are described in the valuation report dated 27 March 2014.

# Actuarial Statement – continued

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## Method

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

## Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Price inflation/pension increase	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Scheme's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25%p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.8 years
Future Pensioners*	24.4 years	27.3 years

\*currently aged 45

Copies of the 2013, valuation report and the Funding Strategy Statement are available on the website for Douglas Borough Council (the administering authority to the Scheme).

## Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

## Julie West FFA

Fellow of the Institute of Faculty and Actuaries  
For and on behalf of Hymans Robertson LLP

15 May 2014



# Independent Auditor's Report

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## **To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme**

We have audited the financial statements of Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2014 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's Administering Authority, as a body, in accordance with Section 6 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Administering Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Administering Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of administering authority and auditors**

As explained more fully in the Administering Authority's responsibilities statement, the Administering Authority is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on 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 the 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 Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Administering Authority; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# Independent Auditor's Report - continued

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## Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities; other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Accounts and Audit Regulations 2013 made under the Audit Act 2006.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the section 4 of the Audit Act 2006 requires us to report to you if, in our opinion:

- the financial statements do not comply with the regulations made under section 12 of the Act and any directions under section 13; or
- expenditure or income or any other transaction effected by or on account of the scheme is or will be contrary to law; or
- the internal organisation of the scheme and the internal controls maintained by it are not such as to secure proper management of the finances of the scheme and economy and efficiency in the use of its resources.

## **Grant Thornton Limited**

### ***Chartered Accountants***

PO Box 307  
Exchange House  
54/62 Athol Street  
Douglas  
Isle of Man  
IM99 2BE

Date: 28 October 2014

# Independent Auditor's Statement about Contributions

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## **To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme**

We have examined the summary of contributions to Isle of Man Local Government Superannuation Scheme for the Scheme year ended 31 March 2014 to which this statement is attached.

This statement is made solely to the Scheme's Administering Authority, as a body, in accordance with the Superannuation Act 1984. Our work has been undertaken so that we might state to the Administering Authority those matters we are required to state to them in an auditor's statement about contributions under the Scheme and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Administering Authority, for our work, for this statement, or for the opinions we have formed.

### **Respective responsibilities of trustees and auditors**

As described in the responsibilities statement the Administering Authority are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Administering Authority are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

# **Independent Auditor's Statement about Contributions - continued**

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## **Statement about contributions**

In our opinion contributions for the Scheme year ended 31 March 2014 as reported in the summary of contributions have been paid at least in accordance with the Schedule of Contributions comprising the Schedule certified by the Scheme Actuary on 27 March 2014 (employer contributions) and the Local Government Superannuation Scheme Regulations (employee contributions).

**Grant Thornton Limited**  
***Chartered Accountants***  
PO Box 307  
Exchange House  
54/62 Athol Street  
Douglas  
Isle of Man  
IM99 2BE

Date: 28 October 2014

# Summary of Contributions

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## Summary of Contributions payable in the year to 31 March 2014

### Contributions payable under the Schedule of Contributions/ Payment Schedule:

Employer normal contributions	2,296,999
Employee normal contributions	639,797
	<hr/>
<b>Total contributions payable under the Schedule</b>	<b>2,936,796</b>

### Other contributions:

Employee additional Scheme contributions	22,277
Employer other contributions	<u>1,046,543</u>
<b>Total contributions payable to the Scheme:</b>	<b><u>4,005,616</u></b>

This Summary of Contributions was approved and authorised for issue by the Borough Treasurer as Responsible Financial Officer on behalf of the Administering Authority.

**J JOUGHIN**  
Chairman  
Pensions Committee  
Douglas Borough Council

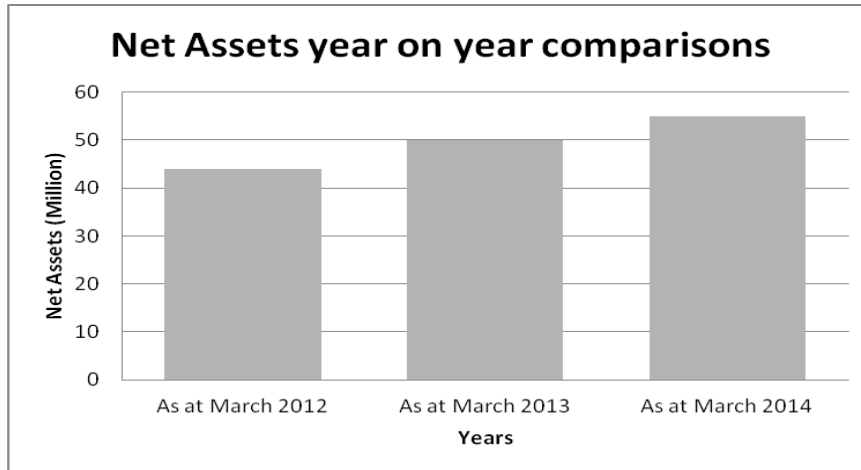
**22 October 2014**

**G M BOLT, CPFA**  
Borough Treasurer  
Douglas Borough Council

**22 October 2014**

# Foreword to the Financial Statements

As at the 31 March 2014 the accumulated Fund Net assets stood at £54,769,224 (2013: £50,283,448). The Fund has increased in value by £4,485,776 and has outperformed the benchmark. An explanation can be found in the Investment Fund Managers' Reports on pages 10 to 16.

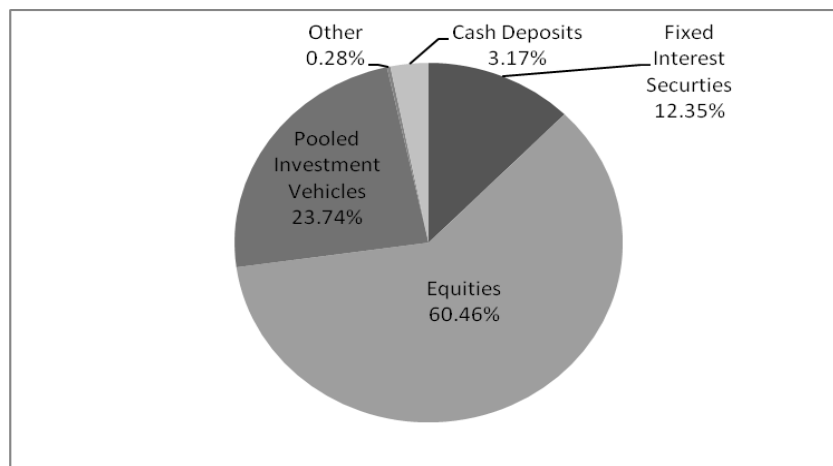


The Fund Value comparison for the last three years can be seen in the graph.

The net income from all transfer values received in has decreased by £477,404 (2012/2013 increase by £418,381). Contributions after provisions for bad debts have increased by £371,422 (2012/2013 increased by £8,129). This has resulted in a decrease in income in respect of Scheme members of £105,982 (2012/2013 increase of £426,510). Retirement benefits and payments made to or in respect of Scheme members during the year have increased by £26,133 (2012/2013 increased by £259,691).

In overall terms the net additions from dealings with Scheme members (before administration expenses) during the year amount to £1,723,374 (2012/2013: £1,855,489).

The Scheme invests in a variety of different areas, as demonstrated by the chart below. The majority of the Fund's investments are made in equities with pooled investment vehicles being the next largest investment area. These include the property market and other UK and overseas investment areas.



# Financial Statements for the year ended 31 March 2014

	Notes	2013/2014 £	2012/2013 £
<b>FUND ACCOUNT</b>			
<b>Contributions and Benefits</b>			
Contributions	3	4,005,616	3,155,279
Transfers in	4	-	477,404
		<u>4,005,616</u>	<u>3,632,683</u>
Benefits	5	(1,803,313)	(1,606,410)
Leavers	6	(14)	(170,784)
Administrative expenses	7	(330,229)	(285,184)
Bad debt provision	15	(478,915)	-
		<u>(2,612,471)</u>	<u>(2,062,378)</u>
<b>Net additions from dealings with members</b>		<b><u>1,393,145</u></b>	<b><u>1,570,305</u></b>
<b>Returns on investments</b>			
Investment income	8	1,476,807	1,068,616
Change in market value of investments	9a	1,813,038	4,046,434
Investment management expenditure	11	(197,214)	(173,719)
		<u>3,092,631</u>	<u>4,941,331</u>
<b>Net return on investments</b>		<b><u>3,092,631</u></b>	<b><u>4,941,331</u></b>
<b>Net increase in the Scheme during the year</b>		<b><u>4,485,776</u></b>	<b><u>6,511,636</u></b>
<b>Net assets of the Scheme</b>			
At year beginning		<b><u>50,283,448</u></b>	<b><u>43,771,812</u></b>
<b>At year end</b>		<b><u><u>54,769,224</u></u></b>	<b><u><u>50,283,448</u></u></b>

# Financial Statements for the year ended 31 March 2014 - continued

	Notes	As at 31 March 2014 £	As at 31 March 2013 £
<b>NET ASSETS STATEMENT</b>			
Investments	9b	53,989,363	49,794,172
Current Assets	12	994,118	553,212
Current Liabilities	13	(214,257)	(63,936)
<b>Net Assets of the Scheme at year end</b>		<b>54,769,224</b>	<b>50,283,448</b>

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Statement on pages 20 and 21 and these financial statements should be read in conjunction with that Statement.

The notes on pages 30 to 38 form part of these Financial Statements.

These accounts were approved and authorised for issue by the Borough Treasurer as Responsible Financial Officer on behalf of the Administering Authority.

**J JOUGHIN**  
Chairman  
Pensions Committee  
Douglas Borough Council

**22 October 2014**

**G M BOLT, CPFA**  
Borough Treasurer  
Douglas Borough Council

**22 October 2014**



# Notes to the Financial Statements for the year ended 31 March 2014

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## 1. Basis of Preparation

The financial statements have been prepared in accordance with the Superannuation Act 1984 and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("the pensions SORP") as far as is practicable. These accounts have also been prepared in accordance with the Audit Act 2006.

## 2. Accounting Policies

The following principal accounting policies which have been applied consistently have been adopted in the preparation of the financial statements:

### Contributions

Contributions represent the total amount receivable from Local Government employers and Admitted Bodies on the Isle of Man in respect of their own contributions and from active members including additional payments made to purchase additional defined benefits. The employers' contributions are made at a rate determined by the Consulting Actuary necessary to ensure that the Scheme is able to meet its existing and prospective liabilities including indexation.

### Benefits payable

Members can choose whether to take their benefits as a pension or a pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised.

### Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

### Death in Service expense

Death in Service expense is accounted for when payable.

### Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Investment management expenses include fees paid to the custodian.

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

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## 2. Accounting Policies (continued)

### Investment income

Income from equities is accounted for on the date stocks are quoted ex-dividend.

Income from fixed interest and index-linked securities, pooled investment vehicles, cash and short term deposits are accounted for on an accruals basis.

Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

### Investments

Investments held by the Scheme are carried at market value. Equities traded through a Primary Exchange are valued at closing bid prices for assets. Pooled investment vehicles are valued using the official net asset value provided by the relevant fund managers, which reflects the market value of the underlying investments.

Fixed interest securities are generally valued at bid prices using clean pricing. Accrued interest is identified separately in the total market value of investments.

Any foreign exchange contracts and forwards held by the Scheme at the year-end are valued using the applicable mark to market rates to calculate the unrealised gain/loss at that date. Realised gains are recorded in investment income in the Fund Account.

## 3. Contributions

	2013/2014	2012/2013
	£	£
Employers		
normal	2,296,999	2,452,966
other	1,046,543	-
Members		
normal	639,797	682,695
scheme additional	22,277	19,618
	<u>4,005,616</u>	<u>3,155,279</u>

Employers other contributions relate to the cessation of a scheme employer, and augmentations paid in respect of certain members' redundancy. See note 15 on page 38.

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 3. Contributions (continued)

### Contributions breakdown

	Employers	Employees	2013/2014 Employees Scheme Additional	Total	2012/2013 Total
	Normal £	Normal £	£	£	£
Braddan Parish Commissioners	53,478	16,013	-	69,491	69,163
Bride Parish Commissioners	897	230	-	1,127	1,025
Castletown Town Commissioners	51,768	13,915	-	65,683	72,261
Castletown & Malew Elderly Persons Housing Board	3,943	1,011	-	4,954	5,779
Douglas Borough Council	1,352,735	377,779	14,836	1,745,350	1,823,472
Laxey Village Commissioners	9,254	2,505	-	11,759	11,832
Leonard Cheshire Foundation	1,337	320	-	1,657	2,493
Malew Parish Commissioners	31,730	8,835	-	40,565	39,887
Manx Churches Adoption & Welfare Society	7,279	2,136	-	9,415	84,293
Marashen Crescent Housing Committee	19,036	5,348	-	24,384	24,512
Marown Parish Commissioners	2,261	574	850	3,685	3,602
Michael District Commissioners	4,830	1,365	-	6,195	6,195
Northern Local Authorities Swimming Pool Board	26,041	7,235	-	33,276	34,275
Onchan District Commissioners	215,739	61,283	-	277,022	284,084
Peel Town Commissioners	111,775	30,880	-	142,655	147,246
Port Erin Village Commissioners	59,234	16,213	1,437	76,884	90,862
Port St Mary Village Commissioners	33,284	9,008	-	42,292	40,606
Ramsey & Northern District Housing Committee	15,029	3,677	1,857	20,563	21,838
Ramsey Town Commissioners	226,707	62,301	3,297	292,305	299,858
Southern Local Authorities Swimming Pool Board	41,919	11,481	-	53,400	52,596
Southern Civic Amenity Site Board	17,372	4,874	-	22,246	21,476
Vicar and Wardens of Kirk Braddan	9,908	2,445	-	12,353	13,337
Vicar and Wardens of St Peters Church Onchan	1,443	369	-	1,812	4,587
	<b>2,296,999</b>	<b>639,797</b>	<b>22,277</b>	<b>2,959,073</b>	<b>3,155,279</b>
Cessation cost contributions – Manx Churches Adoption & Welfare Society (note 15)	959,000	-	-	959,000	-
Augmentation contributions – Redundancy benefits	87,543	-	-	87,543	-
	<b>3,343,542</b>	<b>639,797</b>	<b>22,277</b>	<b>4,005,616</b>	<b>3,155,279</b>

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 4. Transfers In

	2013/2014 £	2012/2013 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	-	477,404
	<u>                    </u>	<u>                    </u>

## 5. Benefits

	2013/2014 £	2012/2013 £
Retirement and dependants' pensions	1,370,898	1,210,021
Lump sum retirement grants	432,415	270,793
Lump sum death grants	-	125,596
	<u>                    </u>	<u>                    </u>
	<b>1,803,313</b>	<b>1,606,410</b>
	<u>                    </u>	<u>                    </u>

Pensions are paid including added benefits awarded by some employers. The value of pensions shown above is arrived at after netting off the added benefits, as these have been recharged to respective employers, amounting to £14,359 (2012/2013: £15,153).

## 6. Leavers

	2013/2014 £	2012/2013 £
Refunds of contributions	14	(343)
Individual transfers to other schemes	-	171,127
	<u>                    </u>	<u>                    </u>
	<b>14</b>	<b>170,784</b>
	<u>                    </u>	<u>                    </u>

## 7. Administrative Expenses

	2013/2014 £	2012/2013 £
Administering Authority (see note 14)	43,009	41,900
Fund Administrator	70,208	69,915
Valuation	57,905	5,200
Other Actuarial	37,590	16,735
Investment Advice	85,885	50,765
New Regulation Implementation (Fund Administrator)	14,245	75,603
Audit Fees	12,520	20,530
Legal & Professional	8,706	4,419
Other Fees	161	117
	<u>                    </u>	<u>                    </u>
	<b>330,229</b>	<b>285,184</b>
	<u>                    </u>	<u>                    </u>

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 8. Investment Income

	2013/2014 £	2012/2013 £
Income from fixed interest securities	316,451	246,102
Dividends from equities and net gains on forward exchange contracts	1,095,794	649,945
Income from pooled investment vehicles	64,281	162,613
Interest on cash deposits	281	4,981
Income from index-linked securities	-	4,975
	<u>1,476,807</u>	<u>1,068,616</u>

## 9a. Investments

	Value at 1.04.13 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.14 £
Fixed interest securities	7,026,443	8,444,594	(8,289,629)	(512,650)	6,668,758
Equities	30,930,976	11,490,350	(11,531,129)	1,749,727	32,639,924
Index-linked securities	270,595	256,828	(423,860)	2,581	106,144
Pooled investment vehicles	10,749,863	1,893,402	(403,198)	574,856	12,814,923
Derivatives	22,747	28,057,199	(28,067,566)	(1,476)	10,904
	<u>49,000,624</u>	<u>50,142,373</u>	<u>(48,715,382)</u>	<u>1,813,038</u>	<u>52,240,653</u>
Cash Deposits	747,552				1,713,463
Other - accrued investment income	45,996				35,247
	<u>49,794,172</u>				<u>53,989,363</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions and other expenses. Transaction costs incurred during the year amounted to £78,913 (2012/2013: £62,394). In addition to the transaction costs disclosed above, for certain funds indirect costs may be incurred due to the bid offer spread on investments within these pooled vehicles. The amount of these indirect costs is not separately provided to the Scheme.

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 9b. Investments (continued)

### Investments with Investment Fund Managers

	As at 31 March 2014 £	As at 31 March 2013 £
<b>Fixed interest securities</b>		
UK public sector quoted	5,068,447	5,449,248
UK corporate bonds	793,105	636,394
Overseas corporate bonds	807,206	940,801
	<u>6,668,758</u>	<u>7,026,443</u>
<b>Equities</b>		
UK quoted	12,601,244	11,976,205
Overseas quoted	20,038,680	18,954,771
	<u>32,639,924</u>	<u>30,930,976</u>
<b>Index-linked securities</b>		
UK quoted	<u>106,144</u>	<u>270,595</u>
<b>Pooled investment vehicles</b>		
Unit trusts - UK equities	687,644	524,284
- Overseas equities	190,239	161,780
- Property	7,055,303	5,520,774
- UK fixed interest	4,038,631	3,555,875
- International fixed interest	-	327,398
- International equity	843,106	659,752
	<u>12,814,923</u>	<u>10,749,863</u>
<b>Derivatives</b>		
Forward foreign exchange contracts	<u>10,904</u>	<u>22,747</u>
<b>Cash deposits</b>		
Sterling	<u>1,713,463</u>	<u>747,552</u>
<b>Other</b>		
Accrued investment income	<u>35,247</u>	<u>45,996</u>
<b>Total Investments</b>	<u>53,989,363</u>	<u>49,794,172</u>

The aggregate holdings of the investment managers were as follows:

Managers	2014 £	2013 £
Capital International	5,473,450	4,720,887
Blackrock	48,515,913	45,073,285
<b>Total Investments</b>	<u>53,989,363</u>	<u>49,794,172</u>

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 9b. Investments (continued)

The following holdings represented over 5% of the Scheme's assets:

	As at 31 March 2014	As at 31 March 2013
Blackrock UK Property Fund	11.5%	9.7%
SPDR S&P 500 ETF	6.6%	7.4%
Blackrock Corporate Bond Fund	5.9%	5.7%
Lyxor UCITS ETF Euro Stoxx	5.3%	2.7%

### Forward Foreign Exchange Contracts

Forward foreign exchange contracts (derivatives) are used by the Scheme to reduce risk. At present these are used solely for the purpose of hedging the foreign currency exposure introduced when investing in overseas securities. The Scheme's exposure to overseas securities and hence currency forward contracts is restricted. Derivative receipts and payments represent the realised gains and losses on derivative contracts. All contracts have an expiry date within one year. The table below shows all such contracts as at the year end.

Settlement Date	Currency Bought	Value of Currency Bought £	Currency Sold	Value of Currency Sold £	As at 31 March 2014 Assets	As at 31 March 2014 Liabilities
3 months	GBP	8,372	EUR	8,271	101	-
3 months	GBP	6,028	USD	6,002	26	-
3 months	GBP	1,730,536	EUR	1,736,743	-	(6,207)
3 months	GBP	1,438,000	JPY	1,421,016	16,984	-
					17,111	(6,207)

## 10. AVC (Additional Voluntary Contributions) Investments

The Administering Authority hold assets invested separately from the Fund with the AVC Provider Aviva in the form of individual building society funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year. In accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No. 1831), these amounts have not been included within the Financial Statements.

# Notes to the Financial Statements for the year ended 31 March 2014 – continued

## 11. Investment Management Expenses

	As at 31 March 2014 £	As at 31 March 2013 £
Blackrock	171,109	163,721
Capital International	26,105	9,998
	<u>197,214</u>	<u>173,719</u>

## 12. Current Assets

	As at 31 March 2014 £	As at 31 March 2013 £
Debtors		
Contributions due from employers	168,543	161,325
from employees	48,588	49,918
Accrued Income	94,462	102,805
Cash	202,440	239,164
Manx Churches Adoption and Welfare Society	959,000	-
Bad debt provision (note 15)	(478,915)	-
	<u>994,118</u>	<u>553,212</u>

Amounts due from employers' and employees' contributions are outstanding in the normal course of collection at the year end.

## 13. Current Liabilities

	As at 31 March 2014 £	As at 31 March 2013 £
Creditors and accruals	<u>214,257</u>	<u>63,936</u>

## 14. Related Party Transactions and Balances

Douglas Borough Council incurred expenses as administering authority of the Isle of Man Local Government Superannuation Scheme. The total cost during the year amounted to £43,009 (2012/2013: £41,900) and related to a combination of direct and indirect costs. Douglas Borough Council incurred further expenditure of £484,273 (2012/13: £416,886) in respect of the Scheme's fund managers and actuary, investment consultants, the contracted administrator and other professional fees. These costs were charged to the Scheme. As at 31 March 2014 a creditor balance of £207,283 (2012/2013: £58,786) was outstanding to the Council. Other related party transactions in respect of the participating employers, the investment managers and the fund administrators are disclosed in the notes above.



# Notes to the Financial Statements for the year ended 31 March 2014 – continued

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## 15. Cessation of a Scheme Employer

The Manx Churches Adoption and Welfare Society (MCAWS) was an admitted body. MCAWS ceased operation and is in the process of winding up. The council obtained an actuarial valuation of the future liabilities of the pension scheme in relation to former employees of MCAWS. An invoice was raised for this value of £959,000 and this amount is included in employers other contributions. MCAWS did not have sufficient funds to pay its debts in full so a voluntary arrangement was agreed with its creditors. This resulted in the creditors receiving 50.06p per pound owed. The sum of £480,085 was received by the pension scheme in June 2014. The balance of £478,915 has been provided for as a doubtful debt in these financial statements, and has been formally written off subsequent to the year end.

# Summary of Scheme Rules and Benefits

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On 1 April 2012 the scheme rules and benefits became subject to the Local Government Superannuation Scheme (LGSS) Regulations 2012.

## SCHEME MEMBERSHIP AND INCOME

- (a) All employees of Douglas Borough Council and other local authorities are eligible for membership of the scheme providing they are aged under 75 and have a contract of employment for at least 3 months (or the aggregate of several continuous contracts is for at least 3 months). In addition, employees of a Local Authority for a Parish District, Joint Board and Admitted body must be designated as eligible by their employer in order to be a member of the Scheme. Providing the previous criteria are met, full and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (back-dated to the start of membership if made within three months). Employees of resolution bodies are eligible for membership if their authority passes a resolution to that effect. Those employed by admitted bodies are eligible if the admission agreement specifies them as such.

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the assessed pensionable earnings. The rate the member pays depends on which earnings band the member falls into, but the rate will fall between 5.5% and 7.5% of pensionable earnings. If the member works part-time, the rate will be based on the full time equivalent permanent pensionable pay for the job, although the member will only pay contributions on the pensionable pay actually earned. Those employees who were carrying out manual duties immediately before 1 April 2012 and have continued to do so since that date, paid reduced contributions of 5.5% during the Scheme year 2013/14. Those employees' contributions are now harmonised with effect from 1 April 2014 subject to a 6.5% maximum contribution.

Subject to limits set by the Treasury, members can:

- Pay additional voluntary contributions (AVCs) with AVIVA to buy a larger retirement pension, to improve other specific benefits or to provide additional pension.
  - Purchase additional pension.
- (b) Transfer payments for pension rights in almost any other scheme can be accepted by the Scheme to increase benefits, providing the transfer payment is received within 12 months of joining the Scheme (or such a longer date that the employer may allow).
- (c) The participating employers must make the balancing contribution required to keep the Scheme solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' pensionable pay by the Consulting Actuary following each triennial actuarial valuation of the Scheme.

# Summary of Scheme Rules and Benefits - continued

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## SCHEME MEMBERSHIP AND INCOME (continued)

- (d) Employers are required to fund early retirements (other than dismissal on the grounds of ill-health) and discretionary awards of additional membership by making up front payments into the Scheme.
- (e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Scheme.

## BENEFITS AVAILABLE

### Three months' membership or more (or a transfer value has been received or the member holds a deferred benefit in the Scheme):

- A. Retirement pension and tax-free lump sum (tax-free lump sum only based upon membership period accrued prior to 1 April 2012):
  - 1. Payable immediately on cessation of employment:
    - Voluntarily from age 55 onwards (with the employer's consent if under age 60); or
    - Through permanent incapacity at any age with employer's consent; or
    - As a result of dismissal on the grounds of redundancy or efficiency after age 55.
  - 2. Deferred and payable from:
    - Normal retirement age; or
    - Voluntarily from age 55 onwards (with the former employer's consent if under age 60); or
    - Through permanent incapacity at any age with the former employer's consent.
- B. Spouses', Civil Partners', Nominated Co-habiting Partners' and Children's pensions and a lump sum death grant following death:
  - During employment; or
  - Whilst in receipt of a retirement pension (a death grant lump sum may **not** always be payable); or
  - Before deferred benefits become payable.

# Summary of Scheme Rules and Benefits – continued

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## **BENEFITS AVAILABLE (continued)**

**Under three months' membership (and no transfer value has been received or member does not hold deferred benefit in the Scheme):**

- A. Retirement pension on retirement at age 65.
- B. Lump sum death grant payable on death in employment.
- C. Refund of contributions or Cash Equivalent Transfer Value, when no other benefit payable.
- D. Although it will take into consideration the deceased person's wishes, the Pensions Committee has absolute discretion in deciding who should receive any lump sum death grant payable.

## **PENSIONS INCREASE AWARDS**

Retirement and dependants' pensions in payment and deferred pensions are reviewed each year in line with the increase in the Consumer Prices Index.

## **TRANSFERS TO OTHER SCHEMES**

When benefits are not payable immediately, a transfer can usually be made to another tax-approved employer's pension scheme, or to a tax-approved personal pension or stakeholder plan or to purchase an insurance annuity bond.

**Full details of the current regulations of the Pension Scheme can be found on the website ([www.douglas.gov.im](http://www.douglas.gov.im)).**

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Previous financial accounts and actuarial valuations are available  
on the website ([www.douglas.gov.im](http://www.douglas.gov.im))

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