

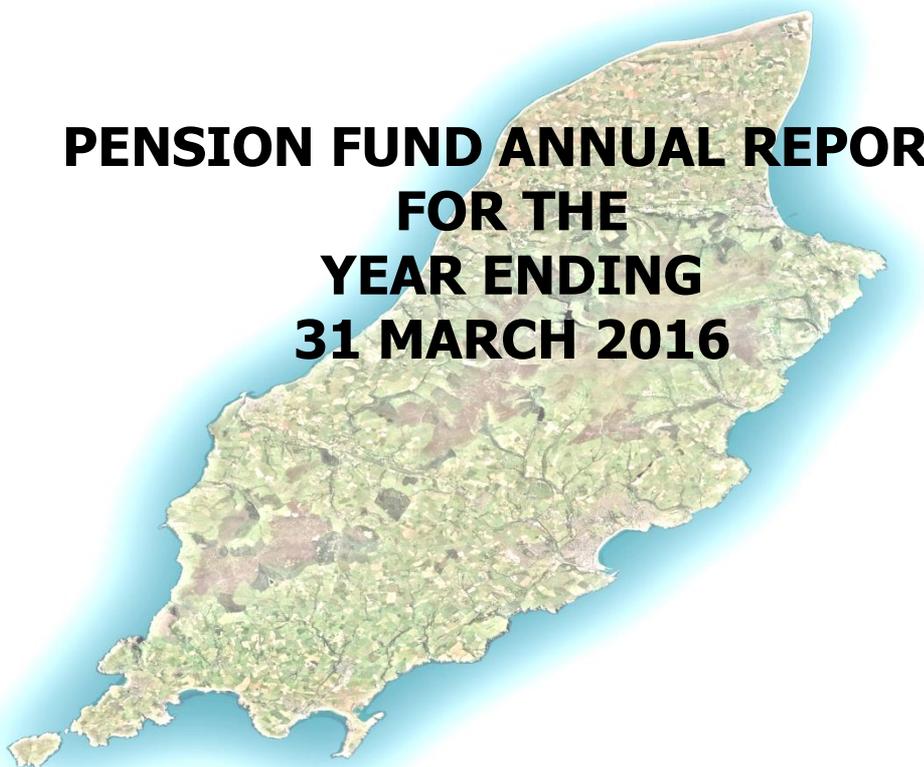
Douglas



Douglas Borough Council
Administering Authority
Coonceil Valley Corpagh Doolish
Lught-Reill Reiree

ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

PENSION FUND ANNUAL REPORT
FOR THE
YEAR ENDING
31 MARCH 2016



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CAPITA
Contract Administrators

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 public sector schemes. 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 November 2014), ("the pensions SORP") as far as is practicable.

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The Administering Authority and their Advisers

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

Chief Executive: Miss K J Rice, BA (Hons) Solicitor

Director of Finance: Mr G M Bolt, CPFA

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

Bankers: Isle of Man Bank, Athol Street, Douglas, Isle of Man IM99 1AN

Scheme Administrator: Capita Employee Benefits Limited, Hartshead House, 2 Cutlers Gate, Sheffield, United Kingdom S4 7TL

Consulting Actuary and Investment Consultant: Hymans Robertson LLP, Central Exchange, 20 Waterloo Street, Glasgow, United Kingdom G2 6DB

Investment Fund Managers: BlackRock (Isle of Man) Limited, 3rd 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

Canaccord Genuity Wealth (International) Limited, Anglo International House, Bank Hill, Douglas, Isle of Man IM1 4LN

St James Place Wealth Management, through Investasure Financial Services Limited, 2nd Floor, 19 Victoria Street, Douglas, Isle of Man IM1 2LW

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

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

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 17th 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 Director of Finance);
- 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 2015 on accounting for entities subject to the Audit Act 2006 (“the SORP”), as far as is practicable.

The financial statements have also been prepared in accordance with the Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and with guidance set out in the Statement of Recommended Practice (Revised November 2014).

Report by Douglas Borough Council – continued

MANAGEMENT (continued)

This is the first year FRS 102 and the Revised SORP have applied to the Scheme's financial statements.

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 November 2014) as far as practicable.

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 four fund managers. Until the end of September 2015 BlackRock (Isle of Man) Limited managed approximately 90% of the Scheme's investments and Capital International Limited managed the remaining approximately 10%. At the end of September 2015 some funds were disinvested from Blackrock and invested instead with Canaccord Genuity Wealth (International) Limited and with St James's Place Wealth Management through Investasure Financial Services Limited.

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.

Report by Douglas Borough Council – continued

MANAGEMENT (continued)

Enquires

General scheme enquiries and member enquiries should be sent to:

The Isle of Man Pension Team
Capita Employee Benefits Limited,
Hartshead House,
2, Cutlers Gate,
Sheffield,
S4 7TL

Tel: 0114 273 7331

Fax: 0114 275 0998

Tel (from Isle of Man): 672730

Your call will be charged at local rates

Email: iomenq@capita.co.uk

Previous financial accounts and actuarial valuations are available on the website
(www.douglas.gov.im)

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).

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 1.2% from 6 April 2015 (2014/15: 2.7% from 7 April 2014) 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 2014 (2014/15: 30 September 2013).

Report by Douglas Borough Council – continued

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). The Pensions Committee, working together with the Investment Consultant and Officers of the Council's Finance Department, monitors and reviews these procedures, and updates the documents as required.

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES

	2015/16	2014/15
	No.	No.
Active Membership		
As at 1 April	384	388
Late adjustments	(2)	(1)
<i>Add:</i>		
Entrants - new starters	30	31
	<u>28</u>	<u>30</u>
<i>Less:</i>		
Exits - new retirement pensions	(12)	(11)
- deferred benefits	(12)	(21)
- deaths in service	(1)	(1)
- pending member instruction	(2)	(1)
	<u>(27)</u>	<u>(34)</u>
As at 31 March	<u>385</u>	<u>384</u>
Deferred Membership		
As at 1 April	250	242
Late adjustments	(2)	1
<i>Add:</i>		
Entrants - deferred benefits	12	21
	<u>10</u>	<u>22</u>
<i>Less:</i>		
Exits - new retirement pensions	(5)	(14)
- transfers	-	-
- deaths in deferment	-	-
- commuted benefits	(1)	-
	<u>(6)</u>	<u>(14)</u>
As at 31 March	<u>254</u>	<u>250</u>

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES

	2015/16	2014/15
	No.	No.
Pensioner Membership		
As at 1 April	288	268
Late adjustments - additions	2	2
- leavers	(3)	-
<i>Add:</i>		
Entrants - new pensioners	15	25
- new dependent pensions	4	5
	<u>18</u>	<u>32</u>
<i>Less:</i>		
Exits - suspended pension	(1)	-
- ineligible	(1)	(1)
- deaths	(12)	(11)
	<u>(14)</u>	<u>(12)</u>
As at 31 March	<u>292</u>	<u>288</u>

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2016 by employer

	2016 Active	2016 Deferred	2016 Pensioners	2016 Total	2015 Total
Local Authorities					
Douglas Borough Council	215	152	139	506	506
Castletown Town Commissioners	8	6	12	26	26
Laxey Village Commissioners	2	-	-	2	2
Michael District Commissioners	1	1	-	2	2
Onchan District Commissioners	36	24	40	100	99
Peel Town Commissioners	16	4	13	33	33
Port Erin Village Commissioners	12	11	4	27	26
Port St Mary Village Commissioners	8	11	12	31	30
Ramsey Town Commissioners	40	13	26	79	78
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	5	-	1	6	6
Bride Parish Commissioners	1	-	-	1	1
Malew Parish Commissioners	6	4	3	13	12
Marown Parish Commissioners	1	-	-	1	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing Board	1	1	-	2	2
Marashen Crescent Housing Committee	5	-	1	6	6
Northern Local Authorities Swimming Pool Board	8	5	1	14	14
Peel & Western District Housing Committee	2	-	1	3	1
Ramsey & Northern District Housing Committee	4	-	6	10	9
Southern Civic Amenity Site Board	3	3	1	7	7
Southern Local Authorities Swimming Pool Board	9	9	9	27	26
Admitted Bodies					
Crossroads Caring for Carers – includes Manx Foundation for Physically Disabled	-	3	4	7	7
Former Department of Tourism & Leisure – Villa Marina	-	-	2	2	2
Leonard Cheshire Foundation	-	1	3	4	4
Manx Blind Welfare	-	-	1	1	1
Vicar and Wardens of Kirk Braddan	2	1	-	3	3
Vicar and Wardens of St Peter's Church Onchan	-	1	-	1	1
Other					
Manx Churches Adoption & Welfare Society (former admitted body)	-	4	13	17	17
	385	254	292	931	922

Report by Douglas Borough Council – continued

Membership as at 31 March 2016 (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 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

Note: After the end of the financial year Laxey Village Commissioners, Lonan Parish Commissioners and Maughold Parish Commissioners combined to form Garff Parish District Commissioners.

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. An actuarial statement that relates to that valuation is reproduced on pages 13 to 15 of the Annual Report. The net assets of the Scheme at the date of the valuation at 31 March 2013 were £50,283,448.

Another valuation is being prepared as at 31 March 2016 but will not be complete for some time.

Report by Douglas Borough Council – continued

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 2016 and of its financial position at 31 March 2016.

G M BOLT CPFA

Director of Finance as Responsible Financial Officer
Douglas Borough Council as Administering Authority
22 July 2016

Investments

INVESTMENT STRATEGY

The primary objective of the Scheme 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, on a defined benefits basis payable under the Local Government Superannuation Scheme rules.

The Pensions Committee sets the investment strategy for the Scheme. The investment strategy takes account of the Scheme's liabilities, the strength of the Employers' covenants and the attitude to risk of both the Pensions Committee and the Employers, and clearly communicates these to advisers and investment managers.

The investment strategy is set out in the Scheme's Governance Statement. The current strategic benchmark asset allocation is shown below:

	Strategic Benchmark allocation %
UK Equities	20.0
Global Equities	25.0
Absolute Return	20.0
Property	12.0
Conventional gilts	7.0
Index-linked gilts	8.0
UK Corporate bonds	8.0
Total	100.0

The 23% of Scheme assets invested in conventional gilts, index-linked gilts and UK corporate bonds are expected to change in value broadly in-line with the Scheme's long-term liabilities.

The remaining 77% of Scheme assets are invested in return-seeking investments comprising UK and global equities, commercial property, and absolute return funds.

INVESTMENT MANAGEMENT AND CUSTODY OF ASSETS

The overall management of the Scheme's investments is the responsibility of the Administering Authority. The Administering Authority has delegated management of investments to professional investment managers which are listed on page 1. These managers manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objectives and policies set out in the SIP are followed.

Investments continued

INVESTMENT MANAGEMENT AND CUSTODY OF ASSETS (continued)

The mandates put in place by the Administering Authority specify how rights attaching to the Scheme's segregated investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental factors when making investment decisions. The Administering Authority have less influence over the underlying investments within pooled investment vehicles held by the Scheme but review the managers' policies and statements of compliance in respect of these matters.

The Administering Authority have appointed the custodians named on page 1 to keep custody of the Scheme's assets, other than:

Pooled investment vehicles held by Canaccord Genuity Wealth (International) Limited and St James Place Wealth Management, where the respective managers make their own arrangements for custody of underlying investments.

The table below shows the performance of the pension fund in aggregate compared to the benchmark.

	Year %	3 Years % p.a.	5 Years % p.a.
Fund	-1.0	6.4	6.7
Benchmark	-0.6	5.6	6.6

The benchmark indexes for each class of assets held are as follows:

Asset Class	Benchmark Index
UK Equities	FTSE All Share
Overseas Equities	MSCI All Countries ex UK Index (GBP Unhedged)
Conventional Gilts	Barclays 15 Year+ Gilts Index
Index Linked Gilts	Barclays UK Govt Inflation Linked Float Adjusted Bond Index
Corporate Bonds	iBoxx non-Gilts All Stocks
Property	IPD All Balanced Funds Weighted Average
Absolute Return Funds	LIBOR +3% p.a.

Actuarial Statement

Isle of Man Local Government Superannuation Scheme (“the Fund”) Actuarial Statement for 2015/16

This statement has been prepared in accordance with The Isle of Man Local Government Pension Scheme Regulations 2012 (Statutory Document No 0104/12) and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2015/16.

Description 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 for all employers 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 demonstrate 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.

Actuarial Statement - continued

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.

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 increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to 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

**Figures assume members aged 45 as at the last formal valuation date.*

Copies of the 2013 valuation report and 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 worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and the deficits increased over the period.

Actuarial Statement - continued

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



Douglas Green FFA

Fellow of the Institute and Faculty of
Actuaries
For and on behalf of Hymans Robertson
LLP
4 May 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6OB

Independent Auditor's Report

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 2016 which comprise the fund account, the statement of net assets available for benefits 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), including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland".

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 auditor

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

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 2016, 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
Douglas
Isle of Man

Date: 26 October 2016

Independent Auditor's Statement about Contributions

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 2016 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 auditor

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

Statement about contributions

In our opinion contributions for the Scheme year ended 31 March 2016 as reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions comprising the Schedule certified by the Scheme Actuary on 27 March 2014.

Grant Thornton Limited
Chartered Accountants
Douglas
Isle of Man

Date: 26 October 2016

Summary of Contributions

Summary of Contributions payable in the year to 31 March 2016

Contributions payable under the Schedule of Contributions/ Payment Schedule:

Employer normal contributions	2,430,731
Employee normal contributions	658,458
	<hr/>
Total contributions payable under the Schedule	3,089,189
Other contributions:	
Employee additional Scheme contributions	12,981
Employer other contributions	<u>29,264</u>
Total contributions payable to the Scheme:	<u><u>3,131,434</u></u>

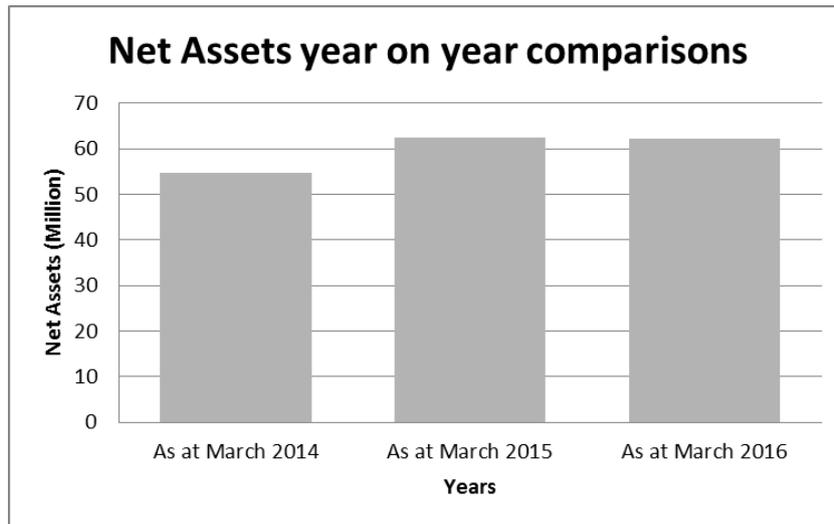
This Summary of Contributions was approved and authorised for issue by the Pensions Committee on 26 October 2016.

C R TURNER
Vice-Chair of the Pensions Committee
26 October 2016

G M BOLT CPFA
Director of Finance
26 October 2016

Foreword to the Financial Statements

As at the 31 March 2016 the accumulated Fund Net Assets stood at £62,187,353 (2015 restated: £62,328,616). The Fund has decreased in value by £141,263. (2015 restated: Increased by £7,559,392)

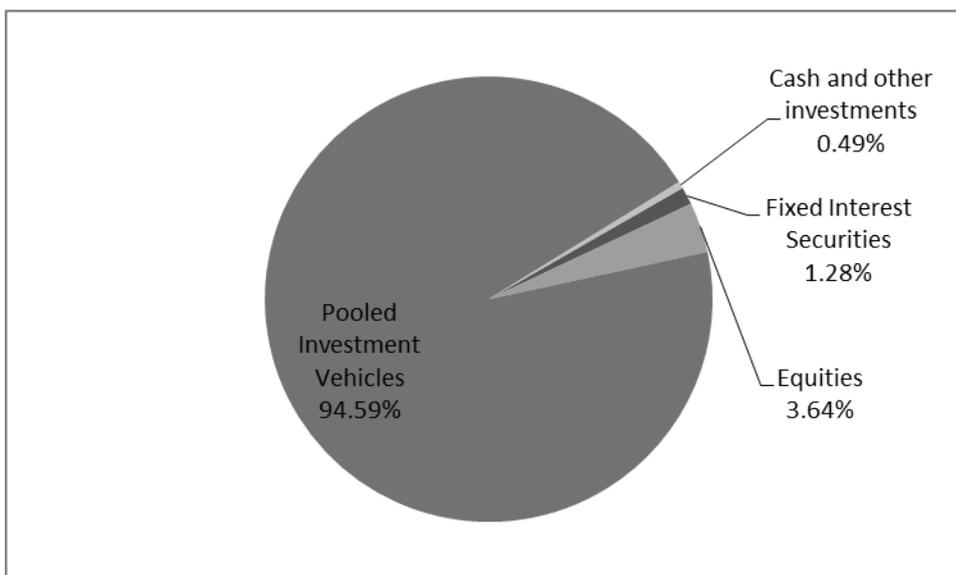


The Fund Value comparison for the last three years can be seen in the graph.

The income from all transfer values received in has decreased by £14,013 (2014/15 increased by £15,226). Contributions have increased by £168,051 (2014/15 decreased by £563,318). This has resulted in a net increase in income in respect of Scheme members of £154,038 (2014/15 decrease of £548,092). Retirement benefits and payments made to or in respect of Scheme members during the year have increased by £127,191 (2014/15 restated: increased by £514,873).

In overall terms the net additions from dealings with Scheme members (before administration expenses) during the year amount to £687,256 (2014/15 restated: £660,409).

During the year the Scheme switched from mainly comprising of direct ownership of assets to much heavier use of pooled investment vehicles. The holdings as at 31 March 2016 are illustrated in the pie chart below.



Financial Statements for the year ended 31 March 2016

	Notes	2015/16 £	2014/15 (Restated) £
FUND ACCOUNT			
Contributions and Benefits			
Employer contributions	3	2,459,995	2,295,495
Employee contributions	3	671,439	667,888
Transfers in	4	1,213	15,226
		<u>3,132,647</u>	<u>2,978,609</u>
Benefits	5	(2,445,391)	(2,318,200)
Leavers	6	-	-
Administrative expenses	7	(237,066)	(252,394)
		<u>(2,682,457)</u>	<u>(2,570,594)</u>
Net additions from dealings with members		<u>450,190</u>	<u>408,015</u>
Returns on investments			
Investment income	8	849,028	1,458,153
Change in market value of investments	9a	(1,310,541)	5,910,481
Investment management expenditure	11	(129,940)	(217,257)
Net return on investments		<u>(591,453)</u>	<u>7,151,377</u>
Net (decrease)/increase in the Scheme during the year		<u>(141,263)</u>	<u>7,559,392</u>
Net assets of the Scheme			
At year beginning (restated)		<u>62,328,616</u>	<u>54,769,224</u>
At year end		<u><u>62,187,353</u></u>	<u><u>62,328,616</u></u>

Financial Statements for the year ended 31 March 2016 - continued

		As at 31 March 2016	As at 31 March 2015 (Restated)
	Notes	£	£
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 31 MARCH 2016			
Investment assets			
Fixed interest securities	9	791,421	7,135,751
Equities	9	2,246,959	38,449,163
Index-Linked securities	9	-	212,460
Pooled investment vehicles	9	58,338,100	14,434,453
Derivatives	9	-	(27,389)
Cash	9	284,995	1,722,329
Other investment balances	9	14,308	35,051
Current Assets	14	601,288	607,351
Current Liabilities	15	(89,718)	(240,553)
Net Assets of the Scheme at year end		62,187,353	62,328,616

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 financial 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 13 to 15 and these financial statements should be read in conjunction with that Statement.

The notes on pages 24 to 39 form part of these Financial Statements.

These accounts were approved and authorised for issue by Pensions Committee on 26 October 2016.

C R TURNER
Vice-Chair of the Pensions Committee
26 October 2016

G M BOLT CPFA
Director of Finance
26 October 2016

Notes to the Financial Statements for the year ended 31 March 2016

General Information

The Isle of Man Local Government Pension Scheme (the “Scheme”) is a statutory public service pension scheme as defined by the Superannuation Act 1984 (an Act of Tynwald of the Isle of Man).

The address of the Administering Authority is: Douglas Borough Council, PO Box 2, Town Hall, Ridgeway Street, Douglas, Isle of Man, IM99 1AD.

1. **Basis of Preparation**

The financial statements have been prepared in accordance with the Superannuation Act 1984 and in accordance with the Audit Act 2006.

The financial statements have also been prepared in accordance with the Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP) (Revised November 2014) (“the Pensions SORP”). This is the first year FRS 102 and the Pensions SORP (Revised November 2014) have applied to the Scheme’s financial statements.

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 part of their benefits as a pension or a pension and lump sum. Pensions and lump sums are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate.

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.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

2. Accounting Policies (continued)

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

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. Where separate bid and offer prices are available, the bid price is used, otherwise the closing single price is used.

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

	2015/16 £	2014/15 £
Employers		
normal	2,430,731	2,295,495
other	29,264	-
Members		
normal	658,458	647,982
scheme additional	12,981	19,906
	3,131,434	2,963,383

Employers' other contributions relate to augmentations paid in respect of certain members' redundancy.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

3. Contributions (continued)

Contributions breakdown

	2015/16 Employers Normal £	2015/16 Employees Normal £	2015/16 Employees Scheme Additional £	2015/16 Total £	2014/15 Total £
Braddan Parish Commissioners	52,146	15,147	-	67,293	71,072
Bride Parish Commissioners	897	230	-	1,127	1,127
Castletown Town Commissioners	52,104	13,880	-	65,984	59,455
Castletown & Malew Elderly Persons Housing Board	4,752	1,168	-	5,920	5,313
Douglas Borough Council	1,443,351	391,550	10,271	1,845,172	1,779,410
Laxey Village Commissioners	11,182	2,912	-	14,094	12,807
Malew Parish Commissioners	35,309	9,458	-	44,767	41,319
Marashen Crescent Housing Committee	22,188	5,979	-	28,167	24,872
Marown Parish Commissioners	2,393	497	812	3,702	3,644
Michael District Commissioners	2,179	529	-	2,708	5,394
Northern Local Authorities Swimming Pool Board	26,663	7,186	-	33,849	40,461
Onchan District Commissioners	228,300	62,192	-	290,492	272,074
Peel Town Commissioners	101,942	27,213	-	129,155	137,538
Peel & Western District Housing Committee	9,744	2,394	-	12,138	-
Port Erin Village Commissioners	65,918	17,549	-	83,467	73,783
Port St Mary Village Commissioners	50,454	13,098	-	63,552	47,247
Ramsey & Northern District Housing Committee	12,986	4,942	194	18,122	17,235
Ramsey Town Commissioners	239,442	64,316	1,704	305,462	285,510
Southern Local Authorities Swimming Pool Board	48,626	12,942	-	61,568	53,939
Southern Civic Amenity Site Board	9,875	2,489	-	12,364	18,307
Vicar and Wardens of Kirk Braddan	10,280	2,787	-	13,067	12,876
	2,430,731	658,458	12,981	3,102,170	2,963,383
Augmentation contributions – redundancy benefits received from Peel Town Commissioners	29,264	-	-	29,264	-
	2,459,995	658,458	12,981	3,131,434	2,963,383

Notes to the Financial Statements for the year ended 31 March 2016 – continued

4. Transfers In

	2015/16 £	2014/15 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	1,213	15,226

5. Benefits

	2015/16 £	2014/15 (Restated) £
Retirement and dependants' pensions	1,606,189	1,514,843
Lump sum retirement grants	736,599	729,657
Lump sum payable on death	102,603	73,700
	2,445,391	2,318,200

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 £19,163 (2014/15: £12,501).

6. Leavers

	2015/16 £	2014/15 £
Refunds of contributions	-	-

7. Administrative Expenses

	2015/16 £	2014/15 £
Administering Authority (see note 16)	64,471	54,239
Fund Administrator	68,940	70,424
Valuation	920	-
Other Actuarial	500	10,235
Investment Advice	69,275	85,250
New Regulation Implementation	8,873	12,918
Audit Fees	17,822	15,047
Legal & Professional	6,255	4,191
Other Fees	10	90
	237,066	252,394

Notes to the Financial Statements for the year ended 31 March 2016 – continued

8. Investment Income

	2015/16 £	2014/15 £
Income from fixed interest securities	72,355	205,003
Dividends from equities and net gains/losses on forward exchange contracts	563,732	1,182,999
Income from pooled investment vehicles	209,287	69,948
Interest on cash deposits	436	203
Other investment income	3,218	-
	<u>849,028</u>	<u>1,458,153</u>

9a. Investments

	Value at 1.04.15 £	Purchases at Cost & Derivative Payments £	Sales Proceeds & Derivative Receipts £	Realised & Unrealised Gains £	Value at 31.03.16 £
Fixed interest securities	7,135,751	2,688,052	(8,962,786)	(69,596)	791,421
Equities	38,449,163	4,770,667	(35,931,716)	(5,041,155)	2,246,959
Index-linked securities	212,460	70,299	(280,797)	(1,962)	-
Pooled investment vehicles	14,434,453	46,043,665	(4,668,617)	2,528,599	58,338,100
Derivatives	(27,389)	27,957,635	(27,990,444)	60,198	-
	<u>60,204,438</u>	<u>81,530,318</u>	<u>(77,834,360)</u>	<u>(2,523,916)</u>	<u>61,376,480</u>
Cash Deposits	1,722,329			-	284,995
Foreign Currency	-			1,213,375	-
Other – accrued investment income	35,051			-	14,308
	<u>61,961,818</u>			<u>(1,310,541)</u>	<u>61,675,783</u>

The realised and unrealised gains and losses on investments and derivative financial instruments during the year comprises profits and losses realised on sales, and unrealised changes in market value.

Direct investment transaction costs are included in the cost of purchases and sales proceeds. Direct investment transaction costs incurred during the year amounted to £35,705 (2014/15: £46,288). In addition to the direct investment transaction costs disclosed above, for certain pooled investment vehicles investment managers' fees incurred are taken into account in calculating 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 2016 – continued

9b. Investments (continued)

Investments with Investment Fund Managers

	As at 31 March 2016 £	As at 31 March 2015 £
Fixed interest securities		
UK public sector quoted	209,615	5,506,851
UK corporate bonds	406,911	776,876
Overseas corporate bonds	174,895	852,024
	<u>791,421</u>	<u>7,135,751</u>
Equities		
UK quoted	1,389,762	13,684,631
Overseas quoted	857,197	24,764,532
	<u>2,246,959</u>	<u>38,449,163</u>
Index-linked securities		
UK quoted	-	212,460
	<u>-</u>	<u>212,460</u>
Pooled investment vehicles		
Unit trusts - UK equities	11,946,773	671,348
- Overseas equities	361,142	206,008
- Property	8,818,867	7,938,810
- UK fixed interest	9,939,218	4,617,346
- UK index-linked securities	4,758,293	-
- Absolute return	5,409,718	-
- International equity	17,104,089	1,000,941
	<u>58,338,100</u>	<u>14,434,453</u>
Derivatives		
Forward foreign exchange contracts	-	(27,389)
	<u>-</u>	<u>(27,389)</u>
Cash deposits		
Sterling	284,995	1,722,329
	<u>284,995</u>	<u>1,722,329</u>
Other		
Accrued investment income	14,308	35,051
	<u>14,308</u>	<u>35,051</u>
Total Investments	<u>61,675,783</u>	<u>61,961,818</u>

Notes to the Financial Statements for the year ended 31 March 2016 – continued

9b. Investments (continued)

The aggregate holdings of the investment managers were as follows:

Managers	As at 31 March 2016	As at 31 March 2015
	£	£
Capital International	6,573,274	6,829,406
Blackrock	18,095,228	55,132,412
Canaccord	20,941,598	-
Investasure (St James's Place Wealth)	16,065,683	-
Total Investments	61,675,783	61,961,818

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

	As at 31 March 2016	As at 31 March 2015
Royal London UK All Tracker Fund	19.2%	-%
Blackrock UK Property Fund	12.7%	11.2%
Blackrock Diversified Growth Fund	8.7%	-%
St James's Global Equity UT	7.8%	-%
St James's Global UT	7.7%	-%
St James's Global Equity Income UT	7.7%	-%
Vanguard UK Inf Linked Gilt Idx Fund	7.7%	-%
Blackrock All Stk Corp Bond Fund	7.6%	-%
SSGA Barclays 15+ Year Gilt Fund	6.8%	-%
SPDR S&P 500 ETF	-%	6.8%
Lyxor UCITS ETF Euro Stoxx	-%	5.9%
Blackrock Corporate Bond Fund	-%	5.8%

Notes to the Financial Statements for the year ended 31 March 2016 – continued

9b. Investments (continued)

Forward Foreign Exchange Contracts

Forward foreign exchange contracts (derivatives) were used by the Scheme to reduce risk. They 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.

At 31 March 2016 there were no contracts held.

At 31 March 2015 the table below shows contracts held that had not expired:

Settlement Date	Currency Bought	Value of Currency Bought £	Currency Sold	Value of Currency Sold £	As at 31 March 2015 Assets	As at 31 March 2015 Liabilities
3 months	GBP	766,036	EUR	(760,600)	5,436	-
3 months	GBP	1,000,000	JPY	(1,032,825)	-	(32,825)
					5,436	(32,825)

Notes to the Financial Statements for the year ended 31 March 2016 – continued

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.

11. Investment Management Expenses

	2015/16 £	2014/15 £
Canaccord	5,147	-
Blackrock	91,902	186,346
Capital International	32,891	30,911
	<u>129,940</u>	<u>217,257</u>

12. Fair value determination

The fair value of financial instruments has been determined using the following fair value hierarchy:

Category (a) The quoted price for an identical asset in an active market.

Category (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary.

Category (c) Where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined using a valuation technique which uses:

- c (i) observable market data; or
- c (ii) non-observable data.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

12. Fair value determination (continued)

The Scheme's investment assets (excluding accrued income and derivatives) have been fair valued using the above hierarchy categories as follows:

	Fixed Interest Securities	Equities	Index-linked Securities	Pooled Investment Vehicles	Cash Deposits	Total
	£	£	£	£	£	£
As at 31 March 2016						
Category (a)	791,421	2,246,959	-	4,236,533	284,995	7,559,908
Category (b)	-	-	-	40,527,672	-	40,527,672
Category (c)(i)	-	-	-	4,755,026	-	4,755,026
Category (c)(ii)	-	-	-	8,818,869	-	8,818,869
Total	791,421	2,246,959	-	58,338,100	284,995	61,661,475
As at 31 March 2015						
Category (a)	7,135,751	38,449,163	212,460	-	1,722,329	47,519,703
Category (b)	-	-	-	2,889,007	-	2,889,007
Category (c)(i)	-	-	-	3,606,636	-	3,606,636
Category (c)(ii)	-	-	-	7,938,810	-	7,938,810
Total	7,135,751	38,449,163	212,460	14,434,453	1,722,329	61,954,156

13. Investment Risk Disclosures

The Pensions Committee has identified a number of key risks that will impact on the Scheme's funding level and contribute to funding risk.

FRS 102 requires the disclosure of information in relation to certain investment risks.

- Credit risk: this is the risk that the counterparty to a financial instrument will cause financial loss for the Scheme by failing to discharge an obligation.
- Market risk: this comprises currency risk, interest rate risk and other price risk.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

13. Investment Risk Disclosures (continued)

(i) Credit risk

As at 31 March 2016 the Scheme holds the following asset classes that contain direct credit risk:

- Conventional gilts
- Index-linked gilts
- UK corporate bonds
- Pooled investment vehicles
- Cash

The total credit risk is as follows:

	Fixed Interest Securities	Index- linked Securities	Pooled Investment Vehicles	Cash Deposits	Total
	£	£	£	£	£
As at 31 March 2016	791,421	-	58,338,100	609,005	59,738,526
As at 31 March 2015	7,135,751	212,460	14,434,453	1,972,982	23,755,646

The Pensions Committee mitigates this risk by investing in bond assets that are high quality investment grade bonds. In the case of the conventional and index-linked gilts, these bonds are backed by the full credit and faith of the United Kingdom government. The credit risk on UK corporate bonds is mitigated through an active management approach and the investment manager's continuous analysis on the credit quality of the securities held within this mandate.

Cash is held with creditworthy financial institutions and parties.

Direct credit risk from holding pooled investment vehicles is mitigated by the underlying assets held in trust and separate from the assets of the investment manager. The risk is further mitigated by the Pensions Committee investing in regulated markets and regularly reviewing the investment managers in conjunction with their investment advisor.

The Scheme also invests in pooled investment vehicles. The underlying assets held in certain funds contain indirect credit risk; however, this risk is mitigated by the dynamic asset allocation and holistic risk management focus employed by the investment managers.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

13. Investment Risk Disclosures (continued)

(ii) Market Risk

(a) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas equity markets either directly or indirectly via pooled investment vehicles. Accordingly, the value of the Scheme's assets may be affected favourably or unfavourably by fluctuations in currency rates.

The Scheme's managers mitigate currency risk by the use of derivative instruments.

The Scheme's total net unhedged exposure at the year-end was as follows:

	Fixed Interest Securities	Equities	Pooled Investment Vehicles	Derivatives	Cash Deposits	Total
	£	£	£	£	£	£
As at 31 March 2016						
USD	178,137	154,007	181,523	-	9,698	523,365
EUR	-	-	-	-	-	-
JPY	-	-	-	-	-	-
2016 Total	178,137	154,007	181,523	-	9,698	523,365
As at 31 March 2015						
USD	174,812	15,025,971	173,402	-	36,601	15,410,786
EUR	-	6,704,329	-	5,435	4,780	6,714,544
JPY	-	2,146,702	-	(32,824)	-	2,113,878
2015 Total	174,812	23,877,002	173,402	(27,389)	41,381	24,239,208

Notes to the Financial Statements for the year ended 31 March 2016 – continued

13. Investment Risk Disclosures (continued)

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 March 2016 the Scheme invests in the following asset classes, either directly or indirectly through pooled investment vehicles, that contain interest rate risk:

- Conventional gilts
- Index-linked gilts
- UK corporate bonds

The above asset classes are expected to broadly change in value in line with the Scheme's liabilities as a consequence of changing interest rates.

The total interest rate risk is as follows:

	Fixed Interest Securities	Index-linked Securities	Pooled Investment Vehicles	Total
	£	£	£	£
As at 31 March 2016	791,421	-	14,697,511	15,488,932
As at 31 March 2015	7,135,751	212,460	4,617,346	11,965,557

The Pensions Committee mitigates direct interest rate risk by setting a strategic allocation for investment in gilts and bonds as a percentage as part of their investment strategy.

The Scheme also invests in an absolute return pooled investment vehicle managed by BlackRock. The underlying assets held in this fund may contain indirect interest rate risk; however, this risk is mitigated by the dynamic asset allocation and holistic risk management focus employed by the manager.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

13. Investment Risk Disclosures (continued)

(c) Other price risk

Other price risk includes the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate, credit or currency risk), whether those changes are caused by factors specific to the financial instruments or their issuer, or factors affecting all similarly traded financial instruments in the market.

Other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes equities, index linked securities and pooled investment vehicles. The Scheme manages this exposure by constructing a diversified portfolio of instruments across various markets. In accordance with the Scheme's Governance Statement, each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities. In addition, the asset allocation is monitored on a regular basis by the Pensions Committee.

The total indirect other price risk is as follows:

	Equities	Index-linked Securities	Pooled Investment Vehicles	Total
	£	£	£	£
As at 31 March 2016	2,246,959	-	43,640,587	45,887,546
As at 31 March 2015	38,449,163	212,460	9,817,107	48,478,730

Notes to the Financial Statements for the year ended 31 March 2016 – continued

14. Current Assets

	As at 31 March 2016 £	As at 31 March 2015 £
Debtors		
Contributions due from employers	197,862	180,224
from employees	54,651	52,270
Accrued Equity Income	15,494	124,204
Cash at bank	324,010	250,653
Sundry Debtors	9,271	-
	<u>601,288</u>	<u>607,351</u>

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

15. Current Liabilities

	As at 31 March 2016 £	As at 31 March 2015 (Restated) £
Creditors and accruals	<u>89,718</u>	<u>240,553</u>

16. 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 £64,471 (2014/15: £54,239) and related to a combination of direct and indirect costs. Douglas Borough Council incurred further expenditure of £302,525 (2014/15: £415,322) 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 2016 a creditor balance of £66,996 (2014/15: £108,971) 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.

17. Transition to FRS 102

This is the first year that the Scheme has presented financial statements under FRS 102 and the SORP (revised November 2014). The last financial statements under previous UK GAAP and the previous SORP (revised May 2007) were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014.

In applying FRS 102 there were no adjustments required to the fund account or statement of net assets, other than presentational changes.

Notes to the Financial Statements for the year ended 31 March 2016 – continued

18. Prior period misstatement

Member's retirement benefits and death in service benefits payable but not paid at 31 March 2015 of £122,000 were not included in the prior year financial statements. The comparative amounts reported for the year ended 31 March 2015 have been restated to correct this misstatement by increasing benefit payments and current liabilities by this amount.

19. Post balance sheet event

Investment Manager Office Closure

BlackRock (Isle of Man) Limited gave written notice on 11 May 2016 that it was planning to surrender its Isle of Man Financial Services Authority-issued licence and close its office by the end of 2016. A tender exercise was therefore carried out to select investment managers with licences issued by the Isle of Man Financial Services Authority to take over the portfolios that had been managed by BlackRock. Canaccord Genuity Wealth was appointed and has subsequently taken over the management of the corporate bond and property mandates. Capital International was appointed and has subsequently taken over the absolute return mandate that had been managed by BlackRock, adding to the amount of absolute return investments that they already manage on behalf of the pension scheme.

Summary of Scheme Rules and Benefits

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 2014/15. Those employees' contributions were harmonised with effect from 1 April 2015.

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

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.

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.

Summary of Scheme Rules and Benefits – continued

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 grants 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 UK 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).

This page does not form part of the audited financial statements