

## Isle of Man Local Government Superannuation Scheme

### Pension Fund Annual Report for the year ending 31 March 2018



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 A J T Boyd, FCPFA

**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:** 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's Place Wealth Management, through Investasure Financial Services Limited, 2nd Floor, 19 Victoria Street, Douglas, Isle of Man IM1 2LW

**Custodians:** 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 the 1984 Act 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 2018 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 therein.

The financial statements have 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

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## MANAGEMENT (continued)

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 was delegated to the three fund managers shown on page 1.

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 Solutions, 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 Additional Voluntary Contribution (AVC) arrangement for members. AVC's are not reflected within these financial statements.

# Report by Douglas Borough Council – continued

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## MANAGEMENT (continued)

### Enquiries

General scheme enquiries and member enquiries should be sent to:

Isle of Man Local Government Superannuation Scheme,  
Capita Employee Solutions,  
11b Lingfield Point,  
Darlington,  
DL1 1AX

Telephone (from the Isle of Man): 672730 – calls will be charged at local rates  
Telephone from the UK: 01624 672730  
Email: [iomenq@capita.co.uk](mailto:iomenq@capita.co.uk)

Previous financial accounts and actuarial valuations are available on the website ([www.douglas.gov.im](http://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](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). The pensions increase effective date was 10 April 2017. The Treasury Order/Pensions Increase was 1.0%. (2016/17: 0.1% from 11 April 2016) 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 in the Isle of Man, being the rise in the UK's Consumer Prices Index during the 12 months ended 30 September 2017 (2016/17: 30 September 2016).

# 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 Council's Finance Department, monitors and reviews these procedures, and updates the documents as required.

# Report by Douglas Borough Council – continued

## MEMBERSHIP AND BENEFICIARIES

	2017/18	2016/17
	No.	No.
<b>Active Membership</b>		
<b>As at 1 April</b>	<b>403</b>	383
Late adjustments	1	0
<i>Add:</i>		
Entrants - new starters	33	40
	<u>34</u>	<u>40</u>
<i>Less:</i>		
Exits - new retirement pensions	(14)	(10)
- deferred benefits	(9)	(9)
- deaths in service	(1)	0
- pending member instruction	0	(1)
	<u>(24)</u>	<u>(20)</u>
<b>As at 31 March</b>	<b>413</b>	403
 <b>Deferred Membership</b>		
<b>As at 1 April</b>	<b>260</b>	260
Late adjustments	1	-
<i>Add:</i>		
Entrants - deferred benefits	9	9
	<u>10</u>	<u>9</u>
<i>Less:</i>		
Exits - new retirement pensions	(7)	(6)
- transfers	(2)	(3)
- deaths in deferment	(3)	-
	<u>(12)</u>	<u>(9)</u>
<b>As at 31 March</b>	<b>258</b>	260

# Report by Douglas Borough Council – continued

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## MEMBERSHIP AND BENEFICIARIES

	2017/18	2016/17
	No.	No.
<b>Pensioner Membership</b>		
<b>As at 1 April</b>	<b>301</b>	293
Late adjustments - additions	1	-
<i>Add:</i>		
Entrants - new pensioners	21	16
- new dependent pensions	2	2
	<u>24</u>	<u>18</u>
<i>Less:</i>		
Exits - suspended pension	(9)	-
- ineligible	(1)	-
- deaths	(13)	(10)
	<u>(23)</u>	<u>(10)</u>
<b>As at 31 March</b>	<b>302</b>	301

# Report by Douglas Borough Council – continued

## MEMBERSHIP AND BENEFICIARIES - continued

### Membership as at 31 March 2018 by employer

	2018 Active	2018 Deferred	2018 Pensioners	2018 Total	2017 Total
<b>Local Authorities</b>					
Douglas Borough Council	233	156	135	<b>524</b>	526
Castletown Town Commissioners	12	4	11	<b>27</b>	26
Garff Parish District Commissioners	3	0	1	<b>4</b>	4
Michael District Commissioners	1	1	0	<b>2</b>	2
Onchan District Commissioners	34	24	45	<b>103</b>	103
Peel Town Commissioners	15	4	11	<b>30</b>	33
Port Erin Village Commissioners	13	10	8	<b>31</b>	27
Port St Mary Village Commissioners	11	12	11	<b>34</b>	32
Ramsey Town Commissioners	46	15	32	<b>93</b>	86
<b>Resolution Bodies</b>					
(a) Parish Districts					
Braddan Parish Commissioners	5	0	1	<b>6</b>	6
Bride Parish Commissioners	1	0	0	<b>1</b>	1
Malew Parish Commissioners	6	3	3	<b>12</b>	13
Marown Parish Commissioners	1	0	0	<b>1</b>	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing	0	2	0	<b>2</b>	2
Marashen Crescent Housing Committee	5	0	1	<b>6</b>	6
Northern Local Authorities Swimming Pool	7	6	2	<b>15</b>	14
Peel & Western District Housing Committee	2	0	1	<b>3</b>	3
Ramsey & Northern District Housing Committee	4	0	6	<b>10</b>	10
Southern Civic Amenity Site Board	3	3	1	<b>7</b>	7
Southern Local Authorities Swimming Pool	9	9	9	<b>27</b>	27
<b>Admitted Bodies</b>					
Crossroads Caring for Carers– includes Manx					
Foundation for Physically Disabled	0	3	4	<b>7</b>	7
Leonard Cheshire Foundation	0	1	3	<b>4</b>	4
Manx Blind Welfare	0	0	1	<b>1</b>	1
Vicar and Wardens of Kirk Braddan	2	1	0	<b>3</b>	3
Vicar and Wardens of St Peter's					
Church Onchan	0	0	1	<b>1</b>	1
<b>Other (former admitted bodies)</b>					
Manx Churches Adoption & Welfare Society	0	4	13	<b>17</b>	17
Department of Tourism & Leisure – Villa Marina	0	0	2	<b>2</b>	2
	<b>413</b>	<b>258</b>	<b>302</b>	<b>973</b>	<b>964</b>

# Report by Douglas Borough Council – continued

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## Membership as at 31 March 2018 (continued)

### Bodies with no members

The following designate bodies had no members during the year:

#### (a) Parish Districts

Andreas Parish Commissioners  
Arbory Parish Commissioners  
Ballaugh Parish Commissioners  
German Parish Commissioners  
Jurby Parish Commissioners  
Lezayre 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 2016 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 2016 were £62,187,353.

# Report by Douglas Borough Council – continued

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

Under the Accounts and Audit Regulations 2018 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 2018 and of its financial position at 31 March 2018.

**A J T Boyd FCPFA**  
Director of Finance  
Douglas Borough Council as Administering Authority  
10 July 2018

# 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 and monitored by the Pensions Committee. The strategic benchmark asset allocation applicable during the financial year is shown below:

<u>Asset Portfolio</u>	<u>Asset Allocation as at 31 March 2018</u>		<u>Strategic Allocation</u>
	£	%	%
Canaccord UK Equities	12,690,559	17.0	17.0%
St James' Place Global Equities	16,974,360	22.7	23.0%
Capital International Absolute Return	14,777,967	19.7	20.0%
Canaccord Property	9,259,073	12.4	12.0%
Canaccord Conventional gilts	7,342,217	9.8	9.5%
Canaccord Index-linked gilts	7,945,034	10.6	10.5%
Canaccord Corporate bonds	5,829,421	7.8	8.0%
<b>Total</b>	<b>74,818,631</b>	<b>100.0</b>	<b>100.0%</b>

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

The remaining portion 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 Statement of Investment Principles (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:

Where pooled investment vehicles are held by Canaccord Genuity Wealth (International) Limited and St James's Place Wealth Management, 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	2.4	6.0	7.7
Benchmark	3.2	6.0	7.1

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	Barclays Sterling Corporate Bond Index
Property	IPD All Balanced Funds Weighted Average
Absolute Return	LIBOR +3% p.a.

# Actuarial Statement

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## Isle of Man Local Government Superannuation Scheme (“the Scheme”) Actuarial Statement for 2017/18

This statement has been prepared in accordance with The Isle of Man Local Government Superannuation 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 2017/18.

### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017. 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 (this will also minimise the costs to be borne by ratepayers);
- to use reasonable measures to reduce the risk to other employers and ultimately to the ratepayer 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 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 under Regulation 36 of the Local Government Superannuation Scheme 2012 Document No. 0104/12, was at 31 March 2016. This valuation revealed that the Scheme’s assets, which at 31 March 2016 were valued at £62 million, were sufficient to meet 82% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £14 million.

Employers’ contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

### Method

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

### Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.1%

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 2013 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	21.7 years	24.3 years
Future Pensioners*	24.1 years	27.1 years

*\*Aged 45 at the 2016 valuation.*

Copies of the 2016 valuation report and Funding Strategy Statement are available on the Administering Authority to the Scheme's website ([www.douglas.gov.im](http://www.douglas.gov.im)).

### Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

# Actuarial Statement - continued

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The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Douglas Green FFA

For and on behalf of Hymans Robertson LLP

24 April 2018

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

# 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**

## **Opinion**

We have audited the financial statements of Isle of Man Local Government Superannuation Scheme for the year ended 31 March 2018 which comprise the fund account, the statement of net assets available for benefits and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) as applied to an Isle of Man entity.

## **In our opinion, the financial statements:**

- give a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2018, 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.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Who we are reporting to**

This report is made solely to the 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.

# Independent Auditor's Report - continued

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## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Administering Authority's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Administering Authority has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Administering Authority is responsible for the other information. The other information comprises the information included in the annual report set out on pages 1-39, other than the financial statements and both our auditor's report and auditor's statement about contributions thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard:

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

We have nothing to report in respect of the following matters where 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.

# Independent Auditor's Report - continued

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## **Responsibilities of Administering Authority**

As explained more fully in the Administering Authority's responsibilities statement on page 2, the Administering Authority is responsible for the preparation of the financial statements which show a true and fair view, and for such internal control as the Administering Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Administering Authority is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to wind up the Scheme or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Grant Thornton Limited**  
***Chartered Accountants***  
Douglas  
Isle of Man

Date: 24 October 2018

# 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 2018 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

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## Statement about contributions

In our opinion contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions including the Schedule certified by the Scheme Actuary on 24 March 2017.

**Grant Thornton Limited**  
***Chartered Accountants***  
Douglas  
Isle of Man

Date: 24 October 2018

# Summary of Contributions

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## Summary of Contributions payable in the year to 31 March 2018

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

	£
Employer normal contributions	2,796,711
Employee normal contributions	701,733
	<hr/>
<b>Total contributions payable under the Schedule</b>	<b>3,498,444</b>
<b>Other contributions:</b>	
Employee additional Scheme contributions	13,892
	<hr/>
<b>Total contributions payable to the Scheme:</b>	<b>3,512,336</b>
	<hr/> <hr/>

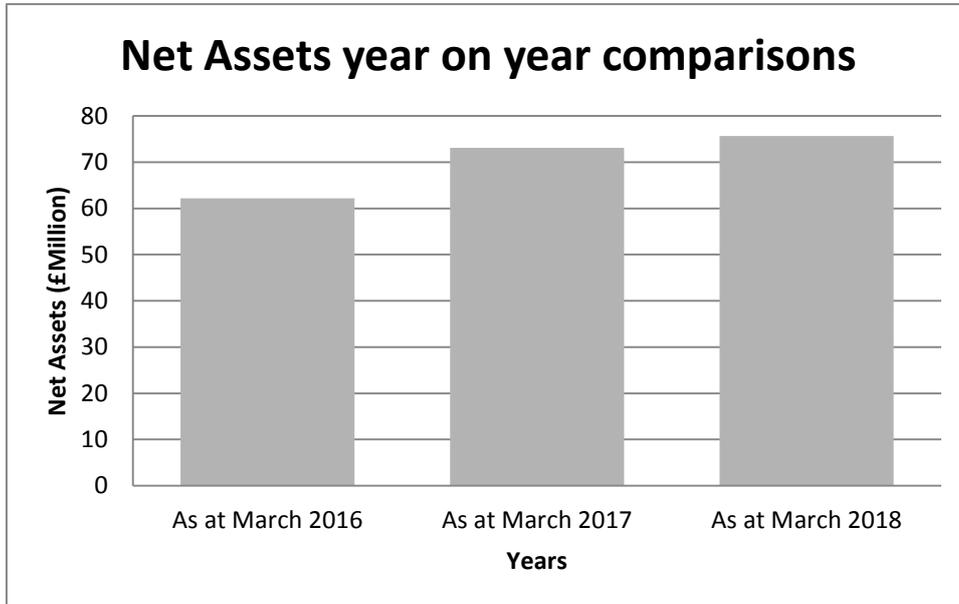
This Summary of Contributions was approved and authorised for issue by the Pensions Committee on 24 October 2018.

**K Angela**  
Chairman of the Pensions Committee  
24 October 2018

**A J T Boyd FCPFA**  
Director of Finance  
24 October 2018

# Foreword to the Financial Statements

As at the 31 March 2018 the accumulated Fund Net Assets stood at £75,720,225 (2016/17 £73,134,721). The Fund has increased in value by £2,585,504 (2016/17 increased £10,947,368).

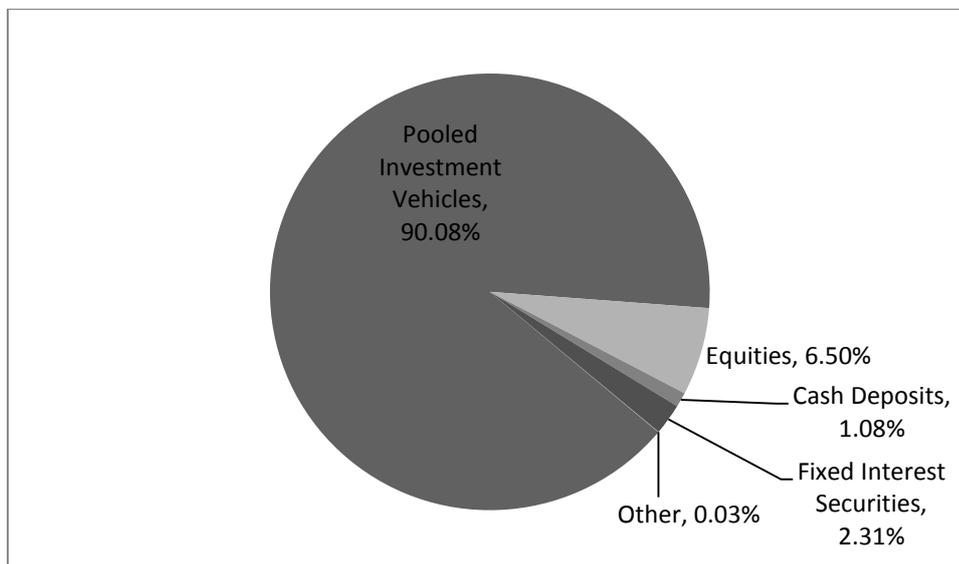


The Fund Value comparison for the last three years can be seen in the graph.

The income from all transfer values received has increased by £448,337 (2016/17 decreased by £1,213). Contributions have increased by £218,380 (2016/17 increased by £162,522). This has resulted in a net increase in income in respect of Scheme members of £666,717 (2016/17 increase of £161,309). Retirement benefits and payments made to or in respect of Scheme members during the year (including administrative expenses) have decreased by £283,987 (2016/17 increased by £219,896).

In overall terms the net additions from dealings with Scheme members (before administration expenses) during the year amount to £1,459,005 (2016/17 £628,669).

The holdings by type as at 31 March 2018 are illustrated in the pie chart below.



# Financial Statements for the year ended 31 March 2018

	Notes	2017/18 £	2016/17 £
<b>FUND ACCOUNT</b>			
<b>Contributions and Benefits</b>			
Employer contributions	3	2,796,711	2,605,845
Employee contributions	3	715,625	688,111
Transfers in	4	448,337	0
		<u>3,960,673</u>	<u>3,293,956</u>
Benefits			
Retirement and dependant's pensions	5	(1,775,803)	(1,702,318)
Lump sum retirement grants	5	(568,673)	(680,984)
Lump sum payable on death	5	(125,740)	(66,825)
Leavers	6	(31,452)	(215,160)
Administrative expenses	7	(229,683)	(350,051)
		<u>(2,731,351)</u>	<u>(3,015,338)</u>
<b>Net additions from dealings with members</b>		<u>1,229,322</u>	<u>278,618</u>
<b>Returns on investments</b>			
Investment income	8	783,355	593,281
Realised and unrealised gains on investments	9a	678,039	10,140,075
Investment management expenditure	11	(105,212)	(64,606)
<b>Net return on investments</b>		<u>1,356,182</u>	<u>10,668,750</u>
<b>Net increase/(decrease) in the Scheme during the year</b>		<u>2,585,504</u>	<u>10,947,368</u>
<b>Net assets of the Scheme</b>			
<b>At year beginning</b>		<u>73,134,721</u>	<u>62,187,353</u>
<b>At year end</b>		<u><u>75,720,225</u></u>	<u><u>73,134,721</u></u>

# Financial Statements for the year ended 31 March 2018 - continued

	Notes	As at 31 March 2018 £	As at 31 March 2017 £
<b>STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 31 MARCH 2018</b>			
<b>Investment assets</b>			
Fixed interest securities	9	1,724,690	1,758,242
Equities	9	4,864,491	5,219,623
Pooled investment vehicles	9	67,394,099	63,392,680
Cash	9	811,537	2,272,157
Other investment balances	9	23,814	20,986
<b>Current Assets</b>	14	<b>1,205,981</b>	509,914
<b>Current Liabilities</b>	15	<b>(304,387)</b>	(38,881)
<b>Net Assets of the Scheme at year end</b>		<b>75,720,225</b>	73,134,721

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 25 to 39 form part of these Financial Statements.

These accounts were approved and authorised for issue by Pensions Committee on 24 October 2018.

**K Angela**  
Chairman of the Pensions Committee  
24 October 2018

**A J T Boyd FCPFA**  
Director of Finance  
24 October 2018

# Notes to the Financial Statements for the year ended 31 March 2018

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## General Information

The Isle of Man Local Government Superannuation 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").

### 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 scheme contributions 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 2018 – 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, pooled investment vehicles, cash and short term deposits, and other investments 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

	2017/18 £	2016/17 £
Employers		
Normal contributions	2,796,711	2,593,281
Other	0	12,564
Members		
Normal contributions	701,733	675,941
Scheme additional	13,892	12,170
	<hr/> <b>3,512,336</b> <hr/>	<hr/> <b>3,293,956</b> <hr/>

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

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 3. Contributions (continued)

### Contributions breakdown

	2017/18 Employers Normal £	2017/18 Employees Normal £	2017/18 Employees Scheme Additional £	2017/18 Total £	2016/17 Total £
Braddan Parish Commissioners	60,007	16,141	0	<b>76,148</b>	70,037
Bride Parish Commissioners	897	230	0	<b>1,127</b>	1,127
Castletown Town Commissioners	70,916	17,836	0	<b>88,752</b>	83,859
Castletown & Malew Elderly Persons Housing Board	989	225	0	<b>1,214</b>	6,136
Douglas Borough Council	1,644,731	413,966	10,791	<b>2,069,488</b>	1,929,815
Garff Parish District Commissioners	25,938	6,601	0	<b>32,539</b>	26,116
Malew Parish Commissioners	36,343	9,310	0	<b>45,653</b>	47,316
Marashen Crescent Housing Committee	26,492	6,556	0	<b>33,048</b>	31,587
Marown Parish Commissioners	2,886	822	1,068	<b>4,776</b>	4,186
Michael District Commissioners	4,375	1,032	0	<b>5,407</b>	4,603
Northern Local Authorities Swimming Pool Board	24,494	6,120	0	<b>30,614</b>	23,841
Onchan District Commissioners	242,968	61,026	0	<b>303,994</b>	312,532
Peel Town Commissioners	106,111	26,165	0	<b>132,276</b>	129,447
Peel & Western District Housing Committee	10,808	2,452	0	<b>13,260</b>	12,562
Port Erin Village Commissioners	76,975	19,040	0	<b>96,015</b>	87,162
Port St Mary Village Commissioners	61,887	15,133	0	<b>77,020</b>	62,554
Ramsey & Northern District Housing Committee	17,548	3,982	2,033	<b>23,563</b>	19,072
Ramsey Town Commissioners	315,468	78,735	0	<b>394,203</b>	345,124
Southern Local Authorities Swimming Pool Board	48,872	11,983	0	<b>60,855</b>	63,253
Southern Civic Amenity Site Board	5,699	1,425	0	<b>7,124</b>	6,583
Vicar and Wardens of Kirk Braddan	12,307	2,953	0	<b>15,260</b>	14,480
	<b>2,796,711</b>	<b>701,733</b>	<b>13,892</b>	<b>3,512,336</b>	<b>3,281,392</b>
Augmentation contributions – redundancy benefits receivable from Douglas Borough Council	0	0	0	<b>0</b>	12,564
	<b>2,796,711</b>	<b>701,733</b>	<b>13,892</b>	<b>3,512,336</b>	<b>3,293,956</b>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 4. Transfers In

	2017/18 £	2016/17 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	448,337	0

## 5. Benefits

	2017/18 £	2016/17 £
Retirement and dependants' pensions	1,775,803	1,702,318
Lump sum retirement grants	568,673	680,984
Lump sum payable on death	125,740	66,825
	<u>2,470,216</u>	<u>2,450,127</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 £7,745 (2016/17: £12,671).

## 6. Leavers

	2017/18 £	2016/17 £
Individual transfers to other schemes	31,312	215,160
Refunds to members leaving service	140	0
	<u>31,452</u>	<u>215,160</u>

## 7. Administrative Expenses

	2017/18 £	2016/17 £
Administering Authority (see note 16)	68,667	69,689
Scheme Administrator	75,345	75,592
Valuation	0	65,450
Other Actuarial	3,120	3,201
Investment Advice	64,281	116,720
Audit Fees	15,800	14,890
Legal & Professional	2,405	4,440
Other Fees	65	69
	<u>229,683</u>	<u>350,051</u>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 8. Investment Income

	2017/18 £	2016/17 £
Income from fixed interest securities	139,695	157,803
Dividends from equities and net gains/losses on foreign exchange contracts	172,510	100,556
Income from pooled investment vehicles	471,145	325,166
Interest on cash deposits	0	97
Other investment income	5	9,659
	<u>783,355</u>	<u>593,281</u>

## 9a. Investments

	Value at 1.04.17 £	Purchases at Cost & Derivative Payments £	Sales Proceeds & Derivative Receipts £	Realised & Unrealised Gains £	Value at 31.03.18 £
Fixed interest securities	1,758,242	-	-	(33,552)	1,724,690
Equities	5,219,623	1,954,903	(2,170,716)	(139,319)	4,864,491
Pooled investment vehicles	63,392,680	8,720,875	(5,570,366)	850,910	67,394,099
	<u>70,370,545</u>	<u>10,675,778</u>	<u>(7,741,082)</u>	<u>678,039</u>	<u>73,983,280</u>
Cash Deposits	2,272,157				811,537
Other – accrued fixed interest investment income	20,986				23,814
	<u>72,663,688</u>			<u>678,039</u>	<u>74,818,631</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 £15,862 (2016/17: £26,112). 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 2018 – continued

## 9b. Investments (continued)

### Investments with Investment Fund Managers

	As at 31 March 2018 £	As at 31 March 2017 £
<b>Fixed interest securities</b>		
UK public sector quoted	230,111	229,376
UK corporate bonds	1,323,446	1,329,185
Overseas corporate bonds	171,133	199,681
	<u>1,724,690</u>	<u>1,758,242</u>
<b>Equities</b>		
UK quoted	2,843,177	3,613,577
Overseas quoted	2,021,314	1,606,046
	<u>4,864,491</u>	<u>5,219,623</u>
<b>Pooled investment vehicles</b>		
Unit trusts - UK equities	12,690,559	14,657,387
- Overseas equities	890,438	419,610
- Property	11,308,603	9,866,231
- UK fixed interest	12,306,064	10,205,097
- Overseas fixed interest	2,523,429	2,056,889
- UK index-linked securities	7,945,034	5,963,433
- Absolute return	212,576	211,072
- International equity	19,517,396	20,012,961
	<u>67,394,099</u>	<u>63,392,680</u>
<b>Cash deposits</b>		
Sterling	792,989	2,139,171
US Dollar	16,047	132,986
Swiss Franc	1,313	0
Euro	1,188	0
	<u>811,537</u>	<u>2,272,157</u>
<b>Other</b>		
Accrued investment income	23,814	20,986
<b>Total Investments</b>	<u>74,818,631</u>	<u>72,663,688</u>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 9b. Investments (continued)

The aggregate holdings of the investment managers were as follows:

<b>Managers</b>	<b>As at 31 March 2018</b>	<b>As at 31 March 2017</b>
	<b>£</b>	<b>£</b>
Capital International	<b>14,777,964</b>	14,285,628
Canaccord	<b>43,066,308</b>	39,857,522
St James's Place Wealth Management	<b>16,974,359</b>	18,520,538
	<hr/>	<hr/>
<b>Total Investments</b>	<b>74,818,631</b>	<b>72,663,688</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>As at 31 March 2018</b>	<b>As at 31 March 2017</b>
Royal London UK All Tracker Fund	<b>16.8%</b>	20.1%
Blackrock UK Property Fund	<b>12.2%</b>	11.0%
Vanguard UK Inf Linked Gilt Idx Fund	<b>10.5%</b>	8.2%
SSGA Barclays 15+ Year Gilt Fund	<b>9.7%</b>	6.9%
St James's Global Equity UT	<b>6.8%</b>	7.5%
St James's Global UT	<b>6.7%</b>	7.5%
St James's Global Equity Income UT	<b>6.4%</b>	7.7%

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

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## 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

	<b>2018/17</b>	2016/17
	£	£
Canaccord	<b>45,990</b>	19,760
Capital International	<b>59,222</b>	44,846
	<hr/>	<hr/>
	<b>105,212</b>	64,606
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 12. Fair value determination

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

- Level 1      The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2      Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3      Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Plan's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

	<b>Fixed Interest Securities</b>	<b>Equities</b>	<b>Pooled Investment Vehicles</b>	<b>Cash Deposits</b>	<b>Total</b>
	£	£	£	£	£
<b>As at 31 March 2018</b>					
<b>Level 1</b>	<b>1,724,690</b>	<b>4,864,491</b>	<b>8,900,218</b>	<b>1,731,052</b>	<b>17,220,451</b>
<b>Level 2</b>	-	-	<b>47,185,278</b>	-	<b>47,185,278</b>
<b>Level 3</b>	-	-	<b>11,308,603</b>	-	<b>11,308,603</b>
<b>Total</b>	<b>1,724,690</b>	<b>4,864,491</b>	<b>67,394,099</b>	<b>1,731,052</b>	<b>75,714,332</b>

As at 31 March 2017

Level 1	1,758,242	5,219,623	6,446,435	2,272,157	15,696,457
Level 2	-	-	47,080,014	-	47,080,014
Level 3	-	-	9,866,231	-	9,866,231
<b>Total</b>	<b>1,758,242</b>	<b>5,219,623</b>	<b>63,392,680</b>	<b>2,272,157</b>	<b>72,642,702</b>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 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.

### (i) Credit risk

As at 31 March 2018 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 value of asset classes containing credit risk is as follows:

	<b>Fixed Interest Securities</b>	<b>Pooled Investment Vehicles</b>	<b>Cash Deposits</b>	<b>Total</b>
	£	£	£	£
<b>As at 31 March 2018</b>	<b>1,724,690</b>	<b>67,394,099</b>	<b>1,731,052</b>	<b>70,849,841</b>
As at 31 March 2017	1,758,242	63,392,680	2,272,157	67,423,079

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.

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 13. Investment Risk Disclosures (continued)

### (i) Credit risk (continued)

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

### (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	Cash Deposits	Total
	£	£	£	£	£
As at 31 March 2018					
US Dollars	174,409	854,475	849,433	16,047	1,894,364
Euros	0	470,286	0	1,313	471,599
Swiss Francs	0	32,667	0	1,188	33,855
<b>2018 Total</b>	<b>174,409</b>	<b>1,357,428</b>	<b>849,433</b>	<b>18,548</b>	<b>2,399,818</b>
As at 31 March 2017					
US Dollars	203,366	403,884	214,323	132,986	954,559
<b>2017 Total</b>	<b>203,366</b>	<b>403,884</b>	<b>214,323</b>	<b>132,986</b>	<b>954,559</b>

# Notes to the Financial Statements for the year ended 31 March 2018 – continued

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## 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 2018 the Scheme invests in the following asset classes, either directly or indirectly through pooled investment vehicles that contain interest rate risk:

- Conventional 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:

	<b>Fixed Interest Securities</b>	<b>Pooled Investment Vehicles</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
As at 31 March 2018	<b>1,724,890</b>	<b>14,829,493</b>	<b>16,554,383</b>
As at 31 March 2017 (Restated)	1,758,242	12,261,986	14,020,228

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 absolute return pooled investment vehicles. The underlying assets held in these funds 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 2018 – continued

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## 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 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:

	<b>Equities</b>	<b>Pooled Investment Vehicles</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
As at 31 March 2018	<b>4,864,491</b>	<b>44,619,572</b>	<b>49,484,063</b>
As at 31 March 2017	5,219,623	45,167,259	50,386,882



# Notes to the Financial Statements for the year ended 31 March 2018 – continued

## 16. Related party transactions and balances

Douglas Borough Council is the administering authority for the Isle of Man Local Government Superannuation Scheme. The Council's Director of Finance is the Responsible Financial Officer for both the Council and the Scheme.

The Council incurred administration expenses in respect of the Scheme during the year which related to a combination of direct and indirect costs. Further expenditure was incurred by the Council in respect of the Scheme's fund managers, actuary, investment advisors, contracted administrator and other professional fees. These costs were recharged to the Scheme and are set out below, along with the balance outstanding (to)/from the Council as at the year end.

	<b>Year to 31 March 2018 £</b>	Year to 31 March 2017 £
Scheme administration expenses	<b>68,667</b>	69,689
Scheme professional fees	<b>237,885</b>	336,067
	<b>306,552</b>	405,756
	<b>As at 31 March 2018 £</b>	As at 31 March 2017 £
Due (to)/from the Council	<b>(89,834)</b>	26,718

# Summary of Scheme Rules and Benefits

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## THESE PAGES DO NOT FORM PART OF THE AUDITED FINANCIAL STATEMENTS

The scheme rules and benefits are governed under 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 continuous contracts for 3 months or more). Employees of a Local Authority for a Parish District, Joint Board or 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.

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.

Members can increase their benefits if they:

- Pay additional voluntary contributions (AVCs) to AVIVA to buy retirement pension and tax free cash, or increase the death grant for their dependants.
  - Purchase additional pension in the LGSS.
- (b) Pension rights in almost any other scheme can be transferred into 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 balancing contributions 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 Fund Actuary following each triennial actuarial valuation of the Scheme.
- (d) Employers are required to fund early retirements (other than dismissal on the grounds of ill-health) and discretionary awards of additional membership or additional pension 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.

# Summary of Scheme Rules and Benefits - continued

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## **BENEFITS AVAILABLE**

**Three months' or more membership (includes where a transfer has been received, the member holds a deferred benefit in the Scheme or is drawing a pension from 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 (employer's consent required before age 60); or
    - Through permanent incapacity at any age with employer's consent; or
    - On the grounds of redundancy or efficiency after age 55.
  2. Deferred and payable from:
    - Normal retirement age; or
    - Voluntarily from age 55 onwards (employer's consent required before 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 discretion in deciding who should receive any lump sum death grant.

## **Less than three months' membership:**

- 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 is 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.

# Summary of Scheme Rules and Benefits – continued

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## **PENSIONS INCREASE AWARDS**

All pensions in payment and deferred pensions are revalued in April 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](http://www.douglas.gov.im)).**

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