

The Superannuation (Manual
Workers) (No.1) Scheme 1973

Public Sector Pensions Authority
Annual Report and Accounts
for year ending 31 March 2017



Isle of Man
Government

Reiltys Ellan Vannin

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1. Introduction

- 1.1. The Public Sector Pensions Authority (PSPA) was established in 2012, as the Statutory Board responsible for the administration and management of the majority of public sector pension schemes (the 'schemes') as defined in the Public Sector Pensions Act 2011 (the 'Act').
- 1.2. Board Members are appointed by the Council of Ministers and comprise of a legally qualified Chair, who is independent of employer and employee interests, two Members representing the interests of employers, one being the Chair of the Public Services Commission, who is also the Vice-Chair of the PSPA. Two further Members represent the interests of employees, one being nominated by the Isle of Man Trades Council and the other by any other Isle of Man trade union body representing the interests of public sector employees.
- 1.3. The Board operates in a similar way to a corporate trustee for a private sector pension scheme, with the Board members representing the interests of all the schemes' beneficiaries and not solely the interests of the body or union that nominated them. However, the Board is not constituted as a Trustee Board and does not therefore have the same fiduciary responsibilities.
- 1.4. Under the Act, the PSPA is responsible for ensuring that the schemes are properly maintained and administered. The Board meets on a regular basis to consider management and administrative matters, delegating the day to day management and administration to the officers of the PSPA.
- 1.5. Under the Act the functions of the PSPA include:
 - Administering and managing the majority of the public sector pension schemes established in the Island;
 - Acting as a policy adviser to the Council of Ministers on the superannuation of public sector employees;
 - Making and amending public sector superannuation schemes, subject to Tynwald approval; and
 - Preparing annual accounts hereafter referred to as financial statements, relating to those schemes it administers and manages.
- 1.6. The Isle of Man Treasury and Cabinet Office provide the PSPA with finance and payroll services. In practice, the PSPA coordinates and administers the calculation and set up of expenditure and monitors income, whilst the Treasury makes payments and receives funds from contributions and transfers to the Schemes.

PSPA's Mission Statement

- 1.7. To deliver high quality pension and other superannuation benefit services, which are customer focused and cost effective for all stakeholders.

PSPA's Management and Administration Costs

- 1.8. In accordance with section 9(3)(c) of the Act, the cost for the management and administration of the schemes must be paid by the PSPA out of monies provided by Tynwald or from such other sources of funding as is approved by Tynwald. These costs are not reflected in the annual report and financial statements of the individual schemes.

2. Public Sector Pensions Authority Board

Mr J Carter, LLB	Chair (Independent)	Re-appointed 12 January 2017
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PSPA Members representing the interests of Employers

Hon C C Thomas, MHK	Vice Chair	Appointed 3 November 2016
Mr D J Ashford, MHK		Appointed 3 November 2016
Mr J P Shimmin, MHK		Resigned 3 November 2016
Mr T Wild, MLC		Resigned 3 November 2016

PSPA Members representing the interests of Employees

Mr E Holmes	Re-appointed 1 February 2017
Ms A Moffatt	Appointed 24 November 2015

3. Public Sector Pensions Authority Advisers

Scheme Management and Administration
 Public Sector Pensions Authority
 3rd Floor Prospect House
 27-29 Prospect Hill
 Douglas
 Isle of Man IM1 1ET

Financial and Payroll Services
 Office of Human Resources
 Payroll Team
 Cabinet Office
 Illiam Dhone House
 Circular Road
 Douglas
 Isle of Man IM1 3AG

Scheme Actuary
 Hymans Robertson LLP
 20 Waterloo Street
 Glasgow G2 6DB

Independent Auditor
 PricewaterhouseCoopers LLC
 Third Floor
 Sixty Circular Road
 Douglas
 Isle of Man IM1 1SA

Bankers (via Treasury)
 Isle of Man Bank Limited
 2 Athol Street
 Douglas
 Isle of Man IM99 1AN

4. Public Sector Pensions Authority Board's Report

- 4.1. The Superannuation (Manual Workers) (No.1) Scheme 1973 (the 'Scheme') is a public sector pension scheme which commenced on 1 January 1973.
- 4.2. The Scheme is an unfunded, contributory, voluntary membership, defined benefit scheme which provides retirement, death and dependants' benefits for qualifying members.

The Rules Affecting the Scheme

- 4.3. The Rules governing the management and administration of the Scheme came into operation on the 1 January 1973. Amendments to those Rules in 1979 and 2009 have been approved by Tynwald.

Sponsoring Employers

- 4.4. On 31 March 2017, Scheme members were employed by the following sponsoring employers:-
 - Department of Environment, Food and Agriculture; and
 - Department of Infrastructure.

Information about the Scheme

- 4.5. Information about the Scheme is provided in the "member guide", on the PSPA website at <http://www.pspa.im>

Benefits of the Scheme

- 4.6. Benefits under the Scheme, including pensions and lump sums, are calculated using final pensionable pay and length of pensionable service.
- 4.7. Further information about the Scheme's benefits is contained in the "member guide" on the website, which addresses matters such as early retirement, protection for members' families and lump sums.

Approved Changes to the Scheme since 1 April 2016

Employer Contributions

- 4.8. Employer contributions to the Scheme are covered by Rule 9 – Contributions by Boards and Government Departments at the rate of 9% of pensionable pay.
- 4.9. Commencing from 1 April 2016, employers paid 15% of superannuable pay. The contribution rate had been expected to increase by 1% per year to 20% from the 1 April 2017, however the Treasury Minister confirmed in the February 2017 budget speech that this rate will remain at 15%.

Member Contributions

- 4.10. Member contributions of 1.5% of pensionable pay are deducted towards the cost of a widow's/widower's pension. All benefits other than the widow's/widower's pensions are non contributory to the member.

Annual Pension Increase

- 4.11. Pension increases are made in accordance with the Pensions (Increase) Act 1974, by way of the Isle of Man Treasury's Pensions Increase (Annual Review) Order. The Order is made under Section 59 of The Social Security Pensions Act 1975, as it has effect in the Isle of Man, which requires the Isle of Man Treasury to increase the annual rate of an "official pension" by the same percentage as it is raised by the Secretary of State for Work and Pensions in the United Kingdom.
- 4.12. Pension increases are linked to those for additional state pension, such as the State Second Pension, and any uprating takes into account the rate of UK inflation over the previous year to September.
- 4.13. The pension increase on 6 April 2016 was in line with the UK's Consumer Prices Index for the 12 months to September 2015, and this was 0%. The Scheme's pensioner members have been informed that there is no pension increase this year.

Membership Information

- 4.14. The Scheme was closed to new members from the 1 April 1977. At this time, the scheme membership was for certain manual workers employed by the Isle of Man Government, who on 1 January 1973 were males under 45 years of age and females under 40 years of age. Active members at this date were given the opportunity to join an alternative public service scheme, the then Manual Workers Superannuation Scheme 1977, members of which are now in the Isle of Man Government Unified Scheme 2011.

4.15. Details of the membership of the Scheme are as follows:-

	31 March 2017	31 March 2016
Active members	1	2
Deferred members with preserved benefits	6	8
Pensioners	66	66
Total members	73	76

Movements within the Scheme's Active Membership during the Year

Active membership	2016/17	2015/16
Active membership on 1 April	2	2
Late notifications/data alterations/misc. correction	(1)	0
Retirements	0	0
Active members on 31 March	1	2

Movements within the Scheme's Deferred Membership during the Year

Deferred members	2016/17	2015/16
Deferred membership on 1 April	8	9
Retirements	(2)	(1)
Deferred members on 31 March	6	8

Movements within the Scheme's Pensioner Membership during the Year

Pensioner members	2016/17	2015/16
Pensioner members on 1 April	66	66
Late notifications/data alterations/misc. correction	1	1
Additions		
Retirements	2	1
Widow/widower	0	2
Reductions		
Deaths in retirement	(3)	(4)
Pensioner members on 31 March	66	66

Note: The figures include Pensioners, Child Pensions, Widow/Widower Pensions, Injury Pensions/Awards and Additional Pension beneficiaries.

Tax Status

- 4.16. Full tax relief is granted on the employers' and members' contributions paid to the Scheme.
- 4.17. The Income Tax (Approved Pensions Schemes)(Trivial Commutation Lump Sums)(Amendment) Regulations 2016 approved by Tynwald in February 2016, increased the trivial commutation limit from £30,000 to £50,000 and reduced the age at which trivial commutation could be paid from 60 years of age to 55 with effect from 6 April 2016.

National Insurance Status

- 4.18. The Scheme was initially 'contracted-out' of the State Second Pension Scheme (S2P) up until the 6th April 1997. During the contracted-out period the employer and employee paid lower National Insurance (NI) contributions, but did not build up credits towards 'Additional Pension' S2P.
- 4.19. When the Scheme became 'contracted-in', both the employer and employee paid higher NI contributions; in return employees began to earn credits towards S2P.
- 4.20. At age 65 (Males) or 60 (Females) the pension is reduced by 1/45th of the annual rate of a single person's State Pension for each year of service subject to a limit of 1/80th of one and a half times the National Insurance lower earnings limit for each year of service. Therefore, the Scheme is "integrated" with basic state pension and has always been established on this basis.

Funding Status

- 4.21. The PSPA has undertaken an assessment of the future funding of all the schemes it manages and administers on a collective basis. The PSPA expects the schemes, including this Scheme, to continue operating on an unfunded basis for the foreseeable future, with any shortfall between income and expenditure being funded by the Treasury.

Accounting Records

- 4.22. Prior to 1 April 2012, the Scheme's accounting records were maintained on a cash receipts and payments basis and there was no requirement to prepare financial statements.
- 4.23. Since 1 April 2012, the PSPA has been responsible for the preparation of the Scheme's financial statements in accordance with the Public Sector Pensions Act 2011 (the 'Act'). The PSPA has concluded that this Scheme's accounting records should be prepared on an accruals basis.

Statement of PSPA Responsibilities


- 4.24. The financial statements, which are prepared in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", are the responsibility of the PSPA Board. The Act requires the PSPA to make available to the Council of Ministers audited financial statements for each scheme year which means that they should:
- Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than the liabilities to pay relevant benefits after the end of the Scheme year; and
 - Contain the information specified by United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", including a statement whether the financial statements have been prepared in accordance with the guidance set out in Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014)("the SORP").
- 4.25. The PSPA has supervised the preparation of the financial statements and has agreed suitable accounting policies to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.
- 4.26. The PSPA is also responsible for making available certain other information about the Scheme in the form of an Annual Report.
- 4.27. The PSPA is also responsible for keeping records in respect of contributions received by Treasury in relation to any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employers in accordance with the Scheme Rules and the recommendation of the Scheme actuary.
- 4.28. The PSPA also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme (if any) and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.
- 4.29. The PSPA is also responsible for the maintenance and integrity of the PSPA website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Further Information

- 4.30. The PSPA report entitled "Fairness and Sustainability of Public Sector Pension Schemes – Revised Proposals" was submitted to the Council of Ministers in February 2016, additional time was provided to members to consider the proposals and the report with an amending motion was approved by Tynwald at its June 2016 sitting. The following points related to this Scheme: Tynwald -
- Receives the report of the PSPA entitled "Fairness and Sustainability of Public Sector Pension Schemes – Revised Proposals";

- Requests the PSPA to consult on detailed scheme changes with a view to formal amendments to all schemes being laid before Tynwald for approval no later than February 2017; and
 - Agrees that the options for managing the legacy position in the longer term will be subject to further investigation by the PSPA and the Treasury in conjunction with Tynwald Members and a further report will be submitted to Tynwald for consideration after the General Election.
- 4.31. The Isle of Man Government Unified Scheme (Amendment) Scheme 2017, was approved with amending motion at February 2017 sitting of Tynwald, the following related to this Scheme:-
- that the PSPA and Treasury should further investigate options for managing the legacy position in the long term in order to report back to the Council of Ministers so that it can put forward full options and proposals to Tynwald by November 2017.
- 4.32. The legacy funding gap, the difference between contribution income and expenditure is being investigated by PSPA and the Treasury in conjunction with Tynwald Members to present full options and recommendations in a report to November 2017 sitting of Tynwald.
- 4.33. Enquiries about the Scheme generally, or about an individual member's entitlements to benefit, should be addressed to:-

Scheme Administrator
Public Sector Pensions Authority
3rd Floor Prospect House
27-29 Prospect Hill
Douglas
Isle of Man
IM1 1ET


Mr J Carter, LLB
Chair, PSPA
13 November 2017


Hon C C Thomas, MHK
Vice Chair, PSPA
13 November 2017

5. Actuarial Statement

Addressee and Purpose

- 5.1. This statement has been prepared for the Public Sector Pensions Authority ("PSPA"). The purpose of this statement is to set out the disclosures required for the 2016/17 Annual Report and Accounts of The Superannuation (Manual Workers) (No.1) Scheme 1973 ("the Scheme").

Description of the Scheme

- 5.2. The Scheme is one of a number of unfunded defined benefit schemes with relatively small numbers of members in the Isle of Man that are governed by the PSPA.

Background to the Scheme

- 5.3. The Scheme was closed to new entrants from 1 April 1977.

Principal Actuarial Assumptions and Method used to Value the Liabilities

- 5.4. The financial and demographic assumptions adopted are consistent with those used for the actuarial valuation of the PSPA pension schemes as at 31 March 2016. Details are set out below.
- 5.5. Data provided by the PSPA for the purpose of the 2016 actuarial valuation was used in the preparation of this statement.

Method

- 5.6. 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.
- 5.7. The calculation of the estimated cost of benefits earned (or 'accrued') by existing members as determined at the 31 March 2016 valuation allows for all expected future pay and pension increases, and is based on the Projected Unit Method of calculation. This amount is expressed as a percentage of the members' pensionable pay over the year.

Assumptions

- 5.8. The same financial and demographic assumptions were adopted for all PSPA pension schemes at the 2016 valuation.
- 5.9. The key financial assumptions adopted are set out overleaf.

Financial assumptions	31 March 2016	
	% p.a. Nominal	% p.a. Real
Discount rate	4.5%	2.5%
Pay increases	4.0%	2.0%
Price inflation/pension increases	2.0%	-

- 5.10. The key demographic assumption is the allowance made for longevity. The life expectancy assumptions are based on the Club Vita tables used for the 2016 PSPA valuations with improvements in line with the CMI 2013 projections model, assuming that the recent rate of improvements will start to tail off immediately before falling to a long term rate of improvement of 1.25% p.a.
- 5.11. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.7 years	24.3 years
Future pensioners*	24.9 years	27.1 years

**Future pensioners are assumed to be 45 at the 2016 valuation.*

- 5.12. Please note, the life expectancy assumption adopted for the 2016 valuation of the PSPA pension schemes is different to that adopted for the 2015/16 actuarial statement.

Other Demographic Assumptions

- 5.13. The tables below show details of the demographic assumptions adopted for the 2016 valuation at specimen ages.
- 5.14. Age retirements – Members are assumed to retire on reaching the Normal Retirement Age applicable to their membership of the Scheme. No allowance is made for early retirements (other than on grounds of ill health).
- 5.15. Retirements in ill health – Allowance has been made for ill health retirements before Normal Pension Age (see table overleaf).
- 5.16. Tier 1

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Ill Health	Ill Health
20	0.00	0.00
25	0.00	0.36
30	0.45	0.60
35	0.60	1.20
40	1.05	1.56
45	2.40	2.52
50	6.60	4.92
55	13.50	12.96
60	27.00	0.00

5.17. Tier 2

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Ill Health	Ill Health
20	0.00	0.00
25	0.00	0.19
30	0.24	0.32
35	0.32	0.64
40	0.56	0.83
45	1.28	1.34
50	3.52	2.62
55	7.20	6.91
60	14.40	0.00

5.18. Withdrawals - Allowance has been made for withdrawals from service (see table below).

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Withdrawals	Withdrawals
20	122.40	116.10
25	80.85	78.10
30	57.35	65.45
35	44.80	56.45
40	36.05	46.95
45	29.50	38.65
50	22.85	29.45
55	19.80	22.70
60	12.00	10.55

- 5.19. Death in Service – Allowance has been made for members dying in active service (see table below).

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Death in Services	Death in Services
20	0.30	0.16
25	0.30	0.16
30	0.36	0.24
35	0.42	0.40
40	0.72	0.64
45	1.20	1.04
50	1.92	1.52
55	3.00	2.00
60	5.40	2.56

- 5.20. Promotional salary scale –The promotional pay scale is in addition to the allowance for general pay inflation described above.

Age	Promotional Salary Scales	
	Male	Female
	Salary Scale	Salary Scale
20	100	100
25	100	100
30	123	123
35	138	138
40	148	148
45	158	158
50	168	168
55	168	168
60	168	168

- 5.21. Family details – A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. Husbands are assumed to be 3 years older than wives.
- 5.22. Cash commutation – Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 90% of the maximum amount permitted.

Value of Past Service Liabilities as at 31 March 2016

- 5.23. The PSPA commissioned an actuarial valuation of the Scheme as at 31 March 2016. This valuation revealed the past service liabilities of the Scheme as at 31 March 2016 to be £6.07 million. A breakdown of this is provided in the table below.

	Past Service Liabilities £000
Active Members	186
Deferred Members	191
Pensioner Members	5,689
Total	6,066

Cost of Accruing Benefits as at 31 March 2016

- 5.24. The Scheme is an unfunded arrangement. Active members pay contributions based on their pensionable pay, with the balance of cost being met by employers (principally, the Isle of Man Government).
- 5.25. The employers' share of the cost of accruing benefit as determined at the 31 March 2016 valuation on the assumptions set out above is 24.5% and the employees' cost is 1.5%. These rates do not reflect the actual contribution rates payable by employers.
- 5.26. Technical Actuarial Standard (TAS)¹ 100 is applicable in relation to this report.



Peter Summers FFA
For and on behalf of Hymans Robertson LLP
Scheme Actuary

¹ Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

6. Independent Auditor's report to the PSPA Board in respect of The Superannuation (Manual Workers) (No. 1) Scheme 1973

Report on the financial statements

Our opinion

In our opinion The Superannuation (Manual Workers) (No.1) Scheme 1973 the financial statements:

- Show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year; and
- Have been properly prepared in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

What we have audited

The Superannuation (Manual Workers) (No.1) Scheme 1973 financial statements, which are prepared by the PSPA, comprise:

- The statement of net assets available for benefits as at 31 March 2017;
- The fund account for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable Isle of Man law and United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". In applying the financial framework, the PSPA has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the PSPA

As explained more fully in the statement of PSPA responsibilities, the PSPA is responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable Isle of Man law and International Standards on Auditing (UK &

Ireland)("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report including the opinion has been prepared for and only for the PSPA as a body in accordance with the Public Sector Pensions Act 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purposes or any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 PSPA; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the PSPA's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report 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.

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
13 November 2017

7. Independent Auditor's Statement about Contributions to the PSPA Board in respect of The Superannuation (Manual Workers) (No.1) Scheme 1973

Statement about contributions

Our qualified opinion

In our opinion, except for the matter described in the basis for our qualified opinion paragraph, the contributions payable to The Superannuation (Manual Workers) (No.1) Scheme 1973 for the year ended 31 March 2017 have in all material respects been paid in accordance with the Scheme Rules and the cost of accruing benefits as advised by the Scheme Actuary.

Basis for our qualified opinion

The contributions paid to The Superannuation (Manual Workers) (No.1) Scheme 1973 for the year ended 31 March 2017 were at a lower percentage of pensionable pay than the cost of accruing benefits as advised by the Scheme Actuary in the latest actuarial valuation as at 31 March 2016, as explained in note 10.12 to the financial statements.

This opinion is to be read in the context of what we say in the remainder of this statement.

What we have examined

We have examined the contributions paid to The Superannuation (Manual Workers) (No.1) Scheme 1973 for the year ended 31 March 2017.

Responsibilities for the statement about contributions

Our responsibilities and those of the PSPA

As explained more fully in the statement of PSPA responsibilities, the PSPA is responsible for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the PSPA as a body in accordance with the Public Sector Pensions Act 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an examination of the contributions payable involves

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the Scheme Rules and the cost of accruing benefits as advised by the Scheme Actuary and, the timing of those payments.

We test and examine information, using sampling and other techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
13 November 2017

8. Fund Account for the Year Ended 31 March 2017

	Notes	2017 £000	2016 £000
Contributions and other income			
Contributions	10.11 to 10.12	5	11
Benefits and other outgoings			
Benefits	10.15	(410)	(409)
Net withdrawals from dealings with members		(405)	(398)
Net assets of the Scheme at 1 April		0	0
Cancellation of current assets and current liabilities	10.4 to 10.7, 10.16	405	398
Net assets of the Scheme at 31 March		0	0

8.1. The notes on pages 24 to 27 form part of these financial statements.

9. Statement of Net Assets Available for Benefits as at 31 March 2017

	Notes	2017 £000	2016 £000
Current assets	10.4 to 10.7	0	0
Current liabilities	10.4 to 10.7	0	0
Net assets available for benefits		0	0

9.1. The notes on pages 24 to 27 form part of these financial statements.

9.2. The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the PSPA. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the actuarial statements on pages 13 to 17, and these financial statements should be read in conjunction with them.

9.3. These financial statements were approved by the PSPA Board on 13 November 2017.



Mr J Carter, LLB
Chair, PSPA
13 November 2017



Hon C C Thomas, MHK
Vice Chair, PSPA
13 November 2017

10. Notes to the Financial Statements for the Year Ended 31 March 2017

Statement of Compliance

- 10.1. The financial statements have been prepared in accordance with applicable Isle of Man law, United Kingdom Accounting Standards ('UKAS'), including the Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014)(the "SORP"), and comply with UKAS to the extent that it is considered to be appropriate for an unfunded pension scheme.

Basis of Accounting

- 10.2. Prior to 1 April 2012, the legacy schemes' accounting records were maintained on a cash receipts and payments basis and there was no requirement to prepare financial statements. The PSPA and Treasury agreed that historic debtor and creditor balances between the legacy schemes, the sponsoring employers and the Treasury would be cancelled as the legacy schemes' accounting records contain insufficient information on these balances at the date these schemes closed, being 31 March 2012.
- 10.3. Since 1 April 2012, the PSPA has been responsible for the preparation of the Scheme's financial statements in accordance with the Public Sector Pension Act 2011 (the 'Act'). The PSPA has concluded that this Scheme's accounting records should be prepared on an accruals basis. Compensation for redundancy is provided for via the Public Sector Compensation Scheme 2013. However, it should be noted that aside from the option to purchase added service in the No.1 Scheme, there is no link between the No.1 Scheme and the Compensation Scheme, as any redundancy payments are made by the employer and not through the pension scheme. Injury Benefit payments are made through the Public Sector Injury Benefit Scheme 2015 which came into the operation on 1 April 2015, with those payments being recorded on an accruals basis in these financial statements. The previous scheme, the Interim Injury Benefit Scheme 2012, was accounted for on the same basis and was revoked when the 2015 Scheme came into operation.

Accounting Treatment – Cancellation of Current Assets and Current Liabilities

- 10.4. The Scheme operates on an unfunded basis and as such a separate fund has not been established from which the Scheme can pay the members' benefits and other out-goings.
- 10.5. As a consequence, the PSPA and Treasury have agreed that with effect from 1 April 2011 that neither party will seek the payment of the amounts due from the other party being:
- Amounts due from the sponsoring employers to the PSPA, mostly contributions which have been collected by the Treasury and paid into the Isle of Man Government's General Reserves; and
 - Amounts due from the PSPA to the Treasury, mostly members' benefits and other out-goings paid by the Treasury.

- 10.6. This agreement is subject to the Treasury continuing to provide sufficient additional funding, to meet the Scheme's financial obligations to pay pensions and benefits as they fall due after the end of the Scheme year.
- 10.7. The financial statements and the notes to the financial statements have been prepared on this basis. The cancellation of these balances occurs annually, as reflected in the fund account. The PSPA has concluded that this accounting treatment presents fair and true view of the Scheme's position and financial performance.

Accounting Policies

- 10.8. The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements.

Currency

- 10.9. The Scheme's functional currency and presentational currency is pound sterling (GBP).

Other Payments

- 10.10. Administrative expenses are borne by the PSPA and have not been reflected in these financial statements.

Contributions

- 10.11. Normal contributions, from the sponsoring employers and members, are accounted for on an accruals basis in the payroll period to which they relate.
- 10.12. Using the actuarial valuation dated 31 March 2016, employers' normal contributions receivable have been calculated as 24.5% of pensionable pay (23.5% in 2013 valuation). Employers' normal contributions received equate to 15% of pensionable pay (2015: 9%).

	2017 £000	2016 £000
Employers' Contributions		
Normal	5	10
Members' Contributions		
Normal	-	1
Contributions Total	5	11

Additional Voluntary Contributions

- 10.13. Additional Voluntary Contributions ('AVCs'), including augmentations are accounted for on an accruals basis. Amounts paid in respect of money purchase AVCs to secure additional defined contribution benefits under arrangements made by the PSPA are not reflected in these financial statements.

Funding of Current Year Benefits and Other Outgoings

- 10.14. Benefits and other out-goings are funded on a 'pay as you go' basis, primarily through a combination of:
- Contributions paid by the sponsoring employers and members to the Treasury; and

- Additional funding provided by the Treasury, including transfers from the Public Service Employees Pension Reserve ('PSEPR'), a non ring-fenced reserve of the Isle of Man Government.

Benefits

- 10.15. Where members take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are recognised in the fund account on the later date of retirement and the date the option is exercised. Pensions in payment are accounted for in the period to which they relate. Other benefits are recognised on a similar basis being on the date of retirement, death or leaving the Scheme as appropriate.

	2017 £000	2016 £000
Pensions	(354)	(361)
Commutations and lump sums	(56)	(48)
Benefits Total	(410)	(409)

- 10.16. Cancellation of Current Assets and Current Liabilities

	2017 £000	2016 £000
Contributions due from sponsoring employers to the Scheme	5	11
Amounts due from the Scheme to the Treasury in respect of benefits and other payments	(410)	(409)
Cancellation of current assets and current liabilities Total	(405)	(398)

Related Party Transactions

- 10.17. Related party transactions and balances comprise:

- During the financial year there were no serving PSPA members, or close family members, who were active, deferred or pensioner members (2016: no active, deferred or pensioner members);
- The provision of administrative services by the PSPA and Treasury was without recharge to the Scheme (see note 10.10); and
- Fees and expenses of £4,000 (2016: £4,000) paid by the PSPA, on behalf of all the Schemes that it administers to certain PSPA members that were not in the current employment of any of the sponsoring employers.

Contingent Liabilities and Commitments

- 10.18. In the opinion of the PSPA the Scheme has no contingent liabilities and commitments other than those items disclosed elsewhere in the financial statements.

Investment Risk

- 10.19. The Scheme holds no financial assets in its own right and, as stated in the "Accounting treatment – Cancellation of current assets and current liabilities" section amounts due to and from the Treasury are cancelled on an annual basis, as reflected in the fund account. As a consequence, no disclosure of information is required by FRS 102.

Future funding

- 10.20. The PSPA has performed an assessment of when the contractual obligations to pay pensions and benefits will fall due after the balance sheet date and, how these contractual obligations will be funded. This assessment has been performed on a combined basis for all public sector pension schemes (the 'schemes') as defined under the Public Sector Pensions Act 2011 (the 'Act').
- 10.21. The policy adopted in the 2017 Isle of Man Government Budget and Five Year Financial Plan is to cover the 'funding gap' between the overall cost of pensions and the contributions to the schemes through utilisation of the Public Service Employees Pensions Reserve. Once that reserve is depleted, there is an anticipated additional £58m pressure on the general revenue position, which the Five Year Financial Plan will allow to be accommodated within the revenue targets through a combination of income growth, expenditure restraint and cost savings over that period.
- 10.22. There continues to be a legacy funding gap between the schemes' cash payments and cash receipts as described in the Cabinet Office paper called 'Public Sector Pensions – Addressing the Legacy Funding Gap', which was informally discussed with Tynwald Members and alluded to in the pensions debate and Motion in June 2016 Tynwald. The work undertaken by the Cabinet Office indicated that:-
- Government funding will need to increase annually, reaching a forecast £155.6m by 2034/35; and that
 - Government funding will continue to be met through a combination of transfers from General Revenue and the non ring-fenced Public Service Employees Pension Reserve ('PSEPR') until the PSEPR is exhausted in 2020/21 (based on current budget projections). The PSEPR's market value at 31 March 2017 was £181.4 million (2016:£191.6 million).
- 10.23. A revised motion was approved at the February sitting of Tynwald, which committed the PSPA and Treasury to further investigate options for managing the legacy position in the long term in order to report back to the Council of Ministers so that it can put forward full options and proposals to Tynwald by November 2017.
- 10.24. Irrespective of the uncertainties over the future funding arrangements for the Schemes based on the Isle of Man Government's future financial projections, the PSPA has concluded that the schemes can continue to meet their contractual obligations as they fall due.