CHESHIRE PENSION FUND

Pension Fund Committee
7 June 2019
Item 3

CHESHIRE PENSION FUND – DRAFT STATEMENT OF ACCOUNTS 2018-19 and OUTTURN

Introduction

1. This report provides the Committee with an overview of the draft Statement of Accounts for 2018-19.

2. The report also includes the outturn position for the Fund's administration budget for the 2018-19 financial year.

2018-19 Draft Statement of Accounts

3. Attached to this report is the draft Statement of Accounts for the Cheshire Pension Fund for the year to 31 March 2019 (Appendix A). The accounts include an accompanying report from the actuary, Hymans Robertson, which details the actuarial present value of promised retirement benefits (Appendix B). The accounts have been prepared in compliance with CIPFA guidelines and statutory requirements.

4. The Fund's accounts will also be published in the Cheshire West and Chester Council's final Statement of Accounts for 2018-19, and in the Fund's Annual Report.

5. In recognition of its importance in the functioning of local government, Cheshire West and Chester Council's appointed external auditor Grant Thornton treat the audit of the Cheshire Pension Fund as a separate audit. This requires the Auditor to issue a separate plan for the audit of the Fund's accounts and a separate Auditor's Report to those charged with governance for the fund and to the Pension Fund Committee. The audit does not form a value for money conclusion or undertake a use of resources assessment for the Pension Fund.

6. The overall timetable for the production of the Statement of Accounts is as follows:

Date	**Action**
4 June	The draft accounts were reviewed by the Local Pension Board prior to review by the Pension Fund Committee
7 June	The Pension Fund Committee will review the draft accounts, provide comment and recommend that the accounts are presented to the Audit and Governance Committee for approval following the completion of the audit
10 June	Grant Thornton will commence the audit testing of the accounts
18 July	The audit will be completed by this date and Grant Thornton will produce their Audit Findings Report
19 July	The Audit Findings Report and Annual Report, including the audited Statement of Accounts, will be presented to the Pension Fund Committee
23 July	The Audit Findings Report and audited Statement of Accounts will be presented to the Audit and Governance Committee

<u>Role of the Local Pension Board</u>

7. The Board's role in relation to the Statement of Accounts is to ensure compliance. To that end, the Board have undertaken a thorough review of the draft accounts in order to

determine that they have been produced in accordance with legislation and best practice guidance.

8. The Board also have a responsibility to ensure that the Pension Fund Committee discharges its duty of providing comment on the accounts. Board members may attend the Pension Fund Committee meeting on the 7 June, in an observer capacity, in order to obtain this assurance.

Significant changes to disclosure requirements

9. There were no significant changes to the CIPFA Code of Practice on Local Authority Accounting (the Code), the key change in International Financial Reporting Standards (IFRS) was the adoption of IFRS9 Accounting Standard for the 2018-19 accounts. IFRS9 requires the investment assets to be accounted for at fair value within the accounts.

10. The adoption of IFRS9 had little impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the Code. As a consequence there was no requirement to change the measurement or classification of these assets.

11. There has been one minor change to the accounts as a result of this standard, within Note 16c where the Fund has now included a credit loss allowance of 3% on its future minimum lease payments for expected losses in respect of late payments or non-recovery of rents from tenants.

12. In addition, some presentational changes have been made to the accounts in line with the updated CIPFA example accounts:

    - The analysis of debtors and creditors across public sector bodies has been removed.
    - A long-term debtor has been created to reflect reimbursement arrangements put in place at many local authority pension funds for the lifetime tax allowance introduced in 2016.

13. The example accounts also detailed this year that the equity share of £1.315m held in LGPS Central Ltd should be shown as a long term investment asset and this has been reflected on the Net Asset Statement in the accounts. The equity share has been held at cost this year as fair value cannot yet be reliably measured due to the company only having started to trade on 3 April 2018. The necessary disclosures regarding this treatment have been made in the accounts.

Summary and key points of the 2018-19 Statement of accounts

14. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2017-18 position);

    - The Fund had a revenue deficit of £19.5m (surplus £40m). The 2017-18 surplus was mainly due to the fund receiving one-off payments of £45m from Cheshire East, £10.4m from Warrington Borough Council and £6.7m from Halton Borough Council who elected to pay the past service cost (deficit) for the period 1 April 2017 to 31 March 2020 in the 2017-18 financial year.

- Employers' contributions into the fund were £123m (£183m),the £60m decrease was due to the payments received in 2017-18 as detailed above from Cheshire East, Warrington Borough Council and Halton Borough Council.

- Benefit payments increased by £8m (4.6%) to £181m (£173m) mainly due to an increase in pension payments reflecting the rise in the number of pensioners. Death benefit and lump sum payments both had a minor increase this year.

- Management Expenses (which include fees pay to external investment managers) have reduced from £30.8m to £27.8m. The £3m reduction reflects the general downward pressure on investment manager fees exerted by asset pooling in the LGPS and also a reduction in performance related fees charged by a small number of external managers.

- The Payments to and on account of leavers decreased by £6.9m year on year to £14m (£20.9m). This figure varies each year due to a combination of the number of staff moving to employers outside the Fund and value of the pension these staff members have accrued, along with the impact of freedom and choice, which allows members to transfer to an external pension and access their benefits.

- Investment income of £34.4m is broadly comparable with the prior year (£34.7m).

- The profit figure has decreased by £53m to £262m (£315m). In 2017-18 total fund investment returns were 6.3% overall, with positive equity returns making the most significant contribution e.g. the Fund's two actively managed equity funds delivered growth of 20%. In 2018-19 investment returns fell slightly to 5.5%, with equities delivering lower growth than the previous year, though this was partially offset by improved returns from the Fund's indexed linked gilts holdings.

- The value of net assets as at 31 March 2019 is £5.604bn from £5.335bn in 2017-18. This represents an increase of £0.269bn.

- The market value of the Fund's investment assets increased, in absolute terms, by £311m to £5.473bn (£5.162bn). This increase was largely driven by returns on index linked gilts and equities although property and private equity were also positive contributors to overall returns.

- The Fund has included a Contingent Liability (note 27) in the Accounts, to reflect the possible impact of recent court cases (the McCloud judgement) on the cost of paying LGPS benefits. The Government is appealing the McCloud judgement and the cost increase will only materialise if the appeal is unsuccessful. It is not yet possible to accurately estimate the cost of any potential change, hence the item's inclusion as a note rather than any inclusion within the main body of the accounts.

Outturn

15. The 2018-19 budget is £3.706m, which includes the additional temporary budget of £305k required to cover the Fund's net contribution to the running costs for LGPS Central for 2018-

19, as approved by the Committee in December 2018. This additional budget was requested on the expectation that costs elsewhere in the Fund's budget would be fully utilised.

16. The final outturn for 2018-19 is an underspend of £248k compared to the previously reported underspend of £159k. The increase in the final underspend of £89k is explained by the following factors:

Budget Area	**Explanation**	**Increase/(Decrease) in underspend) £k**
LGPS Central Costs	This year end charge from LGPS Central increased by £16k as the company made a number of key appointments towards year end and the charging mechanism changed as a result of an amended product development pipeline and new product launches.	+16
Staffing costs	Staff turnover savings continued to accelerate towards year end and posts remained unfilled pending the launch of a consolidated recruitment process (initiated in April 2019). In addition, maternity cover provision remained largely unused for the whole of the financial year.	-75
Supplies & Services	The Fund's expected call on external legal advice to resolve various employer issues was £10k less than estimated at the three quarter year stage. Investment consultancy costs were also £10k less than expected as planned additional spend on bespoke advice was accommodated within the current fixed price contract with Mercer. Downward pressure on printing costs continued (including the decision to publish the annual Pensioner's newsletter on line), resulting in an additional saving of £3k. Additional minor miscellaneous savings including accommodation and subscription savings increased the underspend by another £7k.	-30
(Net increase in u/s)		**-89**

17. The final underspend of £248k means that that the majority of the additional £305k budget requested in December will not be required.

Recommendation
The Committee are requested to:

- ***Comment on the Cheshire Pension Fund draft Statement of Accounts for the year ending 31 March 2019, provide any points for consideration and recommend that they are presented to the Audit and Governance Committee following completion of the audit.***
- ***Note the outturn position for the Fund in 2018-19.***

Cheshire Pension Fund - Fund Account for the year ended 31 March 2019			
	Notes	2018-19 £000	2017-18 £000
Contributions and Benefits			
Contributions Receivable			
From Employers		123,153	183,254
From Employees		36,829	36,062
Total Contributions Receivable	6/6a	**159,982**	**219,316**
Transfers in from Other Schemes	7	15,638	14,007
Benefits Payable			
Pensions		-148,638	-141,305
Lump Sums		-28,388	-27,591
Death Benefits		-4,065	-3,593
Total Benefits Payable	8	**-181,091**	**-172,489**
Payments to and on account of Leavers			
Refund of Contributions		-489	-586
Transfers to Other Schemes		-13,547	-20,278
	9	**-14,036**	**-20,864**
Net Additions / (withdrawals) from dealing with members		**-19,507**	**39,970**
Management Expenses	10/10a	-27,825	-30,826
Returns on Investments			
Investment Income	11	34,389	34,741
Taxes on Income	12	-419	-949
Profits and losses on disposal of investments and changes in the market value of investments	13f	261,953	315,168
Net Returns On Investments		295,923	348,960
Net Increase/ (Decrease) in the Fund During the Year		248,591	358,104
Opening Net Assets of the Scheme		5,355,219	4,997,115
Closing Net Assets of the Scheme		**5,603,810**	**5,355,219**

Cheshire Pension Fund - Net Assets Statement as at 31 March 2019			
	Notes	**2018-19** **£000**	**2017-18** **£000**
Long Term Investments		1,315	0
Investment Assets			
Pooled Investment Vehicles	13/f, 18/19	3,566,402	3,131,979
Equities	13/f, 18/19	540,459	792,041
Absolute Return Funds	13b/f, 18/19	770,621	696,685
Investment Properties	16	396,370	352,701
Private Equity	13c/f 18/19	194,995	183,905
Loans	13d/f, 18/19	2,375	5,052
		5,472,537	**5,162,363**
Cash	13e/f, 18/19	112,070	169,882
Other Investment Balances	13f	4,504	4,284
	13f, 18/19	**5,589,111**	**5,336,529**
Investment Liabilities			
Derivative Contracts	14, 18/19	0	-30
Total Net Investments	17	**5,589,111**	**5,336,499**
Long Term Assets	22	6,317	10,613
Current Assets	23		
Cash at Bank		2,440	2,382
Debtors		18,959	15,952
Current Liabilities	24		
Creditors		-10,157	-7,052
Receipts In Advance		-2,860	-3,175
Net Current Assets		8,382	8,107
Total Net Assets		**5,603,810**	**5,355,219**

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, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

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, funded pension scheme. The LGPS 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 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 with lead officer responsibility delegated to the Section 151 Officer (Chief Operating Officer), who undertakes the day to day management of the Fund. The Chief Operating Officer is advised, with regard to investment matters, by the Pension Fund Committee with external advice from Mercer. The Fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Council's Audit and Governance Committee.

The Local Pension Board was established under the Council's constitution 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. The Board is comprised of two Employer (including one Cheshire West and Chester nominated Councillor) and two 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. At 1 April 2018 the four strategies were as follows:

Growth Strategy A	60% Growth / 40% Diversifying and Matching
Growth Strategy B	50% Growth / 50% Diversifying and Matching
Medium Growth Strategy	50% Growth / 50% Diversifying and Matching
Gilts Strategy	0% Growth / 100% Diversifying and Matching

To manage the Fund's assets in accordance with its investment strategy, the Council has 14 appointed external investment managers who each have specific responsibility for part of the Fund's investment portfolio. The fund is also in process of transferring assets into its asset pool LGPS Central Ltd and made its first transfer of £250m in 2018-19 from Baillie Gifford to LGPS Central Global Active Equity Fund. The Council uses the services of Bank of New York Asset Servicing to independently monitor the performance of the investment strategy 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 2019 the Fund achieved a return from its investments of 5.5% (+6.3% in 2017-18) compared with the Fund's tailored benchmark return of +5.5% (+1.9% in 2017-18). For the three years ending 31 March 2019 the Fund achieved an annualised return of +10.2% per annum against the Fund's benchmark return of 7.6% per annum.

Membership

In accordance with the Governments 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 employees are able to choose 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 to the private sector.

In the year to 31 March 2019 a total of 290 employer organisations including the Administering Authority itself, contributed into the Fund.

Cheshire Pension Fund	31-Mar-19	31-Mar-18
Number of employers making contributions into the fund	**290**	**283**
Number of employees in the scheme		
Cheshire West and Chester Council	8,073	8,015
Other employers	31,404	30,360
Total	**39,477**	**38,375**
Number of pensioners		
Cheshire West and Chester Council	2,568	2,345
Other employers	26,250	25,419
Total	**28,818**	**27,764**
Number of Deferred pensioners		
Cheshire West and Chester Council	4,340	4,117
Other employers	24,838	24,415
Total	**29,178**	**28,532**
Undecided Leavers	2,375	2,154
Total Membership	**99,848**	**96,825**

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 2019. In addition to employee contributions, employers pay contributions into the Fund which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2016 which set employer contribution rates for the 3 year period ending 31 March 2020.

Benefits

From 1 April 2014, the LGPS became a career average revalued earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. 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

Prior to 1 April 2014, Pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x pension. 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.	No automatic lump sum. 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 2018-19 financial year and its position as at year ending 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 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 contain a restatement in relation to Note 26- Key Management Personnel, this has been restated to exclude the pension liability element of the Director of Resources whose post was removed in 2014-15 following an organisational restructure. Although the pension liability for this post remains in the Fund, it is not required to be included in the disclosure above as this person is no longer a member of the Fund's Key Management Personnel.

Note 3 – Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit 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.

Employer's 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
- Winton Capital
- Darwin Property Investment

Performance related fees amounted to £3.6m in 2018-19 (£6.7m in 2017-18) for managers who outperformed the benchmark.

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 2018-19 was £1.7m relating to fees due for the quarter ending 31 March 2019 (£1.8m in 2017-18).

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

Investments in the Fund’s asset pool are valued at transaction price i.e. cost. The Fund’s asset pooling company LGPS Central Ltd, began to trade on 3 April 2018 therefore reliable trading results or profit forecasts are not yet available. Consequently the pension fund’s view is that the market value of this investment as 31 March 2019 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 the pooling company 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 6 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 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 valuers 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).

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. During 2018-19 Scottish Widows, Standard Life and Equitable Life were appointed as the Funds AVC providers.

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

AVC's 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

Pension Fund liability

The Pension Fund liability is calculated every three years by the Fund actuary, Hymans Robertson, with periodic updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19, the assumptions underpinning the valuation are given in the Actuarial Statement. The estimate is subject to significant variances based on changes to the underlying assumptions.

Investment in LGPS Central Ltd asset pool

The investment of £1.315m has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- LGPS Central Ltd did not commence trading until 3 April 2018
- No dividend to shareholders has been declared
- No published trading results are yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

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 2019 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
Private equity	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 £195m (£184m 2017-18). There is a risk that this investment may be under or overstated in the accounts.
Absolute Return funds	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 £771m (£697m in 2017-18). There is a risk that this investment may be under or overstated in the accounts.
Pension fund liability	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, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £400m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £380m.

Note 5 – Events after the Balance Sheet date

Following a procurement exercise, with effect from the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund. Members of the Fund with an existing AVC with Scottish Widows have been given the option to remain with Scottish Widows or transfer their AVC to Standard Life.

Note 6 – Contributions Receivable	2018-19 £000	2017-18 £000
Employees Normal Contributions	36,829	36,062
Employers Normal Contributions	110,210	106,715
Employers Deficit Funding	8,596	70,085
Employers Cost of Early Retirements (pension strain)	4,347	6,454
Total Employers Contributions	**123,153**	**183,254**
Total Contributions	**159,982**	**219,316**

The 2017-18 deficit funding figure of £70m included within total employers contributions of £183m includes payments of £45m from Cheshire East Council, £10.4m from Warrington Borough Council and £6.7m from Halton Borough Council who elected to pay their full 3 year deficit contribution relating to the period 2017-2020 as a lump sum.

The cost of early retirements represents the contributions relating to Employers meeting the capitalised costs of discretionary early retirements. The Fund recharges the 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 early retirement contributions from scheme employers who have the option of paying over more than one year.

Note 6a – Analysis of Contributions Receivable	2018-19		2017-18	
	Employers £000	Employees £000	Employers £000	Employees £000
Scheme Employers	85,143	25,887	143,891	25,052
Cheshire West & Chester Council	21,610	7,141	22,703	7,101
Community Admission Body	13,244	2,937	13,248	2,975
Transferee Admission Body	3,156	864	3,412	934
Total	**123,153**	**36,829**	**183,254**	**36,062**

Note 7 – Transfers in from other Pension Funds	2018-19 £000	2017-18 £000
Transfers from other Local Authorities	12,631	10,163
Transfers from other pension funds	3,007	3,844
Total	**15,638**	**14,007**

Note 8 – Benefits payable	2018-19 £000	2017-18 £000
Scheme Employers	112,470	106,499
Cheshire West & Chester Council	49,693	48,290
Community Admission Body	13,987	12,276
Transferee Admission Body	4,941	5,424
Total	**181,091**	**172,489**

Note 9 – Payment to and on account of leavers	2018-19 £000	2017-18 £000
Individual Transfers	13,547	20,278
Refunds to Members leaving service	489	586
Total	**14,036**	**20,864**

The transfer 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 the service relates to members who opted out of the scheme within two years of joining. The individual transfer figure represents the cash payments from the Fund in relation to individual scheme members' who have left the scheme and transferred their benefits to another pension provider.

Note 10 – Management Expenses	2018-19 £000	2017-18 £000
Investment management expenses	24,366	27,466
Administration costs	2,188	2,147
Oversight and governance costs	1,271	1,213
Total	**27,825**	**30,826**

No costs have been included for carried interest.

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	2018-19 £000	2017-18 £000
Management fees and expenses	20,372	20,379
Performance related fees	3,619	6,708
Custody fees	113	117
Transaction costs	262	262
Total	**24,366**	**27,466**

Note 10b – External Audit Costs	2018-19 £000	2017-18 £000
Payable in respect of external audit	23	29
Payable in respect of other services	2	4
Total	**25**	**33**

Fees in respect of other services relates to work completed in respect of the IAS19 process. The fee for 2017-18 was in respect of 2015-16 and 2016-17, the fee for 2018-19 relates to the charge for 2017-18.

Note 11 – Investment Income	2018-19 £000	2017-18 £000
Dividends from Equities	8,555	6,262
Net Rents from Properties	19,161	19,640
Income from Fixed Interest Securities	5,291	7,346
Income from Pooled Investment Vehicles:		
Property	421	708
Stock Lending	581	378
Interest from Cash Deposits	366	261
Other	14	146
Total	**34,389**	**34,741**

Note 12 – Taxes on income	2018-19 £000	2017-18 £000
Withholding tax - Equities	412	309
Withholding tax – Private Equity	7	640
Total	**419**	**949**

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 2018-19 amounts to £419k and is shown as a tax charge, compared to £949k in 2017-18.

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.

Note 13 – Investments Investment Assets	2018-19 £000	2017-18 £000
Equities		
Overseas Quoted	527,397	776,524
UK Quoted	13,062	14,202
UK Unquoted	1,315	1,315
Pooled Investments		
UK Government Index Linked Gilts	1,605,662	1,498,609
Fixed Income – Multi Strategy	996,010	743,395
UK Equity Listed	640,086	588,104
Overseas Equity Listed	250,229	0
Secured Loans	0	232,313
UK Property	65,500	60,604
Overseas Unit Trusts – Property	8,915	8,954
Absolute Return Funds	770,621	696,685
Investment Properties	396,370	352,701
Private Equity	194,995	183,905
Cash Deposits	112,070	169,882
Loans	2,375	5,052
Other investment balances:		
Outstanding dividends entitlements and withholding tax claims	4,504	4,284
Total	**5,589,111**	**5,336,529**
Investment Liabilities		
Derivative Contracts:		
Forward currency contracts	0	-30
Total	**5,589,111**	**5,336,499**

Cash balances were high in 2017-18 as they contained £25m pending investment in Arrowgrass and £45m in Blackstone.

During the year the Fund disinvested £99m from Baillie Gifford with a corresponding investment of £19m in LGIM Index linked gilts and £29m in Bluebay, and the remaining balance was held in cash pending investment in the new year. This reflected a standard rebalancing within the portfolio to bring actual asset allocations back within an agreed threshold.

As part of the Government's asset pooling initiative, the Fund also disinvested £250m from Baillie Gifford and transferred it to the LGPS Central Active Equity Fund which is a pooled investment fund made up of three managers Harris, Schroder and Union.

These changes have impacted upon the year on year comparison figures for UK listed and overseas listed equities, UK Government Index Linked Gilts, Fixed Income and Absolute Return funds.

Note 13a – Fixed Income Multi Strategy

The Fund has invested in three pooled fixed income investment vehicles managed separately by Janus Henderson Investors, BlueBay and M&G. During the year the Fund invested an additional £29m with Bluebay as part of a rebalancing exercise and a new commitment was made to the M&G Alpha Opportunities Fund. The market value invested with each manager as at the 31 March 2019 was; £352m in Janus Henderson Investors (£353m in 2017-18), £410m (£390m in 2017-18) in Bluebay and £236m in M&G Alpha Opportunities Fund (Nil in 2017-18). 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 managers may use derivative instruments to manage its exposure to specific risks arising from its investment activities.

Note 13b – Absolute Return Funds	Strategy	2018-19 £000	2017-18 £000
Blackstone	Hedge Fund of Funds	346,058	295,388
Arrowgrass Capital Partners	Multi Strategy Hedge Fund	260,424	236,238
Winton Capital	Multi Strategy Hedge Fund	164,139	165,059
Total		**770,621**	**696,685**

Note 13c – Private Equity	Number of Funds	2018-19 £000	2017-18 £000
Adam Street Partners	18	81,995	78,067
Pantheon Ventures	10	111,580	104,367
Lexington	1	1,420	1,471
Total	**29**	**194,995**	**183,905**

Note 13d – Loans

The Fund has committed £50m to the M&G UK Financing Fund which is a limited partnership whose investment objective was to take advantage of difficulties in the UK banking sector and lend monies to UK FTSE350 companies through senior debt and equity linked instruments. As at the 31st March 2019 £32m of this commitment had been drawn down and the Fund had received £37m in distributions. The market value as at 31 March 2019 was £1.660m (31 March 2018 £2.176m).

The Fund has also committed £30m to the M&G Debt Opportunities Fund which aims to take advantage of discrete market opportunities that arise over time. As at the 31 March 2019 the full £30m of the commitment had been drawn down. The market value as at 31 March 2019 was £30k (31 March 2018 £2.191m). The reduction in the value of this investment reflects that the Fund has received distributions of paid in capital and profit.

Also included in loans is £685k loan advanced to LGPS Central Ltd and interest accrued on the loan for the year totalling £43k. The loan is held at amortised cost in the statement of accounts at a value of £728k at 31 March 2019 (31 March 2018 £685k).

Note 13e – Cash	2018-19 £000	2017-18 £000
Cash Deposits	20,193	47,193
Cash Instruments	91,877	122,689
Total	**112,070**	**169,882**

Note 13f – Reconciliation of movements in Investments and Derivatives

	Fair Value at 31 March 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	**Fair Value at 31 March 2019**
	£000	£000	£000	£000	**£000**
Pooled Investment Vehicles	**3,131,979**	540,451	-238,565	132,537	**3,566,402**
Equities	**792,041**	130,444	-467,645	86,934	**541,774**
Absolute Return Funds	**696,685**	1,254,910	-1,192,673	11,699	**770,621**
Investment Properties	**352,701**	39,455	0	4,214	**396,370**
Private Equity	**183,905**	29,389	-46,160	27,861	**194,995**
Loans	**5,052**	0	-2,665	-12	**2,375**
	5,162,363	1,994,649	-1,947,708	263,233	**5,472,537**
Derivative Contracts:	**0**	3	-2	-1	**0**
	5,162,363	1,994,652	-1,947,710	263,232	**5,472,537**
Cash and Cash Equivalents	**169,882**		-56,533	-1,279	**112,070**
	5,332,245	1,994,652	-2,004,243	261,953	**5,584,607**
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	**4,284**				**4,504**
	5,336,529	**1,994,652**	**-2,004,243**	**261,953**	**5,589,111**
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	**-30**				**0**
Net Investments	**5,336,499**	**1,994,652**	**-2,004,243**	**261,953**	**5,589,111**

	Fair Value at 31 March 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	**Fair Value at 31 March 2018**
	£000	£000	£000	£000	**£000**
Pooled Investment Vehicles	**2,592,362**	710,293	-249,140	78,464	**3,131,979**
Equities	**1,001,050**	113,210	-476,667	154,448	**792,041**
Absolute Return Funds	**724,581**	142,478	-206,132	35,758	**696,685**
Investment Properties	**293,350**	52,015	-18,451	25,787	**352,701**
Private Equity	**201,246**	21,366	-40,162	1,455	**183,905**
Loans	**18,379**	691	-16,485	2,467	**5,052**
	4,830,968	1,040,053	-1,007,037	298,379	**5,162,363**
Derivative Contracts:	**0**	10	-6	-4	**0**
Forward currency contracts	**0**				**0**
	4,830,968	1,040,063	-1,007,043	298,375	**5,162,363**
Cash and Cash Equivalents	**144,096**	8,993		16,793	**169,882**
	4,975,064	1,049,056	-1,007,043	315,168	**5,332,245**
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	**5,387**				**4,284**
	4,980,451	**1,049,056**	**-1,007,043**	**315,168**	**5,336,529**
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	**-139**				**-30**
Net Investments	**4,980,312**	**1,049,056**	**-1,007,043**	**315,168**	**5,336,499**

Note 14 – Analysis of Derivatives	**Asset 2018-19 £000**	**Liability 2018-19 £000**	**Asset 2017-18 £000**	**Liability 2017-18 £000**
Forward Foreign Exchange Contracts	0	0	0	-30
Total	**0**	**0**	**0**	**-30**

2017-18 Forward Foreign Exchange Contracts

Contract	**Settlement Date**	**Currency Bought**		**Currency Sold**		**Asset**	**Liability**
		£000		**£000**		**£000**	**£000**
Forward OTC		5,666	GBP	8,000	USD	0	-30
Total Derivatives						0	-30

The Fund did not undertake any currency hedging activity in 2018-19.

Note 15 – 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 2019 the Fund earned £581k (£378k 2017-18) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £61.9m (£80.4m 2017-18) and the value of collateral held was £66m (£85m 2017-18).

Note 16 Property Holdings

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

Note 16a – Property Income	2018-19 £000	2017-18 £000
Rental Income	22,536	21,708
Rental Income Accruals	-15	-32
Rental Adjustment on Sale	-121	585
Direct Operating Expenses	-3,239	-2,621
Balance at the end of the year	**19,161**	**19,640**

Note 16b – Fair Value of Investment Properties	2018-19 £000	2017-18 £000
Balance at the start of the year	352,701	293,350
Additions	40,272	49,075
Disposals	0	-12,550
Net gain/loss on fair value	3,397	22,826
Balance at the end of the year	**396,370**	**352,701**

The Fund bought two properties in the year, both were office buildings based in London.

At the year-end there were no amounts of restrictions on the realisability of investment property or the remittance of income on proceeds of disposals.

Contractual obligations for development, repairs and maintenance amounted to £3.9m (£2.2m in 2017-18). There were no obligations to purchase new properties.

Note 16c – 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:

Age profile of lease income	**2018-19 £000**	**2017-18 £000**
No later than one year	1,924	921
Between one and five years	4,649	8,091
Later than five years	10,757	11,794
Total	**17,330**	**20,806**

The above disclosures have been reduced by a credit loss allowance of 3% per annum reflecting the fund's expected loss from late or non-recovery of rents from tenants. This has been based on the funds own historic experience but also information on similar properties received from the funds property letting agents.

With regards to the properties owned and leased by the Fund, all are leased to the 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.

Note 17 – Investment by Fund Manager	2018-19 £000	2018-19 %	2017-18 £000	2017-18 %
Investments managed by LGPS Central Limited Asset Pool:				
Harris	88,431	1.6	0	0.0
Union	84,077	1.5	0	0.0
Schroders	77,721	1.4	0	0.0
LGPS Central Limited Asset Pool	2,043	0.0	2,000	0.0
Total	**252,272**	**4.5**	**2,000**	**0.0**
Investments managed outside of LGPS Central Limited Asset Pool:				
Legal & General	2,245,747	40.2	2,086,680	39.1
Baillie Gifford & Co	549,518	9.8	804,519	15.1
Bluebay	409,743	7.3	390,436	7.3
Patrizia	407,008	7.3	362,947	6.8
Henderson	352,271	6.3	352,959	6.6
Blackstone	346,058	6.2	295,388	5.5
Arrowgrass Capital Partners	260,424	4.7	261,239	4.9
M&G Investments	237,245	4.2	238,380	4.5
Winton Capital	164,139	2.9	165,059	3.1
Pantheon Ventures	111,580	2.0	104,367	2.0
Adams Street Partners	81,995	1.5	78,067	1.5
Darwin	65,500	1.2	60,604	1.1
Och Ziff Capital Management	0	0.0	5,531	0.1
Fidelity (Money Market)	38,264	0.7	42,400	0.8
Deutsche Bank (Money Market)	40,578	0.7	42,682	0.8
Bank of New York Mellon	25,207	0.5	41,577	0.8
Lexington Capital Partners	1,420	0.0	1,471	0.0
GMO	142	0.0	193	0.0
Total	**5,336,839**	**95.5**	**5,334,499**	**100.0**
Total	**5,589,111**	**100.0**	**5,336,499**	**100.0**

During the year the Fund invested £25m in Arrowgrass Capital Partners and Blackstone as a result of a rebalancing exercise approved in late 2017-18.

A further rebalancing exercise in this year led to the Fund also disinvesting £99m from Baillie Gifford with a corresponding investment of £19m in LGIM Index linked gilts and £29m in Bluebay and the remaining balance was held in cash pending investment in the new year.

As part of the government’s asset pooling initiative the Fund also disinvested £250m from Baillie Gifford and transferred it to the LGPS Central Global Active Equity Fund which is a pooled investment fund made up of three managers Harris, Schroder and Union.

Note 17a – Concentrations 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. Six investments fall into this category as follows:

Security Description	Market Value 31-Mar-19 £000	% of Total Fund	Market Value 31-Mar-18 £000	% of Total Fund
Legal & General - Over 5 Yr Index Linked Gilts	1,605,661	28.73%	1,498,609	28.08%
Bluebay - Total Return Diversified Fund	409,743	7.33%	390,436	7.32%
Janus Henderson - Total Return Bond	352,271	6.30%	352,959	6.61%
Blackstone Partners - Class A1 Initial Series	346,058	6.19%	295,388	5.54%
Legal & General - World Equity Index	324,201	5.80%	291,804	5.47%
Legal & General - FTSE RAFI AW 3000 Equity Index	315,885	5.65%	296,300	5.55%

Note 18 – Fair Value – Basis of Valuation

The basis of the valuation of each asset 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 occuring 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 Colliers International in accordance with the RICS valuation professional standards	Existing lease terms and rentals Indepdendent 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 occuring 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

Sensitivity of Assets Valued at Level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio value as at 31 March 2019. 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 that 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 also 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

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial and Non-financial Assets				
Fair value through profit and loss	1,383,389	3,380,434	706,714	5,470,537
Total Assets	**1,383,389**	**3,380,434**	**706,714**	**5,470,537**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	0	0	0
Total Financial Liabilities	**0**	**0**	**0**	**0**
Net Assets	**1,383,389**	**3,380,434**	**706,714**	**5,470,537**

The following assets have been carried at cost:

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Investments in LGPS Central Ltd	0	0	1,315	1,315
Investments held at cost	**0**	**0**	**1,315**	**1,315**

The comparative tables for 31 March 2018 have been amended within level 3 to split out the Investment in LGPS Central Ltd which was also valued at cost in 2017-18.

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial and Non-financial Assets				
Fair value through profit and loss	1,375,904	3,176,581	608,563	5,161,048
Total Assets	**1,375,904**	**3,176,581**	**608,563**	**5,161,048**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-30		-30
Total Financial Liabilities	**0**	**-30**	**0**	**-30**
Net Assets	**1,375,904**	**3,176,551**	**608,563**	**5,161,018**

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Investments in LGPS Central Ltd	0	0	1,315	1,315
Investments held at cost	**0**	**0**	**1,315**	**1,315**

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 2018 Restated	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains /(Losses)	Realised Gains /(Losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed income	10,212					25,436		35,648
Secured Loans	-	1,690						1,690
Absolute return funds	66,462					15,208		81,670
Private equity	179,188					12,147		191,335
Property	352,701			40,272			3,398	396,371
	608,563	**1,690**	**-**	**40,272**	**-**	**52,791**	**3,398**	**706,714**

The market value at 1 April 2018 is restated from the closing balance shown in the 2017-18 Statement of Accounts to exclude the investment in LGPS Central Ltd valued at cost.

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 assets were reclassified during the accounting period.

Note 18d – Classification of Financial Instruments

	Fair value through profit and loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	31 March 2019			31 March 2018		
	£000	£000	£000	£000	£000	£000
Financial Assets						
Pooled Investments	3,566,402			3,131,979		
Equities	541,774			792,041		
Absolute Return Funds	770,621			696,685		
Private Equity	194,995			183,905		
Loans	1,690	728		5,052		
Cash		111,042			169,295	
Other Investment balances		4,147			3,970	
Debtors		27,716			28,947	
	5,075,482	**143,633**		**4,809,662**	**202,212**	
Financial Liabilities						
Derivative contracts	0			-30		
Creditors			-10,117			-7,052
TOTAL	**5,075,482**	**143,633**	**-10,117**	**4,809,632**	**202,212**	**-7,052**

Note 18e – Net Gains and Losses on Financial Instruments

	2018-19 £000	2017-18 £000
Financial Assets		
Fair value through profit and loss	259,031	270,125
Loans and receivables	0	19,311
Financial Liabilities		
Fair value through profit and loss	-1	-434
Loans and receivables	-1,291	
Total	**257,739**	**289,002**

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

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 the fund's 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 Funds 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 administering authority has determined that the following movements in market price risk are reasonably possible for the 2019-20 reporting period:

Asset Type	Potential market movements
	% (+ / -)
Private Equity	25.8
Global Equities - Emerging	29.4
Global Equities - Developed	19.4
UK Equities	17.8
Property Unit Trusts	14.8
High Yield	10.2
Absolute Return Funds	7.9
Corporate Bonds	3.5
Government Bonds	8.6
Cash	4.2

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 2019	Percentage Change	Change in Value on increase	Change in Value on decrease
	£000	%	£000	£000
Government Bonds	2,015,405	8.6	173,325	-173,325
Global Equities - Developed	1,094,504	19.4	212,334	-212,334
Absolute Return Funds	770,621	7.9	60,879	-60,879
Corporate Bonds	417,771	3.5	14,622	-14,622
Global Equities - Emerging	246,358	29.4	72,429	-72,429
High Yield	235,685	10.2	24,040	-24,040
Private Equity	194,995	25.8	50,309	-50,309
Cash	126,546	4.2	5,315	-5,315
UK Equities	74,409	17.8	13,245	-13,245
Property Unit Trusts	8,915	14.8	1,319	-1,319
Investment Income Due	4,147	0.0	0	0
Equities - LGPS Central Ltd	1,315	0.0	0	0
Loans - LGPS Central Ltd	728	0.0	0	0
Net Derivative Assets	0	0.0	0	0
Total assets available to pay benefits	**5,191,399**		**627,817**	**-627,817**

The above table excludes direct property.

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 or 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 direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial asset at fair value:

Asset Type	2018-19	2017-18
	£000	£000
Corporate and Government Bonds	2,603,230	2,242,004
Cash and cash equivalents	33,254	59,814
Cash balances	78,816	85,068
Total	**2,715,300**	**2,386,886**

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The £2,603m fair value of the bond mandates managed by Janus Henderson Investors, BlueBay, Legal and General and M & G Alpha Opportunities Fund are particularly sensitive to movements in interest rates. This sensitivity is measured by their duration of 5.84, 4.33, 24.7 and 4.24 years respectively.

A 1% increase in the prevailing level of interest rates would decrease the aggregate fair value of these mandates by £444.9m (£402.5m in 2017-18). Likewise a 1% decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

The UK Financing Fund loans and Debt Opportunities Fund managed by M and G are typically structured with a floating rate payment structure, whereby a fixed basis point spread is paid over the prevailing reference rate, typically 3 month LIBOR or EURIBOR. As a result, there is negligible interest rate risk involved in these investments. However, the total interest earned on investments will vary from time to time with changes in the underlying reference rate.

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 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 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		33,254		
Cash Balances		78,816		
Fixed Income- M&G	4.24	235,555	9,988	- 9,988
Fixed Income - Janus Henderson	5.84	352,271	20,573	- 20,573
Fixed Income - BlueBay	4.33	409,743	17,742	- 17,742
Fixed Income - Legal and General	24.7	1,605,661	396,598	- 396,598
Total change in assets available		**2,715,300**	**444,901**	**- 444,901**

Asset Type	Duration	Carrying amount at 31 March 2018	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		84,814		
Cash Balances		85,068		
Fixed Income - Janus Henderson	4.9	352,959	17,648	- 17,648
Fixed Income - BlueBay	3.56	390,436	11,713	- 11,713
Fixed Income - Legal and General	24.9	1,498,609	373,154	- 373,154
Total change in assets available		**2,411,886**	**402,515**	**- 402,515**

Income Source	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	366	1	-1
Fixed Income Securities		3,732		
Total change in assets available		**4,098**	**1**	**-1**

Income Source	Duration	Carrying amount at 31 March 2018	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	261	1	-1
Fixed Income Securities		7,346		
Total change in assets available		**7,607**	**1**	**-1**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will 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 sterling 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 2019 and 31 March 2018:

Currency Exposure - Asset Type	**Gross Exposure**	**Hedging Exposure**	**Net Exposure**
2018-19	**£000**	**£000**	**£000**
Overseas Listed Equities	782,198		782,198
Overseas Unquoted Securities	194,995		194,995
Absolute Return Funds Overseas Fixed Interest	0	-4	-4
Overseas Unit Trusts	9,076		9,076
Total	**986,269**	**-4**	**986,265**

Currency Exposure - Asset Type	**Gross Exposure**	**Hedging Exposure**	**Net Exposure**
2017-18	**£000**	**£000**	**£000**
Overseas Listed Equities	786,252		786,252
Overseas Unquoted Securities	183,903		183,903
Absolute Return Funds Overseas Fixed Interest	5,531	-5,789	-258
Overseas Unit Trusts	9,115		9,115
Total	**984,801**	**-5,789**	**979,012**

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 is considered reasonable based on the fund's 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 pound 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	
	2018-19	+13%	-13%
	£000	£000	£000
Overseas Listed Equities:	**782,198**	**101,685**	**-101,685**
Of which from United States Dollar	363,007	47,191	-47,191
Of which from Japanese Yen	16,970	2,206	-2,206
Of which from Hong Kong Dollar	44,319	5,761	-5,761
Of which from Swedish Krona	3,567	464	-464
Of which from Swiss Franc	5,294	688	-688
Of which from Danish Krone	2,788	362	-362
Of which from South African Rand	11,430	1,486	-1,486
Of which from other currencies	334,823	43,527	-43,527
Overseas Unquoted Securities:	**194,995**	**25,349**	**-25,349**
Of which from USD	178,161	23,161	-23,161
Of which from EUR	16,834	2,188	-2,188
Absolute Return Funds Overseas:			
Of which from USD*	-4	0	0
Overseas Unit Trusts:			
Of which from EUR	9,076	1,180	-1,180
Total	**986,265**	**128,214**	**-128,214**

Net Currency Exposure - Asset Type	Asset Values	Change to net Assets available to pay benefits	
	2017-18	+13%	-13%
	£000	£000	£000
Overseas Listed Equities:	**786,251**	**102,215**	**-102,215**
Of which from United States Dollar	527,936	68,632	-68,632
Of which from Japanese Yen	29,307	3,810	-3,810
Of which from Hong Kong Dollar	53,520	6,958	-6,958
Of which from Swedish Krona	12,482	1,623	-1,623
Of which from Swiss Franc	10,321	1,342	-1,342
Of which from Danish Krone	4,850	631	-631
Of which from South African Rand	15,990	2,079	-2,079
Of which from other currencies	131,845	17,140	-17,140
Overseas Unquoted Securities:	**183,903**	**23,907**	**-23,907**
Of which from USD	162,015	21,062	-21,062
Of which from EUR	21,888	2,845	-2,845
Absolute Return Funds Overseas:			
Of which from USD*	-258	-33	33
Overseas Unit Trusts:			
Of which from EUR	9,115	1,185	-1,185
Total	**979,011**	**127,274**	**-127,274**

*The Fund previously hedged its US Dollar exposure for assets held by Och Ziff

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 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 Funds 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 three mandates as measured by the credit rating of external agencies is summarised in the table below:

S&P Quality Rating	Fair Value 2018-19	Value of Fixed
	£000	£000
AAA	135,147	5.0
AA	1,639,968	64.0
A	86,634	3.0
BBB	341,092	13.0
Below BBB	308,004	12.0
Cash	61,632	0.0
NR	2,959	2.0
Loans	27,794	1.0
Total	**2,603,230**	**100.0**

S&P Quality Rating	Fair Value 2017-18	Value of Fixed
	£000	£000
AAA	90,005	4.0
AA	1,529,578	68.0
A	85,759	4.0
BBB	91,783	4.0
Below BBB	325,654	15.0
Cash	93,852	4.0
NR	6,667	0.0
Loans	18,707	1.0
Total	**2,242,005**	**100.0**

Secured Loans

During 2018-19 the Fund transferred its investment in the M & G European Loan Fund to a multi strategy fixed income investment in M & G Alpha Opportunities Fund. The investment vehicles managed by Janus Henderson, Bluebay and M & G Alpha Opportunities all have the ability to invest in secured loans, however their exposure to credit risk is covered in the above multi asset disclosure. The below disclosure relates solely to the Funds previous investment in the M &G European Loan Fund.

2017-18 Rating	Fair Value £000	Value of Assets
BB+	6,969	3.0
BB	18,585	8.0
BB-	46,463	20.0
B+	39,493	17.0
B	95,248	41.0
B-	23,231	10.0
NR	2,323	1.0
Total	**232,312**	**100.0**

Deposits were not made with banks and financial institutions unless they were rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of its funds 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 in the Fund’s history. The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £78.8m (31 March 2018 £85.1m) 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.

2018-19 Counterparty	Moodys Rating	£000	% of cash balances
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	32,227	28.8
Fidelity Worldwide Investment (Money Market)	Aaa-mf	38,263	34.1
Deutsche Bank Advisors (Money Market)	A3	40,552	36.2
Cash in Transit	NR	1,028	0.9
Total		**112,070**	**100.0**

2017-18 Counterparty	Moodys Rating	£000	% of cash balances
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	84,227	49.6
Fidelity Worldwide Investment (Money Market)	Aaa-mf	42,400	25.0
Deutsche Bank Advisors (Money Market)	Baa2	42,668	25.1
Cash in Transit	NR	587	0.3
Total		**169,882**	**100.0**

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 2019 the value of illiquid assets was £204m, which represented 3.65% of the total fund assets (31 March 2018 £199m which represented 3.72% of the total fund assets).

In terms of liquidity risk, the Fund had £112.1m (2017-18 £169.9m) of cash balances as at 31 March 2019 and net current assets of £8.3m (-£8.1m in 2017-18). The Funds net cash flow, before taking account of investments and excluding management expenses, as at 31 March 2019 was -£19.5m (+£39.7m in 2017-18) income from investments support the negative 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.

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 periodic 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 2019	% of Fair Value of collateral 31 March 2019	Fair Value of collateral 31 March 2018	% of Fair Value of collateral 31 March 2018
Moody's rating	**£000**	**%**	**£000**	**%**
Aaa	22,395	34	15,823	19
Aa1	2,370	4	2,576	3
Aa2	41,230	62	66,576	78
Grand Total	**65,995**	**100**	**84,975**	**100**
Value of Stock on Loan	**61,928**		**80,364**	

During the year ended 31 March 2019 the Fund earned £581k (£378k 2017-18) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £61.9m (£80.4m 2017-18) and the value of collateral held was £66m (£85m 2017-18).

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 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure long-term solvency of the fund and of the share of the Fund attributable to individual employers;
- 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 different 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 a period of 20 years 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 2016 valuation, the fund was assessed as 90% funded (82% at the March 2013 valuation). This corresponded to a deficit of £467m (2013 valuation: £723m) 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 employers' contributions for the period 1 April 2017 to 31 March 2020 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:

Financial assumptions	**Real**
Discount rate	3.80%
Salary increase assumption	2.40%
Benefit Increase assumption (CPI)	2.10%

Longevity assumptions

	Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**
Current Pensioners	22.3 Years	24.5 Years
Future Pensioners*	23.9 Years	26.5 Years

*Aged 45 at the 2016 Valuation

Note 21 – Actuarial value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018-19 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

	2018-19 £000	2017-18 £000
Long Term Debtors:		
Contributions due - Employers	5,828	10,143
Reimbursement of lifetime tax allowances	254	0
Sundry Debtors	235	470
Total	**6,317**	**10,613**

The Fund has long term debtors for early retirement contributions from scheme employers who have the option of paying over five years, The sundry debtors figure relates to a settlement from Magistrates Courts of £2.351m which is being paid in equal instalments over 10 years (the first payment of £277k was received in 2010-11), discounted at 3.76%. Both have been included at present value.

Note 23 – Current Assets	2018-19 £000	2017-18 £000
Current Debtors and cash:		
Contributions due - Employers	15,114	12,167
Contributions Due - Employees	2,950	2,843
Sundry Debtors	1,262	1,115
Provision for Doubtful Debt	-367	-173
Cash balances	2,440	2,382
Total	**21,399**	**18,334**

The current debtors figures includes contributions which were due in March but not received until after the year end and, outstanding dividend entitlements and recoverable withholding tax claims relating to investments.

Note 24 – Current Liabilities	2018-19 £000	2017-18 £000
Sundry Creditors	7,530	4,790
Benefits Payable	2,587	2,262
Provisions	40	0
Receipts in Advance	2,860	3,175
Total	**13,017**	**10,227**

Note 25 – Additional Voluntary Contributions (AVCs)

During 2018-19 the AVC providers to the members of the Fund were Scottish Widows, Standard Life and Equitable Life. From the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund.

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 Equitable Life for the year to 31 March 2019 is shown below, along with a prior year comparator.

	Scottish Widows £000	Standard Life £000	Equitable Life £000	Total £000
Contributions received in year 2019	723	308	2	**1,033**
Contributions received in year 2018	420	268	2	**690**
Fair value at 31 Mar 2019	3,210	3,023	509	**6,742**
Fair value at 31 Mar 2018	3,243	2,779	509	**6,531**

With effect from the 1 April 2019 Standard Life replaced Scottish Widows as the Fund's AVC provider. Members of the Fund with an existing AVC with Scottish Widows have all been given the option to transfer their AVC to Standard Life. Standard Life will be the Funds only AVC provider that new members can pay into with effect from 1 April 2019.

Note 26 – Related Party Transactions

The Fund is administered by Cheshire West and Chester Council. Consequently there is a strong relationship between the Council and the Fund. 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 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 2018-19 the Fund paid £2.2k to the Council for interest accrued on these balances.

The Council is one of the largest employers and contributed £22.1m into the Fund in 2018-19 (2017-18 £20.9m). At the year end, a balance of £12.999m (2017-18 £13.513m) was due to the Fund from the Council, primarily relating to early retirement costs which will be repaid over more than one year and also contributions which were paid in April but became due in March. A balance of £1.5m was owed to the Council (2017-18 £0.9m owing from the Council) for Fund transactions processed through the Administering Authority's accounts payable and receivable systems.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds 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 £1,315k in share capital and granted a loan of £685k to LGPS Central Ltd. In 2018-19 interest of £43k accrued on the loan balance to give a balance at the end of the year of £728k, the share capital was valued at cost at the end of the year at £1,315k. Investments managed by LGPS Central Ltd as at 31 March 2019 are disclosed in Note 17 to the accounts. Further transfers totalling approximately £585m from existing investment assets into LGPS Central Ltd were approved by the Pension Fund Committee in March 2019 these are expected to take place in 2019-20, no contractual commitment was in place as at 31 March 2019.

During the year the Fund incurred charges for the running costs of LGPS Central Ltd totalling £861k (2017-18: Nil) set up costs nil (2017-18 £426k). The Fund also received a refund of the set up costs paid to LGPS Central Ltd in 2016-17 and 2017-18 of £502k.

Investment management fees of £46k (2017-18 Nil) were incurred on the Fund's investments managed by LGPS Central Ltd.

The Administering Authority incurred costs of £2.188m to administer the Fund in 2018-19 (2017-18 £2.147m) as well as £1.271m for oversight and governance costs (2017-18 £1.213m) 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 member body of the Pension Fund.

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

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 will 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.

Governance

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council with lead officer responsibility delegated to the Chief Operating Officer, who undertakes the day to day management of the Fund. The Chief Operating Officer is advised, with regard to investment matters, by the Pension Fund Committee and external advice from Mercer. The fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee.

The Local Pension Board was established under the Council's constitution 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 1st April 2014. As a consequence all councillors ceased membership of the scheme from 12th May 2015 including those members of the Pension Fund Committee who had been active members of the Scheme.

There are six members of the Committee who are in receipt of pension benefits from the Fund (Councillor M. Hogg, Councillor C. Gahan, Councillor B. Crowe, Councillor D. Beckett, 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 2019.

There are three members of the Local Pension Board who were active members of the Fund as at 31 March 2019; 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 strictly 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.

Key Management Personnel

The key management personnel of the Fund are the Chief Operating Officer and the Pension Fund Manager.

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

	31-Mar-19 £000	31-Mar-18 Restated £000
Short term benefits	112	108
Long term/post-retirement benefits	2,356	2,090
Total	**2,468**	**2,198**

The 31 March 2018 figure has been restated to exclude the pension liability element of the Director of Resources whose post was removed in 2014-15 following an organisational restructure. Although the pension liability for this post remains in the Fund, it is not required to be included in the disclosure above as this person is no longer a member of the Fund's Key Management Personnel.

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

Note 27 – Contingent Liabilities and Contractual Commitments

A legal ruling has been made regarding age discrimination arising from pension scheme transitional arrangements. Court of Appeal judgements were made in cases affecting judges pensions (e.g. McCloud) and firefighter pensions (e.g. Sargeant) which had previously been considered by employment tribunals. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government has requested leave to appeal to the Supreme Court and therefore the outcome is highly uncertain. If the appeal is unsuccessful, there is likely to be an increase in the cost of the LGPS benefits.

The Fund's actuary has estimated the impact on the whole fund liabilities as at 31 March 2018 is an increase of up to 0.9%, with a central estimate of 0.2%. The impact at 31 March 2019 would be slightly higher as the extra year of accrual means that CARE liabilities represent a greater proportion of the total. The actuary has estimated an impact of 0.3% is appropriate at

31 March 2019. This corresponds to an increase to the present value of promised retirement benefits, on the IAS26 basis at 31 March 2019, of around £20m.

These numbers are high level estimates based on fund level calculations and depend on several key assumptions. The possible range is based on different salary growth and retirement age scenarios and illustrates the level of uncertainty in the figures. The upper end of the range shown is not a definitive limit and the true impact could be higher. Due to the high level of uncertainty involved it is therefore considered appropriate to include this item as a contingent liability. A full description of the data, methodology and assumptions underlying these estimates can be provided on request.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place, specifically the 'stabilisation' mechanism which slows down changes in contribution rates. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

The Fund has contractual commitments to the value of £679m (2017-18 £559m) in private equity funds.

During 2018-19 the Fund made new commitments to three private equity funds. $79m to Pantheon split $55m to the Global Select 2018 Fund, $8m to the Global Co-investment Opportunities IV Fund and $16m to the Global Secondary Fund 6. The Fund also made another $26m investment to the Adams Street Partners Secondaries 6 Fund and a £22m commitment to the LGPS Central Global Equity Fund 2018. 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 2019 the Fund had actually invested £409m (2017-18 £369m) and therefore had an outstanding commitment of £270m (2017-18 £190m). 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 25 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 13 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 £7m. 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.

Note 29 – Impairment for Bad and Doubtful Debts

During 2018-19 the Fund has recognised bad and doubtful debts of £367k (£173k in 2017-18) 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 Investment Strategy Statement replaces the Fund's Statement of Investment Principles.

A full copy of the ISS can be obtained from the Pensions Section, Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP or from the Fund's website at: 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 for the Cheshire Pension Fund can be obtained from the Pensions Section, Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP or from the Fund's website at: www.cheshirepensionfund.org

Employers that have contributed into The Cheshire Pension Fund and their applicable Investment Strategy for the financial year ending 31 March 2019.

Major Scheme Employers	Strategy
Cheshire West and Chester Council	B
Cheshire East Council	A
Cheshire Fire Authority	B
Halton Borough Council	B
Warrington Borough Council	B
Police and Crime Commissioner	B

Admitted Bodies	Strategy
Sir John Deanes College	B
ANSA Environmental Services	A
Orbitas Bereavement Services	A
Livewire	B
Warrington Cultural Trust	B
Canal and River Trust (Waterways Trust)	C
Cheshire Community Action	B
Adoption Matters	B
Warrington Voluntary Action	A
David Lewis Centre	C
Middlewich Joint Cemetry	B
Warrington Housing Association	B
Cheshire and Warrington Sports Partnership	B
Care Quality Commission	C
Norton Priory Museum Trust	B
The King's School Chester	B
University Of Chester	B
Silk Museum Trust	A
Deafness Support Network	C
Warrington Community Living	B
Belong Limited	C
Cheshire CC Sports Club	C
PlusDane (Cheshire) Housing Association	B
Weaver Vale Housing Trust	B
Hochtief	B
Tarmac Trading Limited	B
ISS Facility Services Ltd	B
Halton Housing Trust	C
Cheshire Peaks and Plains	B
School Food Company Ltd	B
Eric Wright EP Schools	B
Goldengates Housing Trust	B
Innovate Ltd Tytherington	B
Hall Cleaning Services	B
Compass (Chartwells Ltd)	B
Aspens Services Ltd - Brine Leas	B
Ringway Jacobs	B
RM Estates Ltd	B
Kier	B

Admitted Bodies - Continued	Strategy
Dataspire	B
Ringway Infrastructure	B
HQ Theatres	B
Bulloughs Collegiate	B
Catalyst Choices	B
Sanctuary Housing Association	C
Superclean - Ashdene	A
Superclean - Alsager	A
Turning Point Services Ltd	B
Taylor Shaw - Bridgemere	A
Bulloughs - Lymm	B
Skills and Growth Company	A
Churchill Services Ltd	B
Bridgewater High School Trading	B
PAM East	A
PAM West	B
The Guinness Partnership	B
Midshire Catering Ltd	A
Keys Care Limited	A
ForHousing	B
CG Cleaning - Great Sankey	B
Novus Networks Ltd	A
CWP NHS Trust	B
A M Services	A
Caterlink (Sandbach)*	A
Caterlink (Ruskin)*	A
Aspens Services - Upton by Chester	B
Verve People*	B
Torus 62*	C
Torus 62 (ComMutual)*	C

Other Employers	Strategy
Cheshire Magistrates Courts	D
Warrington Borough Transport	B
NW Fire Control Limited	B
Alderley Edge Parish Council	B
Northwich Town Council	B
Winsford Town Council	B
Nantwich Town Council	B
Knutsford Town Council	B
Penketh Parish Council	B
Bollington Town Council	B
Middlewich Town Council	B
Poynton Town Council	B
Disley Parish Council	B
Winwick Parish Council	B
Prestbury Parish Council	B
Nether Alderley Parish Council	B
Birchwood Town Council	B
Grappenhall and Thelwall Parish Council	B
Odd Rode Parish Council	B
Congleton Town Council	B
Frodsham Town Council	B
Sandbach Town Council	B
Priestley Sixth Form College	B
Macclesfield College	B
West Cheshire College	B
Reaseheath College	B
Mid Cheshire College	B
Wade Deacon High School	B
Crewe Town Council	B
Vivo Care Services Limited	B
Appleton Parish Council	B
Stockton Heath Parish Council	B
Everybody Sport and Recreation	A
Mersey Gateway Crossing Board	B
Transport Services Solutions Limited	A
Riverside College	B
Poulton with Fearnhead Parish Council	B
Neston Town Council	B
Brio Leisure (CWaC CIC)	B
Wilmslow Town Council	B
Alsager Town Council	B
Handforth Parish Council	B
Holmes Chapel Parish Council	B
Lymm Parish Council	B
Wistaston Parish Council	B
Vision Support	C
Youth Federation	C

Other Employers - Continued	Strategy
Catering Academy - Warrington	B
Catering Academy - CoE Academy	B
Catering Academy - Weaverham	B
Liverpool Mutual Homes (Torus 62 LMH)	B
Civicance Ltd	A
Mack Trading (Heaton Park) Limited	B
QWest Services Limited	B
Macclesfield Town Council	B
Riverside Truck Rental Ltd	B
Your Housing Group	B
Edsential	B
UTC - Warrington	B
Delamere and Oakmere Parish Council	A
Hartford Parish Council	B
Crewe Engineering UTC	A
Avenue Services (NW) Ltd	B
West Cheshire Facilities Management	B
Cheshire College South and West	B
ENGIE	B
Kingsmead Parish Council	B
Warrington and Vale Royal College	B

Free Schools	Strategy
St Martins Academy	B
Grosvenor Park CoE Academy	B
Sandymoor School	B
Sandbach School	B

Academies	Strategy
The Catholic High School Chester	B
Rudheath Primary School	B
Birchwood High School	B
Penketh High School	B
Worth Primary School	A
St Thomas More Catholic High School	A
Stapeley Broad Lane	A
Leighton Academy	A
Cloughwood School	B
Holmes Chapel Primary School	A
Whirley Primary School	A
Alsager School	A
Sir William Stanier Community School	A
Over Hall Community School	B
Ash Grove Academy	A
Cranberry Academy	A
St Michaels Community Academy	A
Adelaide School	A
Parkroyal Community School	A
The Quinta Primary School	A
Weaverham Primary Academy	B
Cavendish High Academy	B
Wistaston Academy	A
The Hermitage Trust	A
Tytherington School	A
Pear Tree School	A
The Oak View Primary Academy	B
Bridgewater Park Primary School	B
Marlfields Primary Academy	A
St Bernards RC Primary School	B
Black Firs Primary School	A
Smallwood CoE Primary	A
Nether Alderley Primary School	A
Broken Cross Primary Academy	A
Mossley CoE Primary School	A
Ormiston Chadwick Academy	B
Bridgewater High School	B
University CoE Academy	B
Fallibroome Academy	A
Brine Leas High School	A
Ormiston Bolingbroke Academy	B
Winsford E-Act Academy	B
Sandbach High School & Sixth Form	A
Christleton High School	B
Bishops Blue Coat CoE High School	B
Congleton High School	A
Delamere Academy	B

Academies - Continued	Strategy
Mottram St Andrew Primary Academy	A
The Heath Academy	B
Palacefields Academy	B
Macclesfield Academy	A
Lacey Green Primary School	A
Holmes Chapel Comprehensive School	A
University Chester Academy Trust	B
Rudheath Senior Academy	B
Knutsford Academy	A
Neston High School	B
Tarporley High School and Sixth Form College	B
Eaton Bank Academy	A
Lymm High School	B
County High School Leftwich	B
Kelsall Primary School	B
King's Leadership Academy	B
Padgate Academy	B
Great Sankey High School	B
All Hallows Catholic College	A
Beamont Collegiate Academy	B
Wistaston Church Lane Academy	A
Boughton Heath Academy	B
Mill View Primary School	B
Widnes Academy	B
Hungerford Primary	A
St Paul's Catholic Primary School	A
St Alban's Catholic Primary School	A
Sandbach Primary Academy	A
Peover Superior Endowed Primary School	A
Ivy Bank Primary School	A
St Marys Catholic Primary School	A
St Augustines Catholic Primary School	B
Shavington Academy	A
The Berkeley Academy	A
Willaston Primary Academy	A
The Russett School	B
The Fermaine Academy	B
Nantwich Academy	A
Shavington Primary School	A
Upton Priory School	A
The Oaks Academy	A
Victoria Road Primary School	B
Wheelock Primary School	A
Monks Coppenhall Academy	A
Marlborough Primary School	A
Acton CE Primary Academy	A
Calveley Primary Academy	A

Academies - Continued	Strategy
Highfields Community Primary	B
St Johns Wood Community School	A
Gorseybank Primary School	A
Wilmslow Academy	A
Daresbury Primary School	B
Underwood West Academy	A
Adlington Primary Academy	A
Bruche Primary School	B
Evelyn Street Primary School	B
Penketh Primary School	B
Bunbury Aldersey CoE Primary School	A
Queens Park High School	B
Great Sankey Primary School	B
St Oswalds Worleston Primary School	A
Warmingham CoE Primary School	A
Sir Thomas Boteler High School	B
Offley Primary Academy	A
Barnton Primary School	B
Wybunbury Delves Primary School	A
Gawsworth Primary School	A
Beamont Primary School*	B
Puss Bank School	A
Burtonwood Community Primary School	B
Chapelford Village Primary School	B
Park Road Community Primary School	B
Westbrook Old Hall Primary School	B
The Grange School	B
New Horizons School*	B
Upton Heath CoE Primary School	B
Little Sutton CoE Primary School	B
Clutton CoE Primary School	B
Brereton CoE Primary School	A
Excalibur Primary School*	A
Pikemere School*	A
Weston Village Primary School*	A
Penketh South Primary School*	B
Parklands Community Primary School*	B
Wolverham Primary and Nursery School*	B
Childer Thornton Primary School*	B
Brookfields School*	B
Alderman Bolton Community Primary School*	B
Lostock Hall Primary School*	A
Glazebury Primary School*	B
Hollins Green St Helens CoE Primary School*	B
Poynton High School*	A
Egerton Primary School*	A
Grange Community Nursery and Primary School*	B

Academies - Continued	Strategy
Astbury St Marys CoE Primary School*	A
Handforth Grange Community Primary School*	A

*Employers who joined the fund during 2018-19

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 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 2019	31 March 2018
Active members (£m)	3,832	3,129
Deferred members (£m)	1,220	1,139
Pensioners (£m)	2,370	2,352
Total (£m)	**7,422**	**6,620**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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 above 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 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £530m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.3 years	24.5 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.9 years	26.5 years

Please note that the longevity assumptions have not 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 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	7%	547
0.5% p.a. increase in the Salary Increase Rate	2%	131
0.5% p.a. decrease in the Real Discount Rate	10%	729

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 2019 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:-

Gemma Sefton FFA

26 April 2019

For and on behalf of Hymans Robertson LLP