

**BOARD** : LOCAL PENSIONS BOARD  
**DATE** : 1 June 2021  
**TIME** : 10am  
**VENUE** : Virtual Meeting – Microsoft Teams

**LOCAL PENSION BOARD MEETING**  
**10.00-12.30**  
**AGENDA**

**1. PROCEDURAL MATTERS**

- Declarations of interest.

**2. CHESHIRE PENSION FUND - DRAFT STATEMENT OF ACCOUNTS 2020-21**

To review the process undertaken to produce the draft Statement of Accounts for 2020-21 for compliance with statutory and best practice guidance.

**3. CHESHIRE PENSION FUND - DRAFT ANNUAL REPORT 2020-21**

To review the process undertaken to complete the draft Annual Report 2020-21 for compliance with statutory and best practice guidance.

**4. AOB**

**MINUTES OF LOCAL PENSION BOARD 01 June 2021****PRESENT**

**Board Members:** Peter Raynes (Chair),  
Geoff Wright (Member representative, Unison),  
Neil Harvey (Member representative, GMB)  
Adrienne Laing (Employer representative, The Challenge  
Academy Trust)

**Apologies:** Cllr Robert Bisset (Employer Representative, CW&C)

CW&C Officers: Heidi Catherall and Cheryl Brassey

**1. PROCEDURAL MATTERS**

1.1 No declarations were received.

**2. DRAFT STATEMENT OF ACCOUNTS 2020-21**

2.1 The Local Pension Board has an important role in the governance process for the Statement of Accounts to ensure that:

- The accounts have been produced in compliance with statutory and best practice guidance, and;
- That the Pension Fund Committee discharges its duty of reviewing the accounts and recommending they are presented to Audit and Governance Committee.

2.2 To satisfy the first requirement, the Board received a presentation from Officers confirming the detailed steps taken in order to produce the statement of accounts.

2.3 Board members were advised that the statement of accounts are produced in accordance with the CIPFA Example accounts guidance. This guidance includes a checklist which allows Funds to ensure they have met all of the requirements.

2.4 The Board were reminded of the timetable for the accounts which is set out in the table below.



<b>Date</b>	<b>Action</b>
<b>1 June</b>	The draft accounts will be reviewed by the LPB prior to review by the Pension Fund Committee
<b>4 June</b>	Pension Fund Committee review the draft accounts, provide comment and recommend that the accounts are presented to Audit and Governance Committee for approval following the completion of the audit
<b>1 July</b>	Grant Thornton commence the audit testing of the accounts
<b>10 Sept</b>	The majority of the audit completed and Grant Thornton will produce their Audit Findings Report
<b>10 Sept</b>	The Audit Findings Report and Annual Report, including the Statement of Accounts, presented to the Pension Fund Committee
<b>TBC</b>	The Audit Findings Report and audited Statement of Accounts presented to the Audit and Governance Committee
<b>30 Sep*</b>	Audited Statement of Accounts to be published on CW&C website and Annual Report including the Audited Statement of Accounts to be published on the Fund's website

\*The Cheshire West and Chester Council Audit must be signed off before the Pension Fund Accounts can be published

- 2.5 To satisfy themselves that the Committee discharges its duty of reviewing the accounts and recommending commencement of the audit, Board members were invited to attend the Committee meeting on the 4 June in an observer capacity.

### **3. DRAFT ANNUAL REPORT**

- 3.1 The Fund's Annual Report is produced in accordance with the CIPFA Annual Report guidance.

- 3.2 The guidance states that the Board has an important role in the governance process for the Annual Report and should undertake a review of how the Annual Report is produced in order to ensure that:
- The Annual Report has been produced in compliance with statutory and best practice guidance, and;
  - That the Pension Fund Committee discharges its duty of reviewing the Annual Report.

- 3.3 To satisfy the first requirement, members of the Board received a presentation from Officers providing an overview of the Annual Report and running through the disclosure checklist to show the areas where the Fund was compliant with the Annual Report guidance.



3.4 It was noted the Fund was still awaiting some information from third parties to be able to finish off the Annual Report and the disclosure checklist would be updated once this information was received.

3.5 In order for the Board to satisfy themselves that the Committee discharges its duty of reviewing the Annual Report Board members are invited to attend the Committee meetings on the 4 June in an observer capacity.

#### **4. BOARD DECISION**

4.1 The Board resolved that in their opinion the draft Statement of Accounts and the draft Annual Report for the year ending 31 March 2021 have been produced in accordance with statutory and best practice guidance.

4.2 The Board noted that Board members are invited to attend the Pension Fund Committee meeting on the 4 June to observe the discussion on the item on the draft Statement of Accounts

#### **5. AOB**

5.1 No matters were raised.



**CHESHIRE PENSION FUND - DRAFT STATEMENT OF ACCOUNTS 2020-21**  
**- ANNUAL REPORT 2020-21****Introduction**

1. As set out in the CIPFA Annual Report guidance, the Local Pension Board have a specific role in ensuring that the Fund's Annual Report and Statement of Accounts have been produced in accordance with legislation and best practice.
2. The Board will be presented with an initial draft of the Annual Report, which is in the process of being produced. The report is not yet finalised but is sufficiently progressed to allow the Board to review compliance with statutory and best practice guidance.
3. The Board will also be presented with a copy of the draft Statement of Accounts and officers will confirm the steps taken to produce the accounts in accordance with legislation and best practice guidance.

**Recommendation**

4. The Board are requested to provide their opinion on whether the Cheshire Pension Fund draft Statement of Accounts and Annual Report for year ending 31 March 2021, have been produced in accordance with legislation and best practice guidance.

**Timetable**

5. Following an independent review (Redmond Review) of the audit of local authorities the Ministry of Housing, Communities and Local Government has accepted the recommendation to change the statutory accounting and audit deadlines for 2020-21. The deadline for auditing the Statement of Accounts will therefore be extended from 31 July to 30 September.
6. However, the Pensions Finance team has successfully kept to the usual deadline of producing the Statement of Accounts by 31 May to enable resource to focus on the team's ongoing workload, including monitoring employer contribution flows as the impact of the Coronavirus continues.
7. The overall extended timetable for the production of the Statement of Accounts and Annual Report is as follows:

<b>Date</b>	<b>Action</b>
<b>1 June</b>	The draft accounts will be reviewed by the LPB prior to review by the Pension Fund Committee
<b>4 June</b>	The Pension Fund Committee will review the draft accounts, provide comment and recommend that the accounts are presented to Audit and Governance Committee for approval following the completion of the audit
<b>1 July</b>	Grant Thornton will commence the audit testing of the accounts
<b>10 Sept</b>	The majority of the audit will be completed by this date and Grant Thornton will produce their Audit Findings Report
<b>10 Sept</b>	The Audit Findings Report and Annual Report, including the Statement of Accounts, will be presented to the Pension Fund Committee
<b>TBC</b>	The Audit Findings Report and audited Statement of Accounts will be presented to the Audit and Governance Committee (A&GC).
<b>30 Sep *</b>	Audited Statement of Accounts to be published on Cheshire West and Chester Council's website and Annual Report including the Audited Statement of Accounts to be published on the Fund's website

\*The Cheshire West and Chester Council Audit must be signed off before the Pension Fund Accounts can be published.

### **Role of the Local Pension Board**

8. The Board's role in relation to the Statement of Accounts and Annual Report is to ensure compliance. The Board should undertake a thorough review of the production of the draft accounts and Annual Report in order to determine that they have been produced in accordance with legislation and best practice guidance.
9. Officers will provide the Board with an overview of how the accounts and Annual Report have been produced for 2020-21 linking to the relevant legislation and best practice guidance.
10. A key role for the Board is to ensure that the Pension Fund Committee discharges its duty of providing comment on the accounts prior to the commencement of the audit. Board members may wish to attend the Pension Fund Committee meeting on the 4 June, in an observer capacity, in order to obtain this assurance.
11. As outlined in the timetable above the Committee will be presented with the Annual Report containing the Statement of Accounts on the 10 September. Members of the Board may also wish to attend this meeting in an observer capacity in order to satisfy themselves that the Committee has discharged its duty.
12. In the event that the audit is not fully completed by 10 September, if any further changes are required to the accounts following this date they will be circulated to the Committee to review via an Electronic Decision Notice (EDN). Board members will also receive a copy of the EDN.
13. The Fund will then look to publish its own Annual Report as soon as possible after the A&GC meeting.

**Draft Statement of Accounts**

14. Attached to this report is the draft Statement of Accounts for the Cheshire Pension Fund for the year to 31 March 2021 (Appendix A). The accounts include an accompanying report from the actuary, Hymans Robertson, on the actuarial present value of promised retirement benefits (Appendix B). The accounts have been prepared in compliance with CIPFA and statutory requirements. The Statement of Accounts will be published in the Funds 2020-21 Annual Report.
15. The Accounts have been prepared in accordance with the CIPFA Code of practice and example accounts, which in turn are based on International Financial Reporting Standards and LGPS regulations.
16. Officers will talk members of the Board through the steps taken to produce the accounts and will highlight how the Board can obtain its own assurance that the Accounts have been produced in accordance with legislation and best practice guidance.

**Draft Annual Report**

17. The Annual Report is prepared in line with CIPFA Guidance.
18. The checklist within the guidance contains a detailed list of the information that 'must', 'should' and 'may' be included in the Annual Report.
19. The Fund's Annual Report will be published on the Fund's website, included within the Annual Report are the Funds Statement of Accounts.
20. There is no requirement to audit the Annual Report, however where audited accounts are published alongside other financial information, auditors have a responsibility to ensure that the audited and unaudited information being presented to the reader is consistent. Therefore the auditor will receive a copy of the draft Annual Report to review and will provide an opinion by the end of November.

## Cheshire Pension Fund - Fund Account for the year ended 31 March 2021

	Notes	2020-21 £000	2019-20 £000
<b>Contributions and Benefits</b>			
<b>Contributions Receivable</b>			
From Employers		160,387	129,193
From Employees		39,862	38,300
<b>Total Contributions Receivable</b>	6/6a	<b>200,249</b>	<b>167,493</b>
<b>Transfers in from Other Schemes</b>	7	12,244	12,411
<b>Benefits Payable</b>			
Pensions		-161,135	-155,723
Lump Sums		-24,692	-30,230
Death Benefits		-5,092	-5,323
<b>Total Benefits Payable</b>	8	<b>-190,919</b>	<b>-191,276</b>
<b>Payments to and on account of Leavers</b>			
Refund of Contributions		-466	-618
Transfers to Other Schemes		-14,075	-17,394
	9	<b>-14,541</b>	<b>-18,012</b>
<b>Net Additions / (withdrawals) from dealing with members</b>		<b>7,033</b>	<b>-29,384</b>
<b>Management Expenses</b>	10/10a	-26,788	-26,110
<b>Returns on Investments</b>			
Investment Income	11	30,128	40,327
Taxes on Income	12	-115	-271
<b>Profits and losses on disposal of investments and changes in the market value of investments</b>	13f	1,024,651	-74,043
<b>Net Returns On Investments</b>		1,054,664	-33,987
<b>Net Increase/ (Decrease) in the Fund During the Year</b>		1,034,909	-89,481
Opening Net Assets of the Scheme		5,514,329	5,603,810
<b>Closing Net Assets of the Scheme</b>		<b>6,549,238</b>	<b>5,514,329</b>

## Cheshire Pension Fund - Net Assets Statement as at 31 March 2021

	Notes	2020-21 £000	2019-20 Restated £000
<b>Long Term Investments</b>		1,315	1,315
<b>Investment Assets</b>			
Equities	13f, 18/19	853,710	586,135
Pooled Investments	13f, 18/19	4,613,918	3,793,579
Pooled Property Investments	13f, 18/19	81,378	78,916
Directly Managed Property	16	391,850	397,950
Private Equity	13c/f, 18/19	296,417	225,375
Loans	13d/f, 18/19	686	686
		<b>6,239,274</b>	<b>5,083,956</b>
Cash	13e/f, 18/19	297,131	413,485
Other Investment Balances	13f	3,469	4,282
<b>Total Net Investments</b>	13/f, 17/18/19	<b>6,539,874</b>	<b>5,501,723</b>
<b>Long Term Debtors</b>	22	617	457
<b>Current Assets</b>	23		
Cash at Bank		91	91
Debtors		20,401	22,593
<b>Current Liabilities</b>	24		
Creditors		-10,031	-8,980
Receipts In Advance		-1,714	-1,555
Net Current Assets		8,747	12,149
<b>Total Net Assets</b>		<b>6,549,238</b>	<b>5,514,329</b>

## Note 1 – Description of the Fund

The Cheshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Cheshire West and Chester Council (the Council). The Council is the reporting entity for this pension fund.

The following description is a summary only. For more detail, reference should be made to the Cheshire Pension Fund Annual Report and the underlying statutory powers underpinning the scheme.

The scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2016

The LGPS is a statutory, defined benefit, funded pension scheme. The Fund is administered by the Council to provide pensions and other benefits for pensionable employees of Cheshire West and Chester, Cheshire East, Halton and Warrington Borough Councils and a range of other scheduled and admitted bodies within the County of Cheshire area. The Fund excludes provision for teachers, fire fighters and police officers as they come within other national pension schemes. A full list of the employers contributing into the Fund is shown at the end of the Fund's Statement of Accounts.

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council. The Council has delegated responsibility for the Fund's affairs to the Chief Operating Officer, who is also the Section 151 Officer. The Chief Operating Officer is advised, by the Pension Fund Committee with external advice from Mercer the Fund's appointed investment consultant and Hymans Robertson the appointed actuary. The Council's Audit and Governance Committee oversees the Council's arrangements for the Fund.

The Local Pension Board was established with effect from the 1 April 2015 in accordance with the Public Service Pensions Act 2013. The role of the Board, as defined in regulations, is to assist the Administering Authority to ensure the effective and efficient governance and administration of the Fund. The Board is comprised of two Employer Representatives (including one Cheshire West and Chester nominated Councillor), two Scheme Member representatives, and one independent chair (non-voting).

The Cheshire Pension Fund operates four investment strategies each with different allocations to growth assets and diversifying and matching assets reflecting the differing pension liabilities and funding positions of employers. At 1 April 2020 the four strategies were as follows:

	Growth	Diversifying and Matching
Open Employers	50%	50%
Academies	50%	50%
Exiting/Closed Employers	50%	50%
Exited Employers	0%	100%

To manage the Fund's assets in accordance with its investment strategy, the Council had twelve appointed external investment managers as at 31 March 2021 who each have specific responsibility for part of the Fund's investment portfolio.

As part of investment pooling, the Fund is continuing to transfer assets to LGPS Central Ltd, its jointly owned pooling delivery company. As at the 31 March 2021 LGPS Central Ltd managed £1,101m of the Fund's assets.

The Council uses the services of Bank of New York Asset Servicing to independently monitor the performance of the investment strategy as a whole and the contributions of individual managers. Performance is monitored against the Fund's tailored asset allocation benchmark rather than to a peer group benchmark.

Bank of New York Asset Servicing reported that for the year ending 31 March 2021 the Fund achieved a return from its investments of 18.2% (-1.3% in 2019-20) compared with the Fund's tailored benchmark return of 10.0% (-0.8% in 2019-20). For the three years ending 31 March 2021 the Fund achieved an annualised return of 7.2% per annum against the Fund's benchmark return of 4.8% per annum.

## Membership

In accordance with the Government's Automatic Enrolment Legislation, eligible employees are automatically enrolled into the LGPS from their first day of employment. However membership of the LGPS is voluntary and after auto enrolment employees are able to choose whether to remain in the scheme, opt out of the scheme, re-join at a later date or to make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies (scheme employers), which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking public sector authority functions following outsourcing.

In the year to 31 March 2021 a total of 308 employer organisations including the Administering Authority itself, contributed into the Fund.

<b>Cheshire Pension Fund</b>	<b>31-Mar-21</b>	<b>31-Mar-20</b>
Number of employers making contributions into the fund	<b>308</b>	<b>305</b>
<b>Number of employees in the scheme</b>		
Cheshire West and Chester Council	8,032	8,436
Other employers	33,035	33,703
<b>Total</b>	<b>41,067</b>	<b>42,139</b>
<b>Number of pensioners</b>		
Cheshire West and Chester Council	3,077	2,819
Other employers	28,007	27,225
<b>Total</b>	<b>31,084</b>	<b>30,044</b>
<b>Number of Deferred pensioners</b>		
Cheshire West and Chester Council	4,968	4,348
Other employers	26,430	24,412
<b>Total</b>	<b>31,398</b>	<b>28,760</b>
Undecided Leavers	2,145	2,543
<b>Total Membership</b>	<b>105,694</b>	<b>103,486</b>

## Funding

Benefits are funded by contributions and investment earnings.

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021.

In addition to employee contributions, employers pay contributions into the Fund which are set through triennial actuarial valuations. The last such valuation was at 31 March 2019 which set employer contribution rates for the 3 year period commencing 1 April 2020 and ending 31 March 2023, details of employer rates can be found in the Fund valuation report available on the Fund's website.

## Benefits

From 1 April 2014, the LGPS became a career average revalued earnings (CARE) scheme, whereby members accrue benefits based on their pensionable pay each year at an accrual rate of 1/49<sup>th</sup>. The accrued pension is inflated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For details, please refer to the scheme handbook which is available from the Fund or visit the website [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org). Prior to 1 April 2014, LGPS pension benefits were based on final pensionable pay and length of pensionable service, summarised below:

<b>Service pre 1 April 2008</b>	<b>Service post 31 March 2008 to 31 March 2014</b>
<b>Pension</b>	<b>Pension</b>
Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum</b>	<b>Lump Sum</b>
Automatic lump sum of 3 x pension.	No automatic lump sum
In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

## Note 2 – Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020-21 financial year and its position as at year ending 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector on an ongoing basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is appended to the statement of accounts. Further information is included within Note 21 of these accounts.

The accounts have been prepared on a going concern basis.

The accounts contain a number of restatements to the 2019-20 figures as set out below.

- The investment assets have been be restated from the audited 2019-20 accounts as a result of the revised analysis requirement for pooled investment holdings required by the Code.
- The investment assets have been restated in the Net Assets Statement, Note 13, Note 13f and 18d.
- The restated investment assets separately identify pooled property investments and include absolute return funds within pooled investments.
- In addition, the split of equities between UK/overseas and quoted/unquoted is no longer required by the code. This analysis is no longer shown in Note 13.
- The investment manager expenses in Note 10a have been restated to comply with the more detailed disclosure requirements required by the Code.

### **Note 3 – Summary of significant accounting policies**

#### **Fund Account – revenue recognition**

##### **a) Contribution income**

Normal (primary) contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate of pensionable pay set in regulations or recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit (secondary) funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

##### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme regulations (see notes 7 and 9).

Individual transfers in/out are accounted for when they are received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 7).

Bulk (group) transfers are accounted for on a cash basis once terms have been agreed and payment made to/from the respective fund.

##### **c) Investment income**

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Foreign income has been translated into sterling at the date of the transaction. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

#### **Fund account – expense items**

##### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

##### **e) Taxation**

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

##### **f) Management Expenses**

The Code does not require any breakdown of pension fund administration expenses. However, in the interest of greater transparency the pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016).

#### **Investment Management Expenses**

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

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

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

- Baillie Gifford
- Arrowgrass Capital Partners
- Pantheon
- Darwin Property Investment

Performance related fees amounted to £4.4m in 2020-21 (£2.5m in 2019-20) for managers who outperformed their target.

Where an investment manager's fee invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. The total of fees based on estimates in 2020-21 was £5m relating to fees due for the quarter ending 31 March 2021 (£2.2m in 2019-20).

### **Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### **Net Assets Statement**

#### **g) Financial assets**

Cheshire West and Chester Council jointly owns an asset pooling company, LGPS Central Ltd, along with seven other Partner Funds. The Council's shareholding in the asset pool company is valued at £1.315m which is the transaction price i.e. cost of the investment. LGPS Central Ltd began to trade on 3 April 2018 and consequently there are only limited trading results available. As a wholly owned company of the Partner Funds its shares are not traded. The Fund's view is that the market value of this investment at 31 March 2021 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets with the exception of the loan to LGPS Central Ltd are included in the financial statements on a fair value basis at the reporting date. Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in the Practical Guidance on Investments Disclosures (PRAG/Investment Association 2016).

#### **h) Stock Lending (Securities Lending)**

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund allows its stock to be lent provided that the total value of the securities loaned out does

not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon.

In accordance with the securities lending agreement the collateral parameters are restricted to non-cash collateral securities, This being Fixed Income securities issued or guaranteed by a set of 21 OECD countries which have to have a minimum rating of AA by S&P or Aa2 by Moody's rating agency as well as Supranational securities rated AAA/ Aaa from six issuers.

The market value of the securities at year end is taken from prices from a number of reputable vendors in accordance to the Bank of New York Mellon pricing policy.

In addition, LGPS Central Ltd operate a stock lending programme in respect of their pooled equity funds such as the Global Active Equity Fund, in which the Cheshire Pension Fund invests.

#### **i) Freehold and leasehold properties**

The Scheme's freehold and leasehold investment properties were valued by an external valuer, Savills. The valuations were in accordance with the requirements of the RICS Valuation-Professional Standards. The valuation of each property was on the basis of Fair Value, subject to the following assumptions:

- (i) For investment property: that the property would be sold subject to any existing leases.
- (ii) For property held for development: that the property would be sold with vacant possession in its existing condition.

The valuer's opinion of Fair Value was primarily derived using comparable recent market transactions on arm's length terms.

#### **j) Derivatives**

The Fund may use derivative financial instruments, predominantly to manage its exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value (Note 13f shows a zero balance at 31<sup>st</sup> March 2021).

The values of futures contracts are determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

#### **k) Cash and cash equivalents**

Cash comprises cash in hand and on demand deposits, and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**l) Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost i.e. the outstanding principal receivable as at the year end date, plus accrued interest.

**m) Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date, excluding creditors which are measured at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**n) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 Employee Benefits and relevant actuarial standards.

As permitted under the Code, the Fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

**o) Additional voluntary contributions**

The Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund.

From the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund. Prior to 1 April 2019 the AVC providers to the members of the Fund were Scottish Widows, Standard Life and Utmost who took over Equitable Life on 1 January 2020.

Individual member's AVC contributions are paid directly to the AVC provider by their respective employers and are specifically for providing additional benefits for individual members. AVC contributors receive an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2009/3093) but are disclosed as a note only (Note 25).

**p) Contingent assets and contingent liabilities**

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of the future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

**Note 4 – Critical judgements and key sources of estimation uncertainty**

In the application of the Fund's accounting policies, which are described in Note 3, those charged with governance of the Fund are required to make judgements, estimates and assumptions about the values of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Note 4.1 – Critical Judgements in applying accounting policies**

There were no material critical judgements in 2020-21.

**Note 4.2 – Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains some estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors, however, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Private equity</b>	It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Private equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £296m (£225m 2019-20).  There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 10% would equate to £29.6 m increase or decrease to the market value of these investments.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Absolute Return funds</b>	Absolute Return funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of absolute return funds in the financial statements is £417m (£374m in 2019-20). There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 10% would equate to £41.7m increase or decrease to the market value of these investments.
<b>Pension fund liability</b>	The pension fund liability is calculated every three years by the Fund's actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in the actuarial calculation which is included within the Annual Report. This estimate is subject to significant variances based on changes to the underlying assumptions.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, <ul style="list-style-type: none"> <li>• A 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £918m.</li> <li>• A 0.5% increase in pensions increase rate would increase the value of the liabilities by approximately £807m.</li> <li>• A 0.5% increase in the salaries increase rate would increase the value of the liabilities by approximately £91m</li> </ul>
<b>Property valuations</b>	The Scheme's freehold and leasehold investment properties are valued by an external valuer, Savills, who operate entirely independently from the Fund's appoint property manager Patrizia. The valuations are made in accordance with the requirements of the RICS Valuation-Professional Standards. The valuer's opinion of Fair Value is primarily derived using comparable recent market transactions and therefore involves a degree of judgement and estimation.	The total value of direct property investments in the financial statements is £392m (£398m in 2019-20). There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 10% would equate to £39.2m increase or decrease to the market value of these investments.

#### Note 5 – Events after the Balance Sheet date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

- b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

In April 2021 as part of the Government's asset pooling initiative, the Fund invested £150m of cash balances in the new LGPS Central Multi Asset Credit Fund, thereby bringing the Fund's actual allocation to cash to within its permitted allocation range, as set out in the Fund Investment Strategy Statement.

<b>Note 6 – Contributions Receivable</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Employees Normal Contributions	39,862	38,300
Employers Normal Contributions	129,010	114,600
Employers Deficit Funding	28,634	10,619
Employers Cost of Early Retirements (pension strain)	2,743	3,974
<b>Total Employers Contributions</b>	<b>160,387</b>	<b>129,193</b>
<b>Total Employees and Employers Contributions</b>	<b>200,249</b>	<b>167,493</b>

The increase in employer normal contributions in 2020-21 is due to the new rates being applied in 2020-21 following the 2019 triennial valuation which came into effect from April 2020.

The deficit funding increase is due to Halton Borough Council and Warrington Borough Council paying their year deficit contributions in one lump sum in 2020-21 rather than over the three-year post valuation period.

The deficit funding for 2020-21 also includes the first instalment of the three-year deficit funding contribution from Cheshire East Council and Cheshire West and Chester Council.

The cost of early retirements represents the contributions from Employers to meet the capitalised costs of discretionary early retirements. The Fund recharges Employers for such costs and the income received is made up of both one-off lump sum payments and instalments.

The accounts recognise the full cost due from employers for early retirement contributions based on the date the scheme member left the scheme regardless of whether scheme employers have the option of paying over more than one year.

<b>Note 6a – Analysis of Contributions Receivable</b>	<b>2020-21</b>		<b>2019-20</b>	
	<b>Employers £000</b>	<b>Employees £000</b>	<b>Employers £000</b>	<b>Employees £000</b>
Scheme Employers	114,865	28,033	89,795	26,676
Cheshire West & Chester Council	29,443	7,782	23,296	7,512
Community Admission Bodies	13,116	3,345	13,076	3,301
Transferee Admission Bodies	2,963	702	3,026	811
<b>Total</b>	<b>160,387</b>	<b>39,862</b>	<b>129,193</b>	<b>38,300</b>

<b>Note 7 – Transfers in from other Pension Funds</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Transfers from other Local Authorities	10,251	9,892
Transfers from other pension funds	1,993	2,519
<b>Total</b>	<b>12,244</b>	<b>12,411</b>

<b>Note 8 – Benefits payable</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Scheme Employers	119,852	119,380
Cheshire West & Chester Council	51,725	52,399
Community Admission Bodies	14,440	14,279
Transferee Admission Bodies	4,902	5,218
<b>Total</b>	<b>190,919</b>	<b>191,276</b>

<b>Note 9 – Payment to and on account of leavers</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Individual transfers out	14,075	17,394
Refunds to Members leaving service	466	618
<b>Total</b>	<b>14,541</b>	<b>18,012</b>

The transfer out figure will vary year on year depending on the number of people that move to employers outside of the Fund and the value of the pension accrued for these individuals.

The refunds to members leaving service relates to members who opted out of the scheme within two years of joining.

<b>Note 10 – Management Expenses</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Investment management expenses	22,532	21,978
Administration costs	2,226	2,151
Oversight and governance costs	2,030	1,981
<b>Total</b>	<b>26,788</b>	<b>26,110</b>

No costs have been included for carried interest. Included within the investment management expenses and oversight and governance costs are fees paid to LGPS Central Ltd, further details of these fees paid and the amounts are included in Note 26- Related Party Transactions.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds of sales from investments (see Note 13f).

**Note 10a– Investment Management Expenses**

<b>2020-21</b>	<b>Total £000</b>	<b>Management Fees £000</b>	<b>Performance related fees £000</b>
Equities	7,247	3,864	3,383
Pooled Investments	8,116	7,933	183
Pooled Property	697	444	253
Private Equity	5,205	4,673	532
Property	1,122	1,122	0
Derivatives	0	0	0
Cash and FX Contracts	0	0	0
<b>Total</b>	<b>22,387</b>	<b>18,036</b>	<b>4,351</b>
Custody fees	145		
<b>Total</b>	<b>22,532</b>		

There are no transaction costs for 2020-21.

<b>2019-20 Restated</b>	<b>Total £000</b>	<b>Management Fees £000</b>	<b>Performance related fees £000</b>	<b>Transaction Costs £000</b>
Equities	4,928	2,850	2,006	72
Pooled Investments	10,727	10,727	0	
Pooled Property	953	427	526	
Private Equity	4,078	4,078	0	
Property	1,167	1,167	0	
Derivatives	0	0	0	
Cash and FX Contracts	0	0	0	
<b>Total</b>	<b>21,853</b>	<b>19,249</b>	<b>2,532</b>	<b>72</b>
<b>Custody fees</b>	125			
<b>Total</b>	<b>21,978</b>			

The investment manager expenses above have been restated to comply with the more detailed disclosure requirements required by the Code.

<b>Note 10b – External Audit Costs</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Payable in respect of external audit	35	27
Payable in respect of other services	8	8
<b>Total</b>	<b>43</b>	<b>35</b>

Fees in respect of other services relates to work completed in respect of the IAS19 process which is an audit related non-audit service.

<b>Note 11 – Investment Income</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Dividends from Equities	3,597	11,421
Net Rents from Properties	17,495	20,677
Income from Fixed Interest Securities	6,882	5,982
Income from Pooled Property	1,508	422
Stock Lending	73	516
Interest from Cash Deposits	444	983
Other	129	326
<b>Total</b>	<b>30,128</b>	<b>40,327</b>

<b>Note 12 – Taxes on income</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Withholding tax - Equities	115	271
<b>Total</b>	<b>115</b>	<b>271</b>

The Fund is exempt from UK income tax on interest and from capital gains tax on the profits resulting from the sale of investments.

The Fund is exempt from United States withholding tax on dividends and can recover all or part of the withholding tax deducted in some other countries. The amount of withholding tax deducted from overseas dividends which the Fund is unable to reclaim in 2020-21 amounts to £115k and is shown as a tax charge, compared to £271k in 2019-20.

As Cheshire West and Chester Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses.

<b>Note 13 – Investments</b>	<b>2020-21 £000</b>	<b>2019-20 Restated £000</b>
<b>Investment Assets</b>		
<b>Equities</b>	<b>855,025</b>	<b>587,450</b>
<b>Pooled Investments</b>		
UK Government Index Linked Gilts	1,774,514	1,642,936
Fixed Income - Multi Strategy	1,117,406	963,750
UK Equity Listed	1,305,225	812,987
Absolute Return Funds	416,773	373,906
	<b>4,613,918</b>	<b>3,793,579</b>
<b>Other Investments</b>		
Pooled Property Investments	81,378	78,916
Directly Managed Property	391,850	397,950
Private Equity	296,417	225,375
	<b>769,645</b>	<b>702,241</b>
<b>Cash Deposits</b>	<b>297,131</b>	<b>413,485</b>
<b>Loans</b>	<b>686</b>	<b>686</b>
<b>Other investment balances:</b>		
Outstanding dividends entitlements and withholding tax claims	3,469	4,282
<b>Total</b>	<b>6,539,874</b>	<b>5,501,723</b>

Proceeds from winding up of Arrowgrass and redemptions from Winton (both Absolute Return managers) in 2019-20 led to an increase in cash balances held in the Fund's Money Market

accounts (Fidelity and Deutsche Bank) at 31 March 2020. In June 2020 the Fund invested £150m of these cash balances with Legal and General into their FTSE Developed Core Infrastructure Index Fund in line with the Fund's Investment Strategy.

During 2020-21, as part of the government's asset pooling initiative, the Fund disinvested £150m from Janus Henderson and transferred it to the LGPS Central Global Active Emerging Market Debt Fund.

### Note 13a – Fixed Income Multi Strategy

The Fund has invested in four pooled fixed income investment vehicles managed separately by Janus Henderson Investors, BlueBay, M&G and LGPS Central. The market value of investments with each manager as at the 31 March 2021 was:

- £245m in Janus Henderson Investors (£362m in 2019-20),
- £462m (£375m in 2019-20) in BlueBay and,
- £265m in M&G Alpha Opportunities Fund (£227m in 2019-20).
- £145m in LGPS Central Emerging Market Debt Fund (£0m in 2019-20)

The underlying assets of these pooled vehicles are invested by the managers in diversified portfolios of a wide range of fixed income assets including Government Bonds (UK and Overseas), Corporate Bonds, High Yield Bonds, Emerging Market Bonds, Asset and Mortgage Backed Securities, Secured Loans and currency. Within these mandates, each manager may use derivative instruments to manage their exposure to specific risks arising from its investment activities.

<b>Note 13b – Absolute Return Funds</b>	<b>Strategy</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Blackstone	Hedge Fund of Funds	379,498	325,503
Arrowgrass Capital Partners	Multi Strategy Hedge Fund	37,275	48,403
<b>Total</b>		<b>416,773</b>	<b>373,906</b>

<b>Note 13c – Private Equity</b>	<b>Number of Funds</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Adam Street Partners	19	129,782	98,492
Pantheon Ventures	13	157,013	122,666
LGPS Central Limited	2	8,978	3,208
Lexington	1	644	1,009
<b>Total</b>	<b>35</b>	<b>296,417</b>	<b>225,375</b>

### Note 13d – Loans

The Fund has a £685,000 loan advanced to LGPS Central Ltd in January 2018. The interest accrued on the loan for the year is £32,000. The loan is held at amortised cost in the statement of accounts at a value of £717,000 at 31 March 2021 (31 March 2020 £721,000).

<b>Note 13e – Cash</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Cash Deposits	23,987	20,768
Cash Instruments	273,144	392,717
<b>Total</b>	<b>297,131</b>	<b>413,485</b>

**Note 13f – Reconciliation of movements in Investments**

	<b>Fair Value at 31 March 2020</b>	<b>Purchases at cost and derivative payments</b>	<b>Sales proceeds and derivative receipts</b>	<b>Change in Fair value</b>	<b>Fair Value at 31 March 2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	<b>587,450</b>	189,495	-340,065	418,145	<b>855,025</b>
Pooled Investments	<b>3,793,579</b>	769,556	-493,198	543,981	<b>4,613,918</b>
Pooled Property Investments	<b>78,916</b>	0	-708	3,170	<b>81,378</b>
Directly Managed Property	<b>397,950</b>	1,335	0	-7,435	<b>391,850</b>
Private Equity	<b>225,375</b>	48,503	-41,367	63,906	<b>296,417</b>
Loans	<b>686</b>			0	<b>686</b>
	<b>5,083,956</b>	1,008,889	-875,338	1,021,767	<b>6,239,274</b>
Derivatives	<b>0</b>	2	0	-2	<b>0</b>
Cash and Cash Equivalents	<b>413,485</b>	0	-119,240	2,886	<b>297,131</b>
	<b>5,497,441</b>	<b>1,008,891</b>	<b>-994,578</b>	<b>1,024,651</b>	<b>6,536,405</b>
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	<b>4,282</b>				<b>3,469</b>
<b>Net Investments</b>	<b>5,501,723</b>	<b>1,008,891</b>	<b>-994,578</b>	<b>1,024,651</b>	<b>6,539,874</b>

<b>Restated</b>	<b>Fair Value at 31 March 2019</b>	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	<b>Fair Value at 31 March 2020</b>
	<b>£000</b>	£000	£000	£000	<b>£000</b>
Equities	<b>541,774</b>	78,532	-64,828	31,972	<b>587,450</b>
Pooled Investments	<b>4,262,607</b>	1,222,422	-1,574,376	-117,074	<b>3,793,579</b>
Pooled Property Investments	<b>74,416</b>	0	-953	5,453	<b>78,916</b>
Directly Managed Property	<b>396,370</b>	48,859	-22,632	-24,647	<b>397,950</b>
Private Equity	<b>194,995</b>	56,694	-42,086	15,772	<b>225,375</b>
Loans	<b>2,375</b>	0	-1,739	50	<b>686</b>
	<b>5,472,537</b>	1,406,507	-1,706,614	-88,474	<b>5,083,956</b>
Cash and Cash Equivalents	<b>112,070</b>	286,984		14,431	<b>413,485</b>
	<b>5,584,607</b>	<b>1,693,491</b>	<b>-1,706,614</b>	<b>-74,043</b>	<b>5,497,441</b>
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	<b>4,504</b>				<b>4,282</b>
<b>Net Investments</b>	<b>5,589,111</b>	<b>1,693,491</b>	<b>-1,706,614</b>	<b>-74,043</b>	<b>5,501,723</b>

The investment assets above have been restated to separately identify pooled property investments and include absolute return funds within pooled investments.

#### **Note 14 – Stock Lending**

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund allows its stock to be lent, provided that the total value of the securities loaned out does not exceed 25% of the total Fund value.

The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets.

During the year ended 31 March 2021 the Fund earned £73,000 (£516,000 2019-20) of income from its stock lending activities.

At the balance sheet date, the value of aggregate stock on loan was £34m (£39.5m 2019-20) and the value of collateral held was £35.9m (£43m 2019-20).

#### **Note 15 Property Holdings**

The Fund's investment in property comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of income from these directly owned properties are below:

<b>Note 15a – Property Income</b>	<b>2020-21</b>	<b>2019-20</b>
	<b>£000</b>	<b>Restated £000</b>
Rental Income	19,931	24,129
Rental Adjustment on Sale	0	-523
Direct Operating Expenses	-2,436	-2,929
<b>Balance at the end of the year</b>	<b>17,495</b>	<b>20,677</b>

<b>Note 15b – Fair Value of Investment Properties</b>	<b>2020-21</b>	<b>Restated 2019-20</b>
	<b>£000</b>	<b>£000</b>
Balance at the start of the year	397,950	396,370
Purchases	0	39,689
Disposals	0	-22,632
Capital Expenditure	1,334	9,171
Net gain/loss on fair value	-7,434	-24,648
<b>Balance at the end of the year</b>	<b>391,850</b>	<b>397,950</b>

The 2019-20 property values have been restated to show capital expenditure separately and disposals at book cost.

During the year the Fund did not purchase or dispose of any investment properties.

Investment properties were independently valued by Savills as at 31 March 2021.

At the year-end there were no restrictions on the Fund's ability to realise investment property or the remittance of proceeds of disposals.

Contractual obligations for development, repairs and maintenance amounted to £1.5m (£3.5m in 2020).

### **Note 16 – Operating Leases**

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating an appropriate investment return.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund (and reflected in the Net Assets Statement).

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

<b>Age profile of lease income</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
No later than one year	19,974	13,927
Between one and five years	74,612	60,820
Later than five years	123,245	100,547
<b>Total</b>	<b>217,831</b>	<b>175,294</b>

The above disclosure for 2020-21 has been reduced by a credit loss allowance of 10% for income due within one year and 3% for the second year onwards reflecting the Fund's expected loss from late or non-recovery of rents from tenants.

With regards to the properties owned and leased by the Fund, all are leased to tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

<b>Note 17 – Investment by Fund Manager</b>	<b>2020-21 £000</b>	<b>2020-21 %</b>	<b>2019-20 £000</b>	<b>2019-20 %</b>
<b>Investments managed by LGPS Central Limited Asset Pool:</b>				
All World Equity Climate Multi Factor Fund	610,251	9.3	452,892	8.2
Emerging Market Debt Fund	144,990	2.2	0	0.0
Global Equity Active Multi Manager Fund				
- Schroders	127,486	2.0	74,565	1.4
- Union	111,759	1.7	78,954	1.4
- Harris	95,364	1.5	72,710	1.3
Private Equity Funds	8,978	0.1	3,208	0.1
LGPS Central Limited Asset Pool	2,032	0.0	2,036	0.0
<b>Total</b>	<b>1,100,860</b>	<b>16.8</b>	<b>684,365</b>	<b>12.4</b>
<b>Investments managed outside of LGPS Central Limited Asset Pool:</b>				
Legal & General	2,134,880	32.6	1,776,802	32.3
Baillie Gifford & Co	868,679	13.3	592,730	10.9
Bluebay	461,527	7.1	375,008	6.8
Patrizia	401,784	6.1	407,797	7.4
Blackstone	379,497	5.8	325,503	5.9
M&G Investments	267,146	4.1	227,339	4.1
Janus Henderson	245,356	3.8	362,923	6.6
Deutsche Bank (Money Market)	203,555	3.1	192,615	3.5
Pantheon Ventures	157,013	2.4	122,666	2.2
Adams Street Partners	129,782	2.0	98,492	1.8
Darwin	73,472	1.1	70,954	1.3
Fidelity (Money Market)	49,666	0.8	191,558	3.5
Arrowgrass Capital Partners	37,275	0.6	48,403	0.9
Bank of New York Mellon	28,719	0.4	23,510	0.4
Lexington Capital Partners	644	0.0	1,009	0.0
GMO	19	0.0	49	0.0
<b>Total</b>	<b>5,439,014</b>	<b>83.2</b>	<b>4,817,358</b>	<b>87.6</b>
<b>Total</b>	<b>6,539,874</b>	<b>100.0</b>	<b>5,501,723</b>	<b>100.0</b>

In June 2020 the Fund invested £150m of cash balances with Legal and General into their FTSE Developed Core Infrastructure Index Fund.

During 2020-21, as part of the government's asset pooling initiative, the Fund disinvested £150m from Janus Henderson and transferred it to the LGPS Central Global Active Emerging Market Debt Fund.

**Note 17a – Concentration of Investments**

The CIPFA Code of Practice requires disclosure where there is a concentration of investment which exceeds 5% of the total value of the net assets of the scheme. Five investments fall into this category as follows:

<b>Security Description</b>	<b>Market Value 31-Mar-21 £000</b>	<b>% of Total Fund</b>	<b>Market Value 31-Mar-20 £000</b>	<b>% of Total Fund</b>
Legal & General - Over 5 Yr Index Linked Gilts	1,774,514	27.13%	1,325,516	24.09%
LGPS Central Limited - All World Equity Climate Multi Factor Fund	610,251	9.33%	452,892	8.23%
Bluebay - Total Return Diversified Fund	461,527	7.06%	375,008	6.82%
Blackstone Partners - Class A1 Initial Series	379,497	5.80%	325,503	5.92%
LGPS Central Limited - Global Active Equity Multi Manager Fund	334,609	5.12%	226,228	4.11%

**Note 18 – Fair Value – Basis of Valuation**

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Assets	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market Quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at market value based on current yields	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Pooled investments - absolute return funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Savills in accordance with the RICS valuation professional standards	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

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### **Sensitivity of Assets Valued at Level 3**

The values reported in the Level 3 (see explanation of Level 3 below) valuations represent the most accurate estimation of the portfolio value as at 31 March 2021. Any subjectivity related to the investment value is incorporated into the valuation.

### **Note 18a – Fair Value Hierarchy**

The valuation of investment assets and liabilities has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### **Level 1**

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Fair value measurement defines an active market as a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis, as well as the reporting date. Products classified as level 1 comprise listed equities, exchange traded futures, options and an element of absolute return funds.

#### **Level 2**

Assets and liabilities at level 2 are those whose values are based on quoted market prices that are not as active as level 1 markets, or based on models whose inputs are observable either directly or indirectly for substantially the full term of the asset or liability. Products classified as level 2 comprise bonds and loans, less liquid and restricted equity securities, absolute return funds and over the counter derivatives.

#### **Level 3**

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would primarily include private equity investments and some elements of the absolute return fund investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Estimated market values or cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in absolute return funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent external audit of the individual funds.

The following table provides an analysis of the assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable. The table does not reconcile back to the net assets figure as it excludes items which are valued at amortised cost (i.e. loans and receivables).

**Note 18a – Assets carried at fair value****Assets carried at Fair Value:**

	<b>Quoted Market Price</b>	<b>Using observable inputs</b>	<b>With significant unobservable inputs</b>	
<b>Values at 31 March 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial and Non-financial Assets</b>				
Fair value through profit and loss	2,194,468	3,054,429	988,376	6,237,273
<b>Total Assets</b>	<b>2,194,468</b>	<b>3,054,429</b>	<b>988,376</b>	<b>6,237,273</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	0	0	0	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Assets</b>	<b>2,194,468</b>	<b>3,054,429</b>	<b>988,376</b>	<b>6,237,273</b>

**Assets carried at cost:**

	<b>Quoted Market Price</b>	<b>Using observable inputs</b>	<b>With significant unobservable inputs</b>	
<b>Values at 31 March 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments in LGPS Central Ltd			1,315	1,315
<b>Investments held at cost</b>	<b>0</b>	<b>0</b>	<b>1,315</b>	<b>1,315</b>

**Assets carried at Fair Value:**

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial and Non-financial Assets</b>				
Fair value through profit and loss	1,632,691	2,638,598	810,667	5,081,956
<b>Total Assets</b>	<b>1,632,691</b>	<b>2,638,598</b>	<b>810,667</b>	<b>5,081,956</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	0	0	0	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Assets</b>	<b>1,632,691</b>	<b>2,638,598</b>	<b>810,667</b>	<b>5,081,956</b>

**Assets carried at cost:**

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investments in LGPS Central Ltd	0	0	1,315	1,315
<b>Investments held at cost</b>	<b>0</b>	<b>0</b>	<b>1,315</b>	<b>1,315</b>

**Note 18b – Transfers between levels 1 and 2**

No assets were transferred between level 1 and 2 during the year.

**Note 18c – Reconciliation of fair value measurements within level 3**

	Market Value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases at cost and derivative payments	Sales	Unrealised Gains /(Losses)	Realised Gains /(Losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed income	40,726					14,934		55,660
Secured Loans	1							1
Absolute return funds	80,399					94,929		175,328
Private equity	220,636					71,429		292,065
Pooled Property	70,954				- 696	2,518	696	73,472
Direct Property	397,951			1,333		- 7,434		391,850
	<b>810,667</b>	<b>-</b>	<b>-</b>	<b>1,333</b>	<b>- 696</b>	<b>176,376</b>	<b>696</b>	<b>988,376</b>

**Note 18d – Classification of financial instruments**

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the market value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

**Note 18d – Classification of Financial Instruments**

	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
	31 March 2021			31 March 2020 Restated		
	£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>						
Equities	855,025			587,450		
Pooled Investments	4,613,918			3,793,579		
Pooled Property	81,378			78,916		
Private Equity	296,417			225,375		
Loans	1	717		1	721	
Cash		295,263			412,135	
Other Investment balances		3,256			3,932	
Debtors		20,852			23,141	
	<b>5,846,739</b>	<b>320,088</b>		<b>4,685,321</b>	<b>439,929</b>	
<b>Financial Liabilities</b>						
Creditors			-9,774			-8,980
<b>TOTAL</b>	<b>5,846,739</b>	<b>320,088</b>	<b>-9,774</b>	<b>4,685,321</b>	<b>439,929</b>	<b>-8,980</b>

**Note 18e – Net Gains and Losses on Financial Instruments**

	2020-21 £000	2019-20 £000
<b>Financial Assets</b>		
Fair value through profit and loss	1,029,202	-63,877
Amortised cost- unrealised gains	2,886	14,481
<b>Financial Liabilities</b>		
Fair value through profit and loss	0	0
Amortised cost- unrealised losses	0	0
<b>Total</b>	<b>1,032,088</b>	<b>-49,396</b>

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

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## **Note 19 – Nature and extent of risks arising from financial instruments**

### **Risk and risk management**

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce risk exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Risk management policies were established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and in market changes.

#### **a) Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

#### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). Whether those changes were caused by factors specific to the individual, instrument or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund's investment strategy.

### Other price risk - sensitivity analysis

In consultation with the Fund's investment advisers and, following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2020-21 reporting period:

Asset Type	Potential market movements
	% (+ / -)
Private Equity	24.1
Global Equities - Emerging	28.3
Global Equities - Developed	17.2
UK Equities	17.2
Property Unit Trusts	14.9
High Yield	9.9
Absolute Return Funds	8.1
Corporate Bonds	3.7
Government Bonds	7.8
Cash	4.9

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value at 31 March 2021	Percentage Change	Change in Value on increase	Change in Value on decrease
	£000	%	£000	£000
Government Bonds	1,919,504	7.8	149,721	-149,721
Global Equities - Developed	1,768,297	17.2	304,147	-304,147
Absolute Return Funds	416,773	8.1	33,759	-33,759
Corporate Bonds	584,360	3.7	21,621	-21,621
Global Equities - Emerging	305,550	28.3	86,471	-86,471
High Yield	461,528	9.9	45,691	-45,691
Private Equity	296,417	24.1	71,436	-71,436
Cash	314,764	4.9	15,423	-15,423
UK Equities	65,587	17.2	11,281	-11,281
Property Unit Trusts	7,907	14.9	1,178	-1,178
Investment Income Due	3,256	0.0	0	0
Equities - LGPS Central Ltd	1,315	0.0	0	0
Loans - LGPS Central Ltd	717	0.0	0	0
<b>Total assets available to pay benefits</b>	<b>6,145,975</b>		<b>740,728</b>	<b>-740,728</b>

The above table excludes direct property due to the illiquidity of this asset type.

### Interest rate risk

The Fund invests in a number of interest bearing instruments such as Government bonds, corporate bonds and secured loans for the primary purpose of obtaining a return on those investments. These investments were subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's assets which have direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 are set out below. These disclosures present interest rate risk based on the underlying financial asset at fair value:

Asset Type	2020-21 £000	2019-20 £000
Corporate and Government Bonds	2,746,928	2,606,685
Cash and cash equivalents	43,912	29,402
Cash balances	253,220	384,083
<b>Total</b>	<b>3,044,060</b>	<b>3,020,170</b>

### Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates is consistent with the level of

sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The £2,747m fair value of the bond mandates managed by M&G Alpha Opportunities Fund, Janus Henderson Investors, BlueBay and Legal and General are particularly sensitive to movements in interest rates. This sensitivity is measured by their duration of 3.2, 5.58, 3.26 and 23.9 years respectively.

A 100BPS increase in the prevailing level of interest rates would decrease the aggregate fair value of these mandates by £461.3m (£442.0m in 2019-20). Likewise a 100BPS decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset Type	Duration	Carrying amount at 31 March 2021 £000	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		43,912		
Cash Balances		253,220		
Fixed Income - M&G	3.2	265,530	8,497	- 8,497
Fixed Income - Janus Henderson	5.58	245,357	13,691	- 13,691
Fixed Income - BlueBay	3.26	461,527	15,046	- 15,046
Fixed Income - Legal and General	23.9	1,774,514	424,109	- 424,109
<b>Total change in assets available</b>		<b>3,044,060</b>	<b>461,343</b>	<b>- 461,343</b>

Asset Type	Duration	Carrying amount at 31 March 2020 £000	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		29,402		
Cash Balances		384,083		
Fixed Income - M&G	5.31	225,818	11,991	- 11,991
Fixed Income - Janus Henderson	3.76	362,923	13,646	- 13,646
Fixed Income - BlueBay	4.14	375,009	15,525	- 15,525
Fixed Income - Legal and General	24.4	1,642,935	400,876	- 400,876
<b>Total change in assets available</b>		<b>3,020,170</b>	<b>442,038</b>	<b>- 442,038</b>

The tables below illustrate the impact of a change in the interest rate of 1%.

Income Source	Duration	Carrying amount at 31 March 2021	Effect of Asset Values	
			£000	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	444	1	-1
Fixed Income Securities		6,882		
<b>Total change in assets available</b>		<b>7,326</b>	<b>1</b>	<b>-1</b>

Income Source	Duration	Carrying amount at 31 March 2020	Effect of Asset Values	
			£000	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	983	2	-2
Fixed Income Securities		5,291		
<b>Total change in assets available</b>		<b>6,274</b>	<b>2</b>	<b>-2</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but could reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's liabilities are denominated in GBP but as part of its investment strategy the Fund invests in assets denominated in foreign currencies, which exposes the Fund to the risk of movement in exchange rates. The Fund's investment managers may, at their own discretion, hedge part or all of the foreign exchange risk inherent in their portfolio.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following tables summarise the Fund's net currency exposure, after hedging, as at 31 March 2021 and 31 March 2020:

<b>Currency Exposure - Asset Type</b>	<b>Gross Exposure</b>	<b>Hedging Exposure</b>	<b>Net Exposure</b>
<b>2020-21</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas Listed Equities	838,934		838,934
Overseas Unquoted Securities	287,439		287,439
Absolute Return Funds Overseas Fixed Interest	0		
Overseas Unit Trusts	8,082		8,082
<b>Total</b>	<b>1,134,455</b>	<b>0</b>	<b>1,134,455</b>

<b>Currency Exposure - Asset Type</b>	<b>Gross Exposure Restated</b>	<b>Hedging Exposure</b>	<b>Net Exposure</b>
<b>2019-20</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Overseas Listed Equities	582,747		582,747
Overseas Unquoted Securities	222,167		222,167
Absolute Return Funds Overseas Fixed Interest	0	-9	-9
Overseas Unit Trusts	8,127		8,127
<b>Total</b>	<b>813,041</b>	<b>-9</b>	<b>813,032</b>

### Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

A 13% fluctuation in the currency risk is considered reasonable based on the Fund adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the GBP against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Net Currency Exposure - Asset Type	Asset Values	Change to net Assets available to pay benefits	
		2020-21	+13%
	£000	£000	£000
<b>Overseas Listed Equities:</b>	<b>838,935</b>	<b>109,062</b>	<b>-109,062</b>
Of which from United States Dollar	590,267	76,735	-76,735
Of which from Japanese Yen	26,236	3,411	-3,411
Of which from Hong Kong Dollar	75,604	9,829	-9,829
Of which from Swedish Krona	7,042	915	-915
Of which from Swiss Franc	2,660	346	-346
Of which from Danish Krone	2,033	264	-264
Of which from South African Rand	13,614	1,770	-1,770
Of which from other currencies	121,479	15,792	-15,792
<b>Overseas Unquoted Securities:</b>	<b>287,438</b>	<b>37,367</b>	<b>-37,367</b>
Of which from United States Dollar	274,713	35,713	-35,713
Of which from Euro	12,725	1,654	-1,654
<b>Absolute Return Funds Overseas:</b>			
Of which from United States Dollar*	0	0	0
<b>Overseas Unit Trusts:</b>			
Of which from Euro	8,082	1,051	-1,051
<b>Total</b>	<b>1,134,455</b>	<b>147,480</b>	<b>-147,480</b>

Net Currency Exposure - Asset Type	Asset Values	Change to net Assets available to pay benefits	
		2019-20	+13%
	£000	£000	£000
<b>Overseas Listed Equities:</b>	<b>582,747</b>	<b>75,757</b>	<b>-75,757</b>
Of which from United States Dollar	389,494	50,634	-50,634
Of which from Japanese Yen	27,381	3,560	-3,560
Of which from Hong Kong Dollar	55,079	7,160	-7,160
Of which from Swedish Krona	4,357	566	-566
Of which from Swiss Franc	4,424	575	-575
Of which from Danish Krone	1,443	188	-188
Of which from South African Rand	8,508	1,106	-1,106
Of which from other currencies	92,061	11,968	-11,968
<b>Overseas Unquoted Securities:</b>	<b>222,167</b>	<b>28,881</b>	<b>-28,881</b>
Of which from United States Dollar	209,288	27,207	-27,207
Of which from Euro	12,879	1,674	-1,674
<b>Absolute Return Funds Overseas:</b>			
Of which from United States Dollar*	-9	0	0
<b>Overseas Unit Trusts:</b>			
Of which from Euro	8,127	1,056	-1,056
<b>Total</b>	<b>813,032</b>	<b>105,694</b>	<b>-105,694</b>

**b) Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the market value of the Fund's financial assets and liabilities.

In essence the Fund's investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The primary credit risk to the Fund is through its fixed interest instruments managed by Legal and General, Janus Henderson Investors, BlueBay and the M & G Alpha Opportunities Fund. However, the majority of the Fund's fixed income assets are investment grade quality (above BBB rated) sovereign or corporate bonds rated.

**Multi Asset**

The Fund's aggregate exposure to credit risk through these four mandates as measured by the credit rating of external agencies is summarised in the table below:

<b>S&amp;P Quality Rating</b>	<b>Fair Value 2020-21</b>	<b>Value of Fixed Income Assets</b>
	<b>£000</b>	<b>%</b>
AAA	36,460	1.0
AA	1,795,323	65.0
A	36,960	1.0
BBB+	0	0.0
BBB	388,142	14.0
Below BBB	400,997	15.0
Cash	72,608	3.0
NR	16,439	1.0
Loans	0	0.0
<b>Total</b>	<b>2,746,929</b>	<b>100.0</b>

<b>S&amp;P Quality Rating</b>	<b>Fair Value 2019-20</b>	<b>Value of Fixed Income Assets</b>
	<b>£000</b>	<b>%</b>
AAA	143,827	6.0
AA	1,669,106	64.0
A	79,930	3.0
BBB+	225,818	9.0
BBB	126,831	5.0
Below BBB	239,451	9.0
Cash	89,191	3.0
NR	19,612	1.0
Loans	12,920	0.0
<b>Total</b>	<b>2,606,686</b>	<b>100.0</b>

Deposits were not made with banks and financial institutions unless they were rated independently and met the Fund's credit criteria. The Fund also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Fund invests an agreed percentage of its assets in the money markets to provide diversification. Money market funds chosen all have AA ratings from a leading ratings agency.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits to date. The Fund's cash holding under its treasury management arrangements as at 31 March 2021 was £253.2m (31 March 2020 £384.1m) and was held in the Deutsche Bank and Fidelity money market accounts. The remainder of the cash was held by the Fund's custodian, Bank of New York Mellon with a small amount of cash in transit which was held by the Fund's property investment manager.

<b>2020-21 Counterparty</b>	<b>Moody's Rating</b>	<b>£000</b>	<b>% of cash balances</b>
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	42,044	14.2
Fidelity Worldwide Investment (Money Market)	Aaa-mf	49,666	16.7
Deutsche Bank Advisors (Money Market)	A3	203,554	68.5
Cash in Transit	NR	1,868	0.6
<b>Total</b>		<b>297,132</b>	<b>100.0</b>

<b>2019-20 Counterparty</b>	<b>Moody's Rating</b>	<b>£000</b>	<b>% of cash balances</b>
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	28,051	6.8
Fidelity Worldwide Investment (Money Market)	Aaa-mf	191,558	46.3
Deutsche Bank Advisors (Money Market)	A3	192,526	46.6
Cash in Transit	NR	1,350	0.3
<b>Total</b>		<b>413,485</b>	<b>100.0</b>

### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. Illiquid assets can include assets where:

- a) there are no highly liquid active markets, such as investment properties and private equity or,
- b) individual fund structures, where the Fund's investment is locked in for a specific period or where the investment manager may have the ability to 'gate' or limit investors withdrawal from the fund.

As at 31 March 2021 the value of illiquid assets was £296m, which represented 4.52% of the total fund assets (31 March 2020 £230m which represented 4.19% of the total fund assets).

In terms of liquidity risk, the Fund had £297.1m (2019-20 £413.5m) of cash balances as at 31 March 2021 and net current assets of £8.8m (£12.1m in 2019-20). The Fund's net cash flow, before taking account of investments and excluding management expenses, as at 31 March 2021 was +£7.0m (-£29.4m in 2019-20). Income from investments supports the cash flow for the year to ensure there is no significant risk that the Fund will be unable to meet its current commitments.

All current liabilities are due to be paid in less than one year.

### Other risks

**Financial mismatch –**

1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities.
2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

**Changing demographics –** The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

**Systemic risk -** The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Council measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Fund prepares regular cash flow forecasts to understand and manage the timing of cash flows. The appropriate strategic level of cash balances to be held is a central consideration in preparing the Fund's annual investment strategy.

The Council keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions were considered formally at the triennial valuation.

The Council seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Stock Lending

The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. The credit rating of the collateral accepted is summarised below.

#### Note 19 – Nature and extent of risks arising from financial instruments

	Fair Value of collateral 31 March 2021	% of Fair Value of collateral 31 March 2021	Fair Value of collateral 31 March 2020	% of Fair Value of collateral 31 March 2020
<b>Moody's rating</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Aaa	16,990	47.3	8,851	21
Aa1	160	0.5	2,263	5
Aa2	18,741	52.2	32,055	74
<b>Grand Total</b>	<b>35,891</b>	<b>100</b>	<b>43,169</b>	<b>100</b>
<b>Value of Stock on Loan</b>	<b>34,009</b>		<b>39,532</b>	

During the year ended 31 March 2021 the Fund earned £73k (£516k 2019-20) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £34m (£39.5m 2019-20) and the value of collateral held was £35.9m (£43m 2019-20).

#### Note 20 – Funding Arrangements

In line with the LGPS Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The key elements of the funding policy are:

- To ensure long-term solvency of the Fund
- To 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 Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- To reflect the different characteristics of employers in determining contributions rates;
- To have a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce risk to other employers including tax raising employers from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over each employer's payment period and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2019 valuation, the fund was assessed as 97% funded (90% at the March 2016 valuation). This corresponded to a deficit of £156m (2016 valuation: £467m) at that time.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the Funding Strategy Statement. Individual employer's contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in the Funding Strategy Statement.

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

The principal assumptions were:

<b>Financial assumptions</b>	<b>Real</b>
<b>Discount rate</b>	3.20%
<b>Salary increase assumption</b>	3.00%
<b>Benefit Increase assumption (CPI)</b>	2.30%

#### **Longevity assumptions**

<b>Assumed life expectancy at age 65</b>	<b>Current Pensioners</b>	
	<b>Male</b>	<b>Female</b>
Current Pensioners	21.2 Years	23.6 Years
Future Pensioners*	21.9 Years	25 Years

\*Aged 45 at the valuation date

#### **Note 21 – Actuarial value of promised retirement benefits**

CIPFA's Code of Practice on Local Authority Accounting 2020-21 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 Accounting and Reporting by Retirement Benefit Plans refers to as the actuarial present value of promised retirement benefits. There are three options for disclosure.

The Fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

**Note 22– Long Term Assets**

	<b>2020-21 £000</b>	<b>2019-20 £000</b>
<b>Long Term Debtors:</b>		
Reimbursement of lifetime tax allowances	617	457
<b>Total</b>	<b>617</b>	<b>457</b>

<b>Note 23 – Current Assets</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
<b>Current Debtors and cash:</b>		
Contributions due - Employers	15,343	18,484
Contributions Due - Employees	3,332	3,122
Sundry Debtors	3,735	1,622
Provision for Doubtful Debt	-2,009	-635
Cash balances	91	91
<b>Total</b>	<b>20,492</b>	<b>22,684</b>

<b>Note 24 – Current Liabilities</b>	<b>2020-21 £000</b>	<b>2019-20 £000</b>
Sundry Creditors	6,826	6,247
Benefits Payable	3,205	2,733
Receipts in Advance	1,714	1,555
<b>Total</b>	<b>11,745</b>	<b>10,535</b>

**Note 25 – Additional Voluntary Contributions (AVCs)**

From the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund. Prior to 1 April 2019 the AVC providers to the members of the Fund were Scottish Widows, Standard Life and Utmost who took over Equitable Life on 1 January 2020.

The AVCs are invested separately from the Fund's main assets and used to acquire additional pension benefits and therefore are not included in the Fund's accounts in accordance with regulation 4 (1) (a) of the LGPS (Management and Investment of Funds) Regulations 2016. Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year.

A summary of the information provided by Scottish Widows, Standard Life and Utmost for the year to 31 March 2021 is shown below, along with a prior year comparator.

	<b>Scottish Widows £000</b>	<b>Standard Life £000</b>	<b>Utmost £000</b>	<b>Total £000</b>
Contributions received in year 2021	204	442	1	<b>647</b>
Contributions received in year 2020	189	929	2	<b>1,120</b>
Fair value at 31 Mar 2021	2,645	3,730	492	<b>6,867</b>
Fair value at 31 Mar 2020	2,146	3,406	507	<b>6,059</b>

## **Note 26 – Related Party Transactions**

### Cheshire West & Chester Council

The Fund is administered by Cheshire West and Chester Council. The majority of the Fund's cash is invested with the Fund's investment managers or directly with external financial institutions. The Fund has its own specific bank account however some of the Fund's transactions (Accounts Payable and Income) are processed through corporate Council systems and are paid in the first instance through the Council's corporate bank accounts. The Fund repays cash due to the Council for such transactions plus any interest charges on a monthly basis. In 2020-21 the Fund paid £805 to the Council for interest accrued on these balances.

The Council is one of the largest participating employers and contributed £35.1m into the Fund in 2020-21 (2019-20 £28.1m). At the year end, a balance of £2.767m (2019-20 £8.276m) was due to the Fund from the Council, primarily relating to contributions which were paid in April but became due in March. A balance of £258.6k was owed to the Pension Fund (2019-20 £1.6m owed to the Council) for Fund transactions processed through the Council's accounts payable and receivable systems.

The Council as Administering Authority incurred costs of £2.23m to administer the Fund in 2020-21 (2019-20 £2.151) as well as £2.03m for oversight and governance costs (2019-20 £1.981m) and these costs were recharged to the Pension Fund. Note 10 provides an analysis of these costs. These are related party transactions as Cheshire West and Chester Council is also a participating employer in the Fund.

The Fund has not made any employer related investment at any time during the period.

### Pension Fund Committee and Local Pensions Board

Specific declarations have been received from Pension Fund Committee and Local Pension Board Members regarding membership of and transactions with any parties related to the Pension Fund.

A number of Members act as Councillors or Board Members of particular employers who maintain a conventional employer relationship with the Fund. Employer representatives for the Local Pension Board also act as Trustees for employers of the Fund.

The value of transactions with each of these related parties, namely routine monthly payments to the Fund of employer's and employee's contributions is determined by the Local Government Pension Scheme Regulations, and as such no related party transactions have been declared.

A register of outside bodies that Members are appointed to, along with a register of interests is available on the Internet for Cheshire West and Chester, Cheshire East, Warrington and Halton Councils.

Details of the membership of the Local Pension Board are available on the Fund's website.

### Investment Pooling

LGPS Central Ltd has been established to manage investment assets on behalf of eight Local Government Pension Scheme (LGPS) administering authorities across the Midlands including Cheshire. It is jointly owned in equal shares by the eight administering authorities participating in the Pool.

In 2017-18 the fund invested £1.315m in share capital and granted a loan of £685k to LGPS Central Ltd. In 2020-21 interest of £31,784 (2019-20 £36,023) accrued on the loan balance to give a balance at the end of the year of £0.717m (2019-20 £0.721m), the share capital was valued at cost at the end of the year at £1.315m. Investments managed by LGPS Central Ltd as at 31 March 2021 are disclosed in Note 17 to the accounts.

During the year the Fund incurred charges for the running costs of LGPS Central Ltd totalling £1.164m (2019-20: £0.927m) and joint pool governance costs of £18,187 (2019-20: £15,833).

The Fund has made a £22m commitment to the LGPS Central Private Equity Funds, during the year the Fund paid £4.2m calls to these funds and received £0.295m in distributions. (£3.9m calls were made and £0.189m distributions were received in 2019-20). The market value of the private equity funds is shown in Note 17 to the accounts.

Investment management fees of £2.4m (2019-20 £1m) were incurred on the Fund's investments managed by LGPS Central Ltd.

## **Governance**

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council. The Council has delegated responsibility to the Chief Operating Officer who is also the s151 officer. The Chief Operating Officer is advised, by the Pension Fund Committee and external advice from Mercer the appointed investment consultant. The Fund also receives actuarial advice from Hymans Robertson. The Council's Audit and Governance Committee has oversight of the Council's governance arrangements for the Fund.

The Local Pension Board was established with effect from the 1 April 2015. The role of the Board, as defined in regulations, is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS.

From January 2004 elected members who were offered membership of the Scheme under their respective Council's scheme of allowances were eligible to join the Scheme. From the introduction of the new scheme in 2014 Councillors in England could only continue to accrue rights until the end of the term of office which they were serving on 1 April 2014. As a consequence all councillors ceased membership of the scheme from 12 May 2015 including those members of the Pension Fund Committee who had been active members of the Scheme.

There are three members of the Committee who are in receipt of pension benefits from the Fund (Councillor M. Hogg, Councillor P. Findlow and Councillor M. Wharton). In addition, Committee member Councillor Corcoran has a deferred pension and Committee member P. Matthews was an active member of the Fund as at 31 March 2021.

There are three members of the Local Pension Board who were active members of the Fund as at 31 March 2021; G. Wright, N. Harvey and A Laing. P. Raynes also has a deferred pension with the Fund.

Each member of the Committee and Board is required to declare their interests at each meeting and sign an annual declaration form which is published on the fund's website.

As the Fund forms part of the LGPS it does not have trustees. The members of the Committee do not receive any fees in relation to their specific responsibilities as members of the Committee, although they may be reimbursed for any out of pocket expenses incurred whilst discharging their Committee role.

Similarly the members of the Board do not receive any fees in relation to their specific responsibilities as members of the Board, although they may be reimbursed for any out of pocket expenses incurred whilst discharging their role.

Further information on Fund governance can be found in the Fund's Governance Compliance Statement available on the Fund's website at [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org).

### Key Management Personnel

The key management personnel of the Fund are the Chief Operating Officer, Director of Finance and the Head of Pension Fund.

The combined financial value of their relationship with the fund (in accordance with IAS24 Related Party Disclosures) is set out below:

	31-Mar-21 £000	31-Mar-20 £000
Short term benefits	110	94
Long term/post-retirement benefits	1,251	902
<b>Total</b>	<b>1,361</b>	<b>996</b>

The long term/post-retirement benefits are calculated on an IAS19 basis and will be affected by the assumptions used for the calculation which can vary from year to year.

### Note 27 – Contingent Liabilities and Contractual Commitments

The Fund has contractual commitments to the value of £733m (2019-20 £764m) in private equity funds.

During 2020-21 the Fund made new commitments to private equity funds of \$55.5m. The commitment of \$55.5m was into the Pantheon Access (Luxembourg), SLP SICAV SIF – Cheshire III Series. This additional investment will help the Fund address its existing underweight allocation to the vintage years 2009 to 2015, thereby further diversifying the private equity portfolio.

As at 31 March 2021 the Fund had actually invested £544.5m (2019-20 £496m). As the Pantheon and Adam Street Partner funds are denominated in US Dollars and Euros the commitment in Sterling is subject to changes due to currency fluctuations.

### Note 28 – Contingent Assets

There are 33 admitted bodies in the Cheshire Pension Fund who hold insurance bonds to guard against the possibility of being unable to meet their pension obligations, along with an additional 15 employers with Parent Company Guarantees or Deeds of Guarantee in place. The bonds or guarantees are drawn in favour of the Council as administering authority for the Fund and payment will only be triggered in the event of employer default.

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £5m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.1m. This issue is still progressing through the courts.

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**Note 29 – Impairment of Financial Assets**

During 2020-21 the Fund has recognised expected credit losses of £2m (£0.635m in 2019-20) for possible and actual non-recovery of rental income on its investment properties.

**Note 30 – Investment Strategy Statement**

The Investment Strategy Statement (ISS) sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high level risk register, and has been designed to be informative for all stakeholders. The ISS also includes the Fund's Responsible Investment Policy which sets out the Fund's approach to the governance and stewardship of its investment assets.

A full copy of the ISS can be obtained is available on the Fund's website at:

[www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

**Note 31 – Funding Strategy Statement**

Under the LGPS Regulations 2013 (as amended) administering authorities are required to prepare a Funding Strategy Statement (FSS).

Fund members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members (net of returns from the Fund's investments). The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Strategy Statement is available on the Fund's website at:

[www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

## Employers that have contributed into The Cheshire Pension Fund and their applicable Investment Strategy for the financial year ending 31 March 2021.

\*Employers who joined the fund during 2020-21

Major Scheme Employers	Strategy	Admitted Bodies	Strategy
Cheshire East Council	Open	Deafness Support Network	Closed
Cheshire Fire Authority	Open	ForHousing	Open
Cheshire West & Chester Council	Open	Hall Cleaning Services	Open
Halton Borough Council	Open	Halton Housing Trust	Open
Police & Crime Commissioner	Open	Hochtief	Open
Warrington Borough Council	Open	HQ Theatres Limited	Open
		Innovate Ltd Tytherington	Open
<b>Admitted Bodies</b>		ISS Facility Services Ltd	Open
Active Cheshire	Open	Keys Care Limited	Open
Adoption Matters	Open	Kings School Chester	Closing
AM Services	Open	Livewire	Open
ANSA Environmental Services	Open	Mellors - Bishop Wilson*	Open
Aramark - St Thomas Moore*	Open	Mellors - St Basils*	Open
Aspens - Upton by Chester	Open	Mellors - St Winefride's	Open
Aspens Svcs Ltd - BrLeas	Open	Midshire Catering Ltd	Open
Belong Limited	Closing	Midshire Catering Services Ltd - Hartford High School*	Open
Bridgewater High School Trading	Open	Norton Priory Museum Trust	Open
Bulloughs - Lymm	Open	Orbitas Bereavement Service	Open
Bulloughs Collegiate	Open	Plus Dane (Cheshire) Housing Association	Open
Canal & River Trust	Closed	Reed Wellbeing Limited*	Open
Care Quality Commission	Closed	Ringway Infrastructure	Open
Catalyst Choices	Open	Ringway Jacobs	Open
Caterlink (Ruskin)	Open	RM Estates Ltd	Open
Caterlink (Sandbach)	Open	Sanctuary Housing Association	Closing
Caterlink (Witton)	Open	School Food Company	Open
CG Cleaning - Great Sankey	Open	SMC Premier Cleaning Ltd*	Open
Chartwell - Elworth	Open	Starcare	Open
Cheshire Community Action	Closing	Tarmac Trading Limited	Open
Cheshire Peaks and Plains Housing Trust	Open	The Guinness Partnership	Open
Cheshire West Recycle Ltd*	Open	Torus 62	Open
Churchill Services Ltd	Open	Torus 62 Foundation	Open
Compass (Chartwells Ltd)	Open	University Of Chester	Open
Crossroads Together*	Open	Verve People	Open
Culture Warrington	Open	Warrington Housing Association	Open
CWP NHS Trust	Open	Warrington Voluntary Action	Closing
Dataspire	Open	Weaver Vale Housing Trust	Open
David Lewis Centre	Closing	Westminster Drug Project*	Open

<b>Other Employers</b>	<b>Strategy</b>	<b>Other Employers</b>	<b>Strategy</b>
Alderley Edge Parish Council	Open	NW Fire Control Limited	Open
Alsager Town Council	Open	Odd Rode Parish Council	Open
Appleton Parish Council	Open	Penketh Parish Council	Open
Avenue Services (NW) Ltd	Open	Poulton with Fearnhead Parish Council	Open
Barnton Parish Council	Open	Poynton with Worth Parish Council	Open
Birchwood Town Council	Open	QWest Services Ltd	Open
Bollington Town Council	Open	Reaseheath College	Open
Brereton Parish Council*	Open	Riverside College	Open
Brio Leisure (CWaC CIC)	Open	Sandbach Town Council	Open
Catering Academy - COE Academy	Open	Stockton Heath Parish Council	Open
Catering Academy - Warrington	Open	Torus 62 (LMH)	Open
Cheshire College South & West	Open	Transport Services Solutions Limited	Open
Cheshire Magistrates Courts	Closed	Vivo Care Choices Ltd	Open
Congleton Town Council	Open	Warrington & Vale Royal College	Open
Crewe Town Council	Open	Warrington Transport	Open
Delamere and Oakmere Parish Council	Open	West Cheshire College	Open
Disley Parish Council	Open	West Cheshire Facilities Management	Open
Edsential	Open	Wilmslow Town Council	Open
ENGIE	Open	Winsford Town Council	Open
Everybody Sport + Recreation	Open	Winwick Parish Council	Open
Frodsham Town Council	Open	Wistaston Parish Council	Open
Grappenhall and Thelwell Parish Council	Open	Your Housing Group	Open
Handforth Parish Council	Open	Youth Federation	Closing
Hartford Parish Council	Open		
Holmes Chapel Parish Council	Open		
Kingsley Parish Council	Open	<b>Free Schools</b>	
Kingsmead Parish Council	Open	Grosvenor Park CoE Academy	ACADS
Knutsford Town Council	Open	Sandbach School	ACADS
Lymm Parish Council	Open	Sandymoor School	ACADS
Macclesfield College	Open	St Martins Academy	ACADS
Macclesfield Town Council	Open		
Mersey Gateway Crossing Board	Open		
Middlewich Town Council	Open		
Nantwich Town Council	Open		
Neston Town Council	Open		
Nether Alderley Parish Council	Open		
Northwich Town Council	Open		

<b>Academies</b>	<b>Strategy</b>	<b>Academies</b>	<b>Strategy</b>
Acresfield Primary School	ACADS	Daresbury Primary School	ACADS
Acton CE Primary Academy	ACADS	Daven Primary School	ACADS
Adelaide School	ACADS	Delamere Primary School	ACADS
Adlington Primary Academy	ACADS	Disley Primary School*	ACADS
Alderman Bolton Comm PS	ACADS	Ditton Primary School	ACADS
All Hallows Catholic College	ACADS	Eaton Bank School	ACADS
Alsager Highfield Comm Primary School*	ACADS	Eaton Primary School*	ACADS
Alsager School	ACADS	Egerton Primary School	ACADS
Ash Grove Academy	ACADS	Evelyn Street Primary School	ACADS
Astbury St Mary's CoE Primary School	ACADS	Excalibur Primary School	ACADS
Axis School*	ACADS	Gawsworth Primary School	ACADS
Barnton Primary School	ACADS	Glazebury Primary School	ACADS
Beamont Primary School	ACADS	Gorse Covert Primary School	ACADS
Beaumont Collegiate Academy	ACADS	Gorseybank Primary School	ACADS
Bexton Primary School	ACADS	Grange Community & Primary School	ACADS
Birchwood High School	ACADS	Great Sankey High School	ACADS
Bishops Blue Coat CofE High School	ACADS	Great Sankey Primary School	ACADS
Black Firs Primary School	ACADS	Handforth Grange Community Primary School	ACADS
Boughton Heath Academy	ACADS	Highfields Community Primary School	ACADS
Brereton CoE Primary School	ACADS	Hollinhey School	ACADS
Bridgewater High School	ACADS	Hollins Green St Helens CoE Primary School	ACADS
Bridgewater Park Primary School	ACADS	Holmes Chapel Comprehensive School	ACADS
Brine Leas School	ACADS	Holmes Chapel Primary School	ACADS
Broken Cross Primary Academy	ACADS	Hungerford Primary	ACADS
Brookfields School	ACADS	Kelsall Primary School	ACADS
Broomfields Junior School	ACADS	Kings Leadership Academy	ACADS
Bruche Primary School	ACADS	Knutsford Academy	ACADS
Bunbury Aldersey CofE Primary School	ACADS	Lacey Green Primary Academy	ACADS
Burtonwood Comm Primary School	ACADS	Leighton Academy	ACADS
Calveley Primary Academy	ACADS	Little Bollington PS*	ACADS
Cavendish High Academy	ACADS	Little Leigh Primary	ACADS
Chapelford Village Primary School	ACADS	Little Sutton CoE Primary School	ACADS
Childer Thornton Primary School	ACADS	Lostock Hall Primary	ACADS
Christleton High School	ACADS	Lymm High School	ACADS
Cloughwood School	ACADS	Ivy Bank Primary School	ACADS
Clutton CoE Primary School	ACADS	Macclesfield Academy	ACADS
Comberbach Primary School*	ACADS	Manor Park School*	ACADS
Congleton High School	ACADS	Marlborough Primary School	ACADS
County High School Leftwich	ACADS	Marfields Primary Academy	ACADS
Cranberry Academy	ACADS	Meadowside Comm Primary School	ACADS
Crewe Engineering UTC	ACADS	Mill View Primary School	ACADS
Croft Primary School	ACADS	Monks Coppenhall Academy	ACADS
Cuddington Primary School	ACADS	Mossley CE Primary School	ACADS
Mottram St Andrew Primary Academy	ACADS	St Mic with St Thomas Primary School	ACADS

<b>Academies</b>	<b>Strategy</b>		<b>Academies</b>	<b>Strategy</b>
Nantwich Primary Academy	ACADS		St Michaels Community Academy	ACADS
Neston High School	ACADS		St Oswalds Worleston Primary School	ACADS
Nether Alderley Primary School	ACADS		St Pauls Catholic Primary School	ACADS
New Horizons School	ACADS		St Thomas More Catholic High School	ACADS
Oak View Primary Academy	ACADS		Stapeley Broad Lane	ACADS
Oakwood Avenue Primary School	ACADS		Tarporley High School & 6th Form College	ACADS
Offley Primary Academy	ACADS		Tarvin Primary School*	ACADS
Ormiston Bolingbroke Academy	ACADS		The Berkeley Academy	ACADS
Ormiston Chadwick Academy	ACADS		The Catholic High - Chester	ACADS
Over Hall Community School	ACADS		The Ellesmere Port C of E College	ACADS
Padgate Academy	ACADS		The Fallibroome Academy	ACADS
Palacefields Academy	ACADS		The Fermaine Academy	ACADS
Park Road Primary School	ACADS		The Grange School	ACADS
Parklands Community Primary School	ACADS		The Heath Academy	ACADS
Parkroyal Community School	ACADS		The Hermitage Trust	ACADS
Pear Tree School	ACADS		The Oaks Academy	ACADS
Penketh High School	ACADS		The Quinta Primary School	ACADS
Penketh Primary School	ACADS		The Russett School	ACADS
Penketh South Primary School	ACADS		Tytherington School	ACADS
Peover Superior Primary School	ACADS		Underwood West Academy	ACADS
Pikemere School	ACADS		University Technical College (UTC) Warrington	ACADS
Poynton High School	ACADS		Upton Heath CoE Primary School	ACADS
Priestley 6th Form College	ACADS		Upton Priory School	ACADS
Puss Bank School	ACADS		Utkinton St Paul's CE Primary School*	ACADS
Queens Park High School	ACADS		Victoria Road Primary School	ACADS
Rudheath Primary School	ACADS		Wade Deacon High School	ACADS
Rudheath Senior Academy	ACADS		Warmingham CoE Primary School	ACADS
Sandbach High School & 6th Form	ACADS		Weaverham Primary Academy	ACADS
Sandbach Primary Academy School	ACADS		Westbrook Old Hall School	ACADS
Sandiway Primary School	ACADS		Weston Village Primary School	ACADS
Shavington Academy	ACADS		Wheelock Primary School	ACADS
Shavington Primary School	ACADS		Whirley Primary School	ACADS
Simms Cross Primary School*	ACADS		Widnes Academy	ACADS
Sir John Deanes College	ACADS		Willaston Primary Academy	ACADS
Sir Thomas Boteler High School	ACADS		Wilmslow Academy	ACADS
Sir William Stanier Community School	ACADS		Winsford Academy	ACADS
Smallwood CofE Primary Academy	ACADS		Wistaston Academy	ACADS
St Albans Catholic Primary School	ACADS		Wistaston Church Lane Academy	ACADS
St Augustines Catholic Primary School	ACADS		Wolverham Primary and Nursery School	ACADS
St Bernards RC Primary School	ACADS		Woolston Comm Primary School	ACADS
St Johns Wood Community School	ACADS		Worth Primary School	ACADS
St Marys Catholic Primary School	ACADS		Wybunbury Delves Primary School	ACADS

# Pension Fund Accounts Reporting Requirement

## Introduction

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Cheshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

## Present value of promised retirement benefits

Year ended	31 March 2021	31 March 2020
Active members (£m)	4,049	2,625
Deferred members (£m)	1,802	1,278
Pensioners (£m)	2,818	2,590
<b>Total (£m)</b>	<b>8,669</b>	<b>6,493</b>

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £1,780m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £121m.

**Financial assumptions**

Year ended (% p.a.)	31 March 2021	31 March 2020
Pension Increase Rate	2.85%	1.90%
Salary Increase Rate	3.55%	2.60%
Discount Rate	2.00%	2.30%

**Longevity assumptions**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.4 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.4 years	25.7 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

**Commutation assumptions**

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

**Sensitivity Analysis**

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	807
0.5% p.a. increase in the Salary Increase Rate	1%	91
0.5% p.a. decrease in the Real Discount Rate	11%	918

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

**Professional notes**

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Peter MacRae FFA

23 April 2021

For and on behalf of Hymans Robertson LLP