

CHESHIRE PENSION FUND – 2019-20 DRAFT STATEMENT OF ACCOUNTS and OUTTURN

Introduction

1. This report provides the Committee with an overview of the draft Statement of Accounts for 2019-20.
2. The report also includes the outturn position for the Fund's administration budget for the 2019-20 financial year.

Recommendation

3. The Committee are requested to:
 - Provide any comment on the Cheshire Pension Fund draft Statement of Accounts for the year ending 31 March 2020
 - Subject to any comments made, recommend that the draft Statement of Accounts are presented to the Audit and Governance Committee following completion of the audit, and
 - Note the outturn position for 2019-20.

2019-20 Draft Statement of Accounts

4. Attached at Appendix A is the draft Statement of Accounts for the Cheshire Pension Fund for the year to 31 March 2020. The accounts have been prepared in accordance with CIPFA guidelines and statutory requirements.
5. Appendix B provides the accompanying report from the actuary, Hymans Robertson, detailing the actuarial present value of promised retirement benefits.
6. Cheshire West and Chester Council (CW&C), as the Administering Authority for the Fund, will publish the Fund's accounts in its final Statement of Accounts for 2019-20. The accounts will also be included in the Fund's Annual Report.
7. In recognition of its importance in the functioning of local government, CW&C's appointed external auditor Grant Thornton treat the audit of the 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 Fund.
8. As a result of the impact of Covid-19, Government has changed the statutory accounting and audit deadlines for 2019-20. The deadline for the production of draft Statement of Accounts has been extended from 31 May to 31 August. The



deadline for auditing the Statement of Accounts has been extended from 31 July to 30 November.

9. However, the Pensions Finance team has successfully kept to the usual deadline of producing the Statement of Accounts by 31 May to enable resource to focus on the team's ongoing workload, including monitoring employer contribution flows as the impact of the Coronavirus continues.
10. The local timetable for the production of the Statement of Accounts is shown below.

Date	Action
2 June	Draft accounts reviewed by the Local Pension Board prior to review by the Pension Fund Committee
5 June	Pension Fund Committee receives 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
1 July	Grant Thornton commence the audit testing of the accounts
10 Sept	Majority of the audit completed and Grant Thornton produce their Audit Findings Report
11 Sept	Audit Findings Report and Annual Report, including the Statement of Accounts, presented to Pension Fund Committee
TBC	Audit Findings Report and audited Statement of Accounts will be presented to the CW&C Audit and Governance Committee
30 Nov	Audited Statement of Accounts published on CW&C website Annual Report including the Audited Statement of Accounts published on the Fund's website

11. In the event that the audit is not fully completed by 11 September, if any further changes are required to the accounts following this date they will be circulated to the Committee for recommendation via an Electronic Decision Notice.

Role of the Local Pension Board

12. 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.
13. 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 5 June, in an observer capacity, in order to obtain this assurance.



Summary and key points of the 2019-20 Statement of accounts

14. There were no significant changes to the CIPFA Code of Practice on Local Authority Accounting (the Code) for the 2019-20 year.
15. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2018-19 position);
 - As forecast, pension outflows exceeded contributions received by £29.4m (£19.5m). Investment income of £40.3m (£34.4m) more than met this contributions shortfall to give an overall positive cash flow.
 - Employers' contributions into the Fund increased by £6m to £129m (£123m)
 - Benefit payments increased by £10m, or 5.5% to £191m (£181m) mainly due to an increase in the number of pensioners. Death benefit and lump sum payments both had a minor increase this year.
 - Investment management expenses reduced by £2.4m to £22m (£24.2m), reflecting reductions in investment manager fees exerted by asset pooling in the LGPS and a reduction in performance related fees charged by a small number of external managers.
 - Payments to and on account of members leaving before retirement increased by £4m to £18m (£14m). This figure varies each year in line with the number of staff moving their benefits to employers outside the Fund, along with the impact of freedom and choice, which allows members to transfer to an external pension and access their benefits.
 - The change in market value of investments including profit and loss on disposal of investments this year was a loss of £74m (profit £262m). In 2019-20 investment returns fell by -1.3% (+5.5%). The reduction in returns was primarily due to the impact of Covid-19 in the quarter to March 2020.
 - The value of net assets which is the total investment assets including cash adjusted for any short and long term debtors and creditors as at 31 March 2020 has reduced by £90m to £5.514bn (£5.604bn).
 - The market value of the Fund's investment assets decreased, in absolute terms, by £389m to £5.084bn (£5.473bn). This decrease again was largely as a result of the impact of Covid-19 upon the investment valuations.

Outturn

16. The operating 2019/20 budget was set at £4.661m. The final outturn for 2019-20 is an underspend of £528k this is in line with the forecast underspend of £525k



reported to the Committee in March. A summary of the key reasons for the underspend is below:

Budget Area	Explanation	Saving £000
LGPS Central Costs	<ul style="list-style-type: none"> In line with the shareholder agreement, the Fund received a refund from LGPS Central as the company underspent in 2018/19. LGPS Central Ltd are forecasting an underspend for 2019/20 which is also contributing to the underspend. 	140
Staffing costs	<ul style="list-style-type: none"> Vacant positions within the team were not filled until part way through the year and maternity cover contingency was not required. Employee training costs were lower than expected as some training was successfully funded through the apprenticeship levy. 	175
Supplies & Services	<ul style="list-style-type: none"> Support with casework backlogs have been met through staff overtime instead of external fees. Investment advice and support for transitioning assets into LGPS Central has been lower than forecast as wherever possible costs have been absorbed within existing budgets. Cost savings have been achieved within printing postage and stationery. Following advice from the Council's Technology Business Relationship team planned ICT investment has been re-profiled into 2020-21 to align with other scheduled corporate ICT upgrades. 	213
Sub-total		528



Cheshire Pension Fund - Fund Account for the year ended 31 March 2020

	Notes	2019-20 £000	2018-19 £000
Contributions and Benefits			
Contributions Receivable			
From Employers		129,193	123,153
From Employees		38,300	36,829
Total Contributions Receivable	6/6a	167,493	159,982
Transfers in from Other Schemes	7	12,411	15,638
Benefits Payable			
Pensions		-155,723	-148,638
Lump Sums		-30,230	-28,388
Death Benefits		-5,323	-4,065
Total Benefits Payable	8	-191,276	-181,091
Payments to and on account of Leavers			
Refund of Contributions		-618	-489
Transfers to Other Schemes		-17,394	-13,547
	9	-18,012	-14,036
Net Additions / (withdrawals) from dealing with members		-29,384	-19,507
Management Expenses	10/10a	-26,110	-27,825
Returns on Investments			
Investment Income	11	40,327	34,389
Taxes on Income	12	-271	-419
Profits and losses on disposal of investments and changes in the market value of investments	13f	-74,043	261,953
Net Returns On Investments		-33,987	295,923
Net Increase/ (Decrease) in the Fund During the Year		-89,481	248,591
Opening Net Assets of the Scheme		5,603,810	5,355,219
Closing Net Assets of the Scheme		5,514,329	5,603,810

Cheshire Pension Fund - Net Assets Statement as at 31 March 2020

	Notes	2019-20 £000	2018-19 £000
Long Term Investments		1,315	1,315
Investment Assets			
Pooled Investment Vehicles	13/f, 18/19	3,498,589	3,566,402
Equities	13/f, 18/19	586,135	540,459
Absolute Return Funds	13b/f, 18/19	373,906	770,621
Investment Properties	16	397,950	396,370
Private Equity	13c/f 18/19	225,375	194,995
Loans	13d/f, 18/19	686	2,375
		5,083,956	5,472,537
Cash	13e/f, 18/19	413,485	112,070
Other Investment Balances	13f	4,282	4,504
Total Net Investments	13/f, 17/18/19	5,501,723	5,589,111
Long Term Debtors	22	457	6,317
Current Assets	23		
Cash at Bank		91	2,440
Debtors		22,593	18,959
Current Liabilities	24		
Creditors		-8,980	-10,157
Receipts In Advance		-1,555	-2,860
Net Current Assets		12,149	8,382
Total Net Assets		5,514,329	5,603,810

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, defined benefit 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 of Cheshire area. The Fund excludes provision for teachers, fire fighters and police officers as they come within other national pension schemes. A full list of the employers contributing into the Fund is shown at the end of the Fund's Statement of Accounts.

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council with lead officer responsibility delegated for the Fund's affairs to the Chief Operating Officer, also the Section 151 Officer. 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 Council's Audit and Governance Committee oversees the Council's arrangements for the Fund.

The Local Pension Board was established in accordance with the Public Service Pensions Act 2013 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 Representatives (including one Cheshire West and Chester nominated Councillor), two Scheme Member representatives, and one independent chair (non-voting).

The Cheshire Pension Fund operates four investment strategies each with different allocations to growth assets and diversifying and matching assets. At 1 April 2019 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 had 12 appointed external investment managers as at 31 March 2020 who each have specific responsibility for part of the Fund's investment portfolio.

The Fund is continuing to transfer assets into its asset pool LGPS Central Ltd, at the 31 March 2020 LGPS Central Ltd managed £684m of the Fund's assets.

The Council uses the services of Bank of New York Asset Servicing to independently monitor the performance of the investment strategy 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 2020 the Fund achieved a return from its investments of -1.3% (+5.5% in 2018-19) compared with the Fund's tailored benchmark return of -0.8% (+5.5% in 2018-19). For the three years ending 31 March 2020 the Fund achieved an annualised return of 3.4% per annum against the Fund's benchmark return of 2.2% per annum.

Membership

In accordance with the Government's Automatic Enrolment Legislation, eligible employees are automatically enrolled into the LGPS from their first day of employment. However membership of the LGPS is voluntary and 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 2020 a total of 305 employer organisations including the Administering Authority itself, contributed into the Fund.

Cheshire Pension Fund	31-Mar-20	31-Mar-19
Number of employers making contributions into the fund	305	290
Number of employees in the scheme		
Cheshire West and Chester Council	8,436	8,073
Other employers	33,703	31,404
Total	42,139	39,477
Number of pensioners		
Cheshire West and Chester Council	2,819	2,568
Other employers	27,225	26,250
Total	30,044	28,818
Number of Deferred pensioners		
Cheshire West and Chester Council	4,348	4,340
Other employers	24,412	24,838
Total	28,760	29,178
Undecided Leavers	2,543	2,375
Total Membership	103,486	99,848

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 2020. In addition to employee contributions, employers pay contributions into the Fund which are set through triennial actuarial valuations. The last such valuation was at 31 March 2019 which set employer contribution rates for the 3 year period commencing 1 April 2020 and ending 31 March 2023.

Benefits

From 1 April 2014, the LGPS became a career average revalued earnings scheme, whereby members accrue benefits based on their pensionable pay each 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, LGPS pension benefits were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008 to 31 March 2014
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 2019-20 financial year and its position as at year ending 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 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 Statement of Accounts include the following restatements:

Investments held with Darwin totalling £65.5m have been reclassified in Note 18 from level 1 to level 3. As listed property they had previously been classified as level 1 as stock could be bought and sold on the Guernsey stock exchange. However the investment has been more accurately classified as level 3 as the value of the share is determined by a discounted cash flow model.

The disclosure note for minimum lease income receivable has been updated by our property manager to show the full lease income receivable whereas previously it only showed the lease income receivable for the following 12 month period.

Within the disclosure for key management personnel the long term/post -retirement benefits figure has been restated to reflect the proportion of time that the key management personnel spend on work in relation to the Pension Fund.

The accounts have been prepared on a going concern basis.

Note 3 – Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate of pensionable pay 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 £2.5m in 2019-20 (£3.6m in 2018-19) 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 2019-20 was £2.2m relating to fees due for the quarter ending 31 March 2020 (£1.7m in 2018-19).

Administration expenses

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

Oversight and governance costs

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

Net Assets Statement

g) Financial assets

Cheshire West and Chester Council jointly owns an asset pooling company, LGPS Central Ltd, along with seven other Partner Funds, the Council's shareholding in the asset pool company is valued at £1.315m which is the transaction price i.e. cost of the investment. LGPS Central Ltd began to trade on 3 April 2018 and consequently there are only limited trading results available. The pension fund's view is that the market value of this investment at 31 March 2020 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 valuer's opinion of Fair Value was primarily derived using comparable recent market transactions on arm's length terms.

j) Derivatives

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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value (note 13f).

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 2019-20 Scottish Widows, Standard Life and Equitable Life (taken over by Utmost 1 January 2020) were the Fund's AVC providers.

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

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

p) Contingent assets and contingent liabilities

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

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of the future events. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

Note 4 – Critical judgements and key sources of estimation uncertainty

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

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

Note 4.1 – Critical Judgements in applying accounting policies**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. This calculation compares the current market value of the Fund's assets to the present day value of future pension benefit payments (liabilities) that the Fund has already committed to make. 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

The investment of £1.315m has been valued at cost on the basis that fair value as at 31 March 2020 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
- Published trading results are only available for one year, in the Fund's opinion this does not give sufficient enough information to allow fair value to be accurately calculated on a net asset basis.

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 2020 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. Estimations have been updated for 2019-20 to try and reflect the impact of COVID-19 but there is additional uncertainty due to the ability to reliably measure the impact of the pandemic.	The total private equity investments in the financial statements are £225m (£195m 2018-19). There is a risk that this investment may be under or overstated in the accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
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 £374m (£771m in 2018-19). 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, <ul style="list-style-type: none"> • a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £646m. • A 0.5% increase in pensions increase rate would increase the value of the liabilities by approximately £572m. • A 0.5% increase in the salaries increase rate would increase the value of the liabilities by approximately £68m
Property valuations	The Fund's directly held investment properties are valued at fair value by Savills in accordance with RICS valuation professional standards. For 2019-20 there is additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2020 and may be subject to variations as further market information becomes available.	The total value of direct property investments in the financial statements is £398m (£396m in 2018-19). There is a risk that this investment may be under or overstated in the accounts.

Note 5 – Events after the Balance Sheet date

The Fund is not aware of any post balance sheet events impacting the statement of accounts.

Note 6 – Contributions Receivable	2019-20 £000	2018-19 £000
Employees Normal Contributions	38,300	36,829
Employers Normal Contributions	114,600	110,210
Employers Deficit Funding	10,619	8,596
Employers Cost of Early Retirements (pension strain)	3,974	4,347
Total Employers Contributions	129,193	123,153
Total Employees and Employers Contributions	167,493	159,982

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

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

Note 6a – Analysis of Contributions Receivable	2019-20		2018-19	
	Employers	Employees	Employers	Employees
	£000	£000	£000	£000
Scheme Employers	89,795	26,676	85,143	25,887
Cheshire West & Chester Council	23,296	7,512	21,610	7,141
Community Admission Bodies	13,076	3,301	13,244	2,937
Transferee Admission Bodies	3,026	811	3,156	864
Total	129,193	38,300	123,153	36,829

Note 7 – Transfers in from other Pension Funds	2019-20 £000	2018-19 £000
Transfers from other Local Authorities	9,892	12,631
Transfers from other pension funds	2,519	3,007
Total	12,411	15,638

Note 8 – Benefits payable	2019-20 £000	2018-19 £000
Scheme Employers	119,380	112,470
Cheshire West & Chester Council	52,399	49,693
Community Admission Bodies	14,279	13,987
Transferee Admission Bodies	5,218	4,941
Total	191,276	181,091

Note 9 – Payment to and on account of leavers	2019-20 £000	2018-19 £000
Individual transfers out	17,394	13,547
Refunds to Members leaving service	618	489
Total	18,012	14,036

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

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

Note 10 – Management Expenses	2019-20 £000	2018-19 £000
Investment management expenses	21,978	24,366
Administration costs	1,981	2,188
Oversight and governance costs	2,151	1,271
Total	26,110	27,825

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

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

Note 10a – Investment Management Expenses	2019-20 £000	2018-19 £000
Management fees and expenses	19,276	20,372
Performance related fees	2,532	3,619
Custody fees	98	113
Transaction costs	72	262
Total	21,978	24,366

Note 10b – External Audit Costs	2019-20 £000	2018-19 £000
Payable in respect of external audit	27	23
Payable in respect of other services	8	2
Total	35	25

Fees in respect of other services relates to work completed in respect of the IAS19 process.

Note 11 – Investment Income	2019-20 £000	2018-19 £000
Dividends from Equities	11,421	8,555
Net Rents from Properties	20,677	19,161
Income from Fixed Interest Securities	5,982	5,291
Income from Pooled Investment Vehicles:		
Property	422	421
Stock Lending	516	581
Interest from Cash Deposits	983	366
Other	326	14
Total	40,327	34,389

Note 12 – Taxes on income	2019-20 £000	2018-19 £000
Withholding tax - Equities	271	412
Withholding tax - Private Equity	0	7
Total	271	419

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 2019-20 amounts to £271k and is shown as a tax charge, compared to £419k in 2018-19.

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	2019-20	2018-19
Investment Assets	£000	Restated £000
Equities		
Overseas Quoted	576,355	527,397
UK Quoted	9,780	13,062
UK Unquoted	1,315	1,315
Pooled Investments		
UK Government Index Linked Gilts	1,642,936	1,605,662
Fixed Income - Multi Strategy	963,750	996,010
UK Equity Listed	812,987	890,315
UK Property	70,954	65,500
Overseas Unit Trusts - Property	7,962	8,915
Absolute Return Funds	373,906	770,621
Investment Properties	397,950	396,370
Private Equity	225,375	194,995
Cash Deposits	413,485	112,070
Loans	686	2,375
Other investment balances:		
Outstanding dividends entitlements and withholding tax claims	4,282	4,504
Total	5,501,723	5,589,111

In September 2019, Arrowgrass notified the Fund that it was liquidating its investments. During the year the Fund received £184.9m in redemption proceeds, the remaining value of £48m is due to be returned in 2020-21.

In December 2019, the Pension Fund Committee endorsed the decision to redeem funds from Winton Capital, the full redemption proceeds of £167m were received in February 2020.

The above proceeds from the Arrowgrass liquidation and Winton redemptions have led to the reduction of Absolute Return Funds and are held in the Fund's Money Market accounts (Fidelity and Deutsche Bank) leading to an increase in cash balances at the end of the year. These balances will be reinvested in 2020-21 in line with the Fund's strategic asset allocation model.

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. The market value of investments with each manager as at the 31 March 2020 was:

- £363m in Janus Henderson Investors (£352m in 2018-19),
- £375m (£410m in 2018-19) in BlueBay and,
- £227m in M&G Alpha Opportunities Fund (£236m in 2018-19).

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

Note 13b – Absolute Return Funds	Strategy	2019-20 £000	2018-19 £000
Blackstone	Hedge Fund of Funds	325,503	346,058
Arrowgrass Capital Partners	Multi Strategy Hedge Fund	48,403	260,424
Winton Capital	Multi Strategy Hedge Fund	0	164,139
Total		373,906	770,621

Note 13c – Private Equity	Number of Funds	2019-20 £000	2018-19 £000
Adam Street Partners	18	98,492	81,995
Pantheon Ventures	12	122,666	111,580
LGPS Central Limited	2	3,208	0
Lexington	1	1,009	1,420
Total	33	225,375	194,995

Note 13d – Loans

The Fund has committed £32m to the M&G UK Financing Fund which is a limited partnership whose investment objective is 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 31 March 2020, £32m of this commitment had been drawn down and the Fund had received £39m in distributions. The market value as at 31 March 2020 was £1k (31 March 2019 £1.660m).

The Fund has 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 2020 the full £30m of the commitment had been drawn down. The market value as at 31 March 2020 was £Nil (31 March 2019 £29,768).

Also included in loans is £685k loan advanced to LGPS Central Ltd and interest accrued on the loan for the year totalling £36k. The loan is held at amortised cost in the statement of accounts at a value of £721k at 31 March 2020 (31 March 2019 £728k).

Note 13e – Cash	2019-20 £000	2018-19 £000
Cash Deposits	20,768	20,193
Cash Instruments	392,717	91,877
Total	413,485	112,070

Note 13f – Reconciliation of movements in Investments and Derivatives

	Fair Value at 31 March 2019	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	Fair Value at 31 March 2020
	£000	£000	£000	£000	£000
Pooled Investment Vehicles	3,566,402	1,222,196	-1,217,463	-72,546	3,498,589
Equities	541,774	78,532	-64,828	31,972	587,450
Absolute Return Funds	770,621	226	-357,866	-39,075	373,906
Investment Properties	396,370	48,859	-22,632	-24,647	397,950
Private Equity	194,995	56,694	-42,086	15,772	225,375
Loans	2,375	0	-1,739	50	686
	5,472,537	1,406,507	-1,706,614	-88,474	5,083,956
Cash and Cash Equivalents	112,070	286,984		14,431	413,485
	5,584,607	1,693,491	-1,706,614	-74,043	5,497,441
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	4,504				4,282
Net Investments	5,589,111	1,693,491	-1,706,614	-74,043	5,501,723

	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	-237,742	131,714	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	-1,946,885	262,410	5,472,537
Derivative Contracts:	0	3	-2	-1	0
Forward currency contracts	0				0
	5,162,363	1,994,652	-1,946,887	262,409	5,472,537
Cash and Cash Equivalents	169,882		-57,355	-456	112,070
	5,332,245	1,994,652	-2,004,242	261,953	5,584,607
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	4,284				4,504
	5,336,529	1,994,652	-2,004,242	261,953	5,589,111
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	-30				0
Net Investments	5,336,499	1,994,652	-2,004,242	261,953	5,589,111

Note 14 – Stock Lending

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund allows its stock to be lent, provided that the total value of the securities loaned out does not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. During the year ended 31 March 2020 the Fund earned £516k (£581k 2018-19) of income from its stock lending activities. At the balance sheet date, the value of aggregate stock on loan was £39.5m (£61.9m 2018-19) and the value of collateral held was £43m (£66m 2018-19).

Note 15 Property Holdings

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

Note 15a – Property Income	2019-20 £000	2018-19 £000
Rental Income	24,129	22,536
Rental Income Accruals	-131	-15
Rental Adjustment on Sale	-523	-121
Direct Operating Expenses	-2,798	-3,239
Balance at the end of the year	20,677	19,161

Note 15b – Fair Value of Investment Properties	2019-20 £000	2018-19 £000
Balance at the start of the year	396,370	352,701
Additions	38,029	40,272
Disposals	-30,150	0
Net gain/loss on fair value	-6,299	3,397
Balance at the end of the year	397,950	396,370

During the year the Fund purchased two properties; an airport car park and a hotel.

The Fund also sold three properties, two industrial estates and an office building

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

Contractual obligations for development, repairs and maintenance amounted to £3.5m (£3.9m in 2018-19).

Note 16 – Operating Leases

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

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

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

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

Age profile of lease income	2019-20	2018-19
	£000	Restated £000
No later than one year	13,927	20,320
Between one and five years	60,820	59,479
Later than five years	100,547	57,732
Total	175,294	137,531

The above disclosure for 2019-20 has been reduced by a credit loss allowance of 33% for income due within one year, 10% for the second year and 3% for the following years reflecting the Fund's expected loss from late or non-recovery of rents from tenants. The credit loss allowance in 2019-20 has been increased for years one and two to reflect the expected impact on lease income receivable resulting from COVID-19. The 2018-19 figures have been restated to show the total amount of lease income due under non-cancellable leases as at 31 March 2019 adjusted for a 3% loss allowance.

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

Note 17 – Investment by Fund Manager	2019-20 £000	2019-20 %	2018-19 £000	2018-19 %
Investments managed by LGPS Central Limited Asset Pool:				
All World Equity Climate Multi Factor Fund	452,892	8.2	0	0.0
Global Equity Active Multi Manager Fund				
- Union	78,954	1.4	84,077	1.5
- Schroders	74,565	1.4	77,721	1.4
- Harris	72,710	1.3	88,431	1.6
Private Equity Funds	3,208	0.1	0	0.0
LGPS Central Limited Asset Pool	2,036	0.0	2,043	0.0
Total	684,365	12.4	252,272	4.5
Investments managed outside of LGPS Central Limited Asset Pool:				
Legal & General	1,776,802	32.3	2,245,747	40.2
Baillie Gifford & Co	592,730	10.9	549,518	9.8
Patrizia	407,797	7.4	407,008	7.3
Bluebay	375,008	6.8	409,743	7.3
Janus Henderson	362,923	6.6	352,271	6.3
Blackstone	325,503	5.9	346,058	6.2
M&G Investments	227,339	4.1	237,245	4.2
Fidelity (Money Market)	191,558	3.5	38,264	0.7
Deutsche Bank (Money Market)	192,615	3.5	40,578	0.7
Pantheon Ventures	122,666	2.2	111,580	2.0
Adams Street Partners	98,492	1.8	81,995	1.5
Darwin	70,954	1.3	65,500	1.2
Arrowgrass Capital Partners	48,403	0.9	260,424	4.7
Bank of New York Mellon	23,510	0.4	25,207	0.5
Lexington Capital Partners	1,009	0.0	1,420	0.0
GMO	49	0.0	142	0.0
Winton Capital	0	0.0	164,139	2.9
Total	4,817,358	87.6	5,336,839	95.5
Total	5,501,723	100.0	5,589,111	100.0

During 2019-20, as part of the government's asset pooling initiative, the Fund disinvested £500m from Legal and General and transferred it to the LGPS Central All World Equity Climate Multi Factor Fund which tracks the by tracking the FTSE All-World Climate Balanced Comprehensive Factor Index.

At the December 2018 meeting, Pension Fund Committee endorsed the decision to commit £22m to the LGPS Central Private Equity Funds, the first calls were made in April 2019 and the fair value at end of March 2020 was £3.2m.

In September 2019, Arrowgrass notified the Fund that it was liquidating its investments, during the year the Fund received £184.9m in redemption proceeds, the remaining value of £48m is due to be returned in 2020-21.

In December 2019 the Pension Fund Committee endorsed the decision to redeem funds from Winton Capital, the full redemption proceeds of £167m were received in February 2020.

The above proceeds from the Arrowgrass liquidation and Winton redemption are held in the Fund's Money Market accounts (Fidelity and Deutsche Bank) where they are earning interest pending reinvestment in 2020-21.

Note 17a – Concentration of Investments

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

Security Description	Market Value 31-Mar-20 £000	% of Total Fund	Market Value 31-Mar-19 £000	% of Total Fund
Legal & General - Over 5 Yr Index Linked Gilts	1,325,516	24.09%	1,605,661	28.73%
LGPS Central Limited - All World Equity Climate Multi Factor Fund	452,892	8.23%	0	0.00%
Bluebay - Total Return Diversified Fund	375,008	6.82%	409,743	7.33%
Janus Henderson - Total Return Bond	362,923	6.60%	352,271	6.30%
Blackstone Partners - Class A1 Initial Series	325,503	5.92%	346,058	6.19%

Note 18 – Fair Value – Basis of Valuation

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

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

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 2020. Any subjectivity related to the investment value is incorporated into the valuation.

Note 18a – Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

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

Note 18a – Assets carried at fair value

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

The following assets have been carried at cost:

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

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 Restated	Level 2	Level 3 Restated	Total
	£000	£000	£000	£000
Financial and Non-financial Assets				
Fair value through profit and loss	1,317,889	3,380,434	772,214	5,470,537
Total Assets	1,317,889	3,380,434	772,214	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	1,317,889	3,380,434	772,214	5,470,537

Investments held with Darwin totalling £65.5m have been reclassified from level 1 to level 3. As listed property they had previously been classified as level 1 as stock could be bought and sold on the Guernsey stock exchange. However the investment has now been more accurately classified as level 3 as the value is determined by a discounted cash flow model.

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 £000	Level 2 £000	Level 3 £000	Total £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 2019 Restated	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains /(Losses)	Realised Gains /(Losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed income	35,648					5,078		40,726
Secured Loans	1,690				- 1,690	1		1
Absolute return funds	81,670					- 1,271		80,399
Private equity	191,335					29,301		220,636
Indirect Property	65,500					5,454		70,954
Direct Property	396,371			38,029	- 30,150		- 6,299	397,951
	772,214	-	-	38,029	- 31,840	38,563	- 6,299	810,667

Note 18d – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the market value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

Note 18d – Classification of Financial Instruments

	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
	31 March 2020			31 March 2019		
	£000	£000	£000	£000	£000	£000
Financial Assets						
Pooled Investments	3,498,589			3,566,402		
Equities	587,450			541,774		
Absolute Return Funds	373,906			770,621		
Private Equity	225,375			194,995		
Loans	1	721		1,690	728	
Cash		412,135			111,042	
Other Investment balances		3,932			4,147	
Debtors		23,141			27,716	
	4,685,321	439,929		5,075,482	143,633	
Financial Liabilities						
Creditors			-8,980			-10,117
TOTAL	4,685,321	439,929	-8,980	5,075,482	143,633	-10,117

Note 18e – Net Gains and Losses on Financial Instruments

	2019-20 £000	2018-19 £000
Financial Assets		
Fair value through profit and loss	47,744	258,208
Amortised cost- unrealised gains	14,481	
Financial Liabilities		
Fair value through profit and loss	-111,621	-1
Amortised cost- unrealised losses		-468
Total	-49,396	257,739

The Council 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 forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

In consultation with the Fund's investment advisers and, following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2019-20 reporting period:

Asset Type	Potential market movements
	% (+ / -)
Private Equity	24.2
Global Equities - Emerging	28.7
Global Equities - Developed	18.4
UK Equities	16.8
Property Unit Trusts	14.1
High Yield	9.6
Absolute Return Funds	7.3
Corporate Bonds	3.3
Government Bonds	8.8
Cash	3.3

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 2020	Percentage Change	Change in Value on increase	Change in Value on decrease
	£000	%	£000	£000
Government Bonds	2,017,944	8.8	177,579	-177,579
Global Equities - Developed	1,166,538	18.4	214,643	-214,643
Absolute Return Funds	373,906	7.3	27,295	-27,295
Corporate Bonds	433,878	3.3	14,318	-14,318
Global Equities - Emerging	192,205	28.7	55,163	-55,163
High Yield	225,819	9.6	21,678	-21,678
Private Equity	225,375	24.2	54,541	-54,541
Cash	417,094	3.3	13,764	-13,764
UK Equities	35,420	16.8	5,951	-5,951
Property Unit Trusts	7,962	14.1	1,123	-1,123
Investment Income Due	3,932	0.0	0	0
Equities - LGPS Central Ltd	1,315	0.0	0	0
Loans - LGPS Central Ltd	721	0.0	0	0
Total assets available to pay benefits	5,102,109		586,055	-586,055

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial asset at fair value:

Asset Type	2019-20	2018-19
	£000	£000
Corporate and Government Bonds	2,606,685	2,603,230
Cash and cash equivalents	29,402	33,254
Cash balances	384,083	78,816
Total	3,020,170	2,715,300

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The £2,607m fair value of the bond mandates managed by M&G Alpha Opportunities Fund, Janus Henderson Investors, BlueBay and Legal and General are particularly sensitive to movements in interest rates. This sensitivity is measured by their duration of 5.31, 3.76, 4.14 and 24.4 years respectively.

A 100BPS increase in the prevailing level of interest rates would decrease the aggregate fair value of these mandates by £442.0m (£444.9m in 2018-19). Likewise a 100BPS decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

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

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

Asset Type	Duration	Carrying amount at 31 March 2019 £000	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

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

Income Source	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
		£000		
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

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

Currency risk

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

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

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

The following tables summarise the Fund's net currency exposure, after hedging, as at 31 March 2020 and 31 March 2019:

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

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 risk - sensitivity analysis

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

A 13% fluctuation in the currency risk is considered reasonable based on the Fund'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 GBP against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows

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

Net Currency Exposure - Asset Type	Asset Values		Change to net Assets available to pay benefits	
	2018-19	+13%	-13%	
	£000	£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 United States Dollar	178,161	23,161	-23,161	
Of which from Euro	16,834	2,188	-2,188	
Absolute Return Funds Overseas:				
Of which from United States Dollar*	-4	0	0	
Overseas Unit Trusts:				
Of which from Euro	9,076	1,180	-1,180	
Total	986,265	128,214	-128,214	

b) Credit risk

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

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

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

Multi Asset

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

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

S&P Quality Rating	Fair Value 2018-19	% of Fair Value of Fixed Income
	£000	£000
AAA	135,147	5.0
AA	1,639,968	64.0
A	86,634	3.0
BBB+	0	0.0
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

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in the Fund's history. The Fund's cash holding under its treasury management arrangements as at 31 March 2020 was £384.1m (31 March 2019 £78.8m) 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.

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

2018-19 Counterparty	Moody's 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

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 2020 the value of illiquid assets was £230m, which represented 4.19% of the total fund assets (31 March 2019 £204m which represented 3.65% of the total fund assets).

In terms of liquidity risk, the Fund had £413.5m (2018-19 £112.1m) of cash balances as at 31 March 2020 and net current assets of £12.1m (£8.3m in 2018-19). The Fund's net cash flow, before taking account of investments and excluding management expenses, as at 31 March 2020 was -£29.4m (-£19.5m in 2018-19). Income from investments supports the cash flow for the year to ensure there is no significant risk that the Fund will be unable to meet its current commitments.

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

Other risks

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

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

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

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

The Fund prepares 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 2020	% of Fair Value of collateral 31 March 2020	Fair Value of collateral 31 March 2019	% of Fair Value of collateral 31 March 2019
Moody's rating	£000	%	£000	%
Aaa	8,851	21	22,395	34
Aa1	2,263	5	2,370	4
Aa2	32,005	74	41,230	62
Grand Total	43,119	100	65,995	100
Value of Stock on Loan	39,532		61,928	

During the year ended 31 March 2020 the Fund earned £516k (£581k 2018-19) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £39.5m (£61.9m 2018-19) and the value of collateral held was £43m (£66m 2018-19).

Note 20 – Funding Arrangements

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

The key elements of the funding policy are:

- To ensure long-term solvency of the Fund
- To ensure that sufficient funds are available to meet all members/dependants' benefits as they fall due for payment;
- To ensure that employer contribution rates are reasonably stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- To reflect the different characteristics of employers in determining contributions rates;
- To have a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce risk to other employers including tax raising employers from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over 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 2019 valuation, the fund was assessed as 97% funded (90% at the March 2016 valuation). This corresponded to a deficit of £156m (2016 valuation: £467m) at that time.

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

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership. A market related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The principal assumptions were:

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

Longevity assumptions

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

*Aged 45 at the valuation date

Note 21 – Actuarial value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2019-20 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

	2019-20 £000	2018-19 £000
Long Term Debtors:		
Contributions due - Employers	0	5,828
Reimbursement of lifetime tax allowances	457	254
Sundry Debtors	0	235
Total	457	6,317

The Fund's long term debtor for early retirement contributions was in relation to scheme employers who had the option of paying over five years, all are now currently paying early retirement contributions as they fall due. The sundry debtors figure relates to a settlement from Magistrates Courts of £2.351m which is being paid in equal instalments over 10 years discounted at 3.76%, the final payment is due in 2020-21 and is included in current assets below.

Note 23 – Current Assets	2019-20 £000	2018-19 £000
Current Debtors and cash:		
Contributions due - Employers	18,484	15,114
Contributions Due - Employees	3,122	2,950
Sundry Debtors	1,622	1,262
Provision for Doubtful Debt	-635	-367
Cash balances	91	2,440
Total	22,684	21,399

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	2019-20 £000	2018-19 £000
Sundry Creditors	6,247	7,530
Benefits Payable	2,733	2,587
Provisions	0	40
Receipts in Advance	1,555	2,860
Total	10,535	13,017

Note 25 – Additional Voluntary Contributions (AVCs)

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

The AVCs are invested separately from the Fund's main assets and used to acquire additional pension benefits and therefore are not included in the Fund's accounts in accordance with regulation 4 (1) (a) of the LGPS (Management and Investment of Funds) Regulations 2016.

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year.

A summary of the information provided by Scottish Widows, Standard Life, Utmost and Equitable Life for the year to 31 March 2020 is shown below, along with a prior year comparator. Please note as a result of the impact of COVID-19 on working practices the figures for Utmost/Equitable Life were not available at the time of preparing the draft accounts, these will be updated within the final accounts.

	Scottish Widows £000	Standard Life £000	Equitable Life £000	Utmost £000	Total £000
Contributions received in year 2020	189	929	TBC	TBC	1,118
Contributions received in year 2019	723	308	2	-	1,033
Fair value at 31 Mar 2020	2,146	3,406	TBC	TBC	5,552
Fair value at 31 Mar 2019	3,210	3,023	509	-	6,742

Note 26 – Related Party Transactions

The Fund is administered by Cheshire West and Chester Council. The majority of the Fund's cash is invested with the Fund's investment managers or directly with external financial institutions. The Fund has its own specific bank account however some of the Fund's transactions (Accounts Payable and Income) are processed through corporate Council systems and are paid in the first instance through the Council's corporate bank accounts. The Fund repays cash due to the Council for such transactions plus any interest charges on a monthly basis. In 2019-20 the Fund paid £6,100 to the Council for interest accrued on these balances.

The Council is one of the largest participating employers and contributed £28.1m into the Fund in 2019-20 (2018-19 £22.1m). At the year end, a balance of £8.276m (2018-19 £12.999m) was due to the Fund from the Council, primarily relating to early retirement strain costs which will be repaid over more than one year and contributions which were paid in April but became due in March. A balance of £1.6m was owed to the Council (2018-19 £1.5m) for Fund transactions processed through the Council's accounts payable and receivable systems.

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

In 2017-18 the fund invested £1.315m in share capital and granted a loan of £685k to LGPS Central Ltd. In 2019-20 interest of £36,023 (2018-19 £42,972) accrued on the loan balance to give a balance at the end of the year of £0.721m (2018-19 £0.728m), the share capital was valued at cost at the end of the year at £1.315m. Investments managed by LGPS Central Ltd as at 31 March 2020 are disclosed in Note 17 to the accounts.

During the year the Fund incurred charges for the running costs of LGPS Central Ltd totalling £0.927m (2018-19: £0.861m) and joint pool governance costs of £15,833 (2018-19 Nil).

The Fund has made a £22m commitment to the LGPS Central Private Equity Funds, during the year the paid £3.9m calls to these funds and received £0.189m in dividends. No calls or distributions were made in 2018-19. The market value of the private equity funds is shown in Note 17 to the accounts.

Investment management fees of £1m (2018-19 £45,901) were incurred on the Fund's investments managed by LGPS Central Ltd.

The Council as Administering Authority incurred costs of £1.981m to administer the Fund in 2019-20 (2018-19 £2.188m) as well as £2.151m for oversight and governance costs (2018-19 £1.271m) and these costs were recharged to the Pension Fund. Note 10 provides an analysis of these costs. These are related party transactions as Cheshire West and Chester Council is also a participating employer in the Fund.

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

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

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

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

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

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

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. 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 Council's Audit and Governance Committee has oversight of the Council's governance arrangements for the Fund.

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

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

There are three members of the Committee who are in receipt of pension benefits from the Fund (Councillor M. Hogg, Councillor P. Findlow and Councillor M. Wharton). In addition, Committee member Councillor Corcoran has a deferred pension and Committee member P. Matthews was an active member of the Fund as at 31 March 2020.

There are three members of the Local Pension Board who were active members of the Fund as at 31 March 2020; G. Wright, N. Harvey and A Laing. P. Raynes also has a deferred pension with the Fund.

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

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

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

Key Management Personnel

The key management personnel of the Fund are the Chief Operating Officer, Director of Finance 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-20	31-Mar-19
	£000	Restated £000
Short term benefits	94	112
Long term/post-retirement benefits	902	1,128
Total	996	1,240

The long term/post-retirement benefits figure for 31 March 2019 figure has been restated to reflect the proportion of time that the key management personnel spend on work in relation to the Pension Fund,

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

Note 27 – Contingent Liabilities and Contractual Commitments

The Fund has contractual commitments to the value of £711m (2018-19 £679m) in private equity funds.

During 2019-20 the Fund made new commitments to Pantheon private equity funds of \$65.5m. These commitments were split \$45.5m to the Global Select 2019 Fund, \$10m to the Global Co-Investments 2019 Fund and \$10m to the Global Secondary Fund VI. 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 2020 the Fund had actually invested £499m (2018-19 £409m) and therefore had an outstanding commitment of £212m (2018-19 £270m). 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 21 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 of Financial Assets

During 2019-20 the Fund has recognised expected credit losses of £0.635m (£0.367m in 2018-19) for possible and actual non-recovery of rental income on its investment properties.

Note 30 – Investment Strategy Statement

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

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

Note 31 – Funding Strategy Statement

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

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

The Funding Strategy Statement is available on the Fund's website at:
www.cheshirepensionfund.org

Employers that have contributed into The Cheshire Pension Fund and their applicable Investment Strategy for the financial year ending 31 March 2020.

Major Scheme Employers	Strategy	Admitted Bodies - Continued	Strategy
Cheshire West and Chester Council	B	Bulloughs Collegiate	B
Cheshire East Council	A	Catalyst Choices	B
Cheshire Fire Authority	B	Sanctuary Housing Association	C
Halton Borough Council	B	Bulloughs - Lymm	B
Warrington Borough Council	B	Skills and Growth Company	A
Police and Crime Commissioner	B	Churchill Services Ltd	B
		Bridgewater High School Trading	B
Admitted Bodies	Strategy	PAM East	A
Sir John Deanes College	B	PAM West	B
ANSA Environmental Services	A	The Guinness Partnership	B
Orbitas Bereavement Services	A	Midshire Catering Ltd	A
Livewire	B	Keys Care Limited	A
Warrington Cultural Trust	B	ForHousing	B
Canal and River Trust (Waterways Trust)	C	CG Cleaning - Great Sankey	B
Cheshire Community Action	B	CWP NHS Trust	B
Adoption Matters	B	A M Services	A
Warrington Voluntary Action	A	Caterlink (Witton)	B
David Lewis Centre	C	Caterlink (Sandbach)	A
Warrington Housing Association	B	Caterlink (Ruskin)	A
Cheshire and Warrington Sports Partnership	B	Aspens Services - Upton by Chester	B
Care Quality Commission	C	Chartwell - Leighton	B
Norton Priory Museum Trust	B	Chartwell - Elworth	B
The King's School Chester	B	Midshire Catering Services Limited - Tarporley High School*	B
University Of Chester	B	Mellors Catering Services Limited - St Winefrides*	B
Silk Museum Trust	A	Verve People	B
Deafness Support Network	C	Starcare*	B
Warrington Community Living	B	Torus 62	C
Belong Limited	C	Torus 62 (ComMutual)	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		
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		
Dataspire	B		
Ringway Infrastructure	B		
HQ Theatres	B		

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
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
Warrington Collegiate	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
Cheshire and Warrington Enterprise Commission	C
Catering Academy - Warrington	B
Catering Academy - CoE Academy	B
Catering Academy - Weaverham	B
Liverpool Mutual Homes (Torus 62 LMH)	B
Civiance Ltd	A
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
Barnton Parish Council	B
Kingsley Parish Council*	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
Marfields 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
Gorsebank 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
Cuddington Primary School*	B

Academies - Continued	Strategy
Little Leigh Primary School*	B
Sandivay Primary School*	B
Bexton Primary School*	A
Grange Community Nursery and Primary School	B
Astbury St Marys CoE Primary School	A
Handforth Grange Community Primary School	A
Hollinhey Primary School*	A
Daven Primary School*	A
Ditton Primary School	B
St Michael with St Thomas CoE Primary School*	A
Croft Primary School*	B
Gorse Covert Primary School*	B
Oakwood Avenue Primary School*	B
Woolston Community Primary School*	B
Acresfield Primary School*	B
Broomfields Junior School*	B
Meadowside Community Primary & Nursery School*	B

*Employers who joined the fund during 2019-20

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 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 2020	31 March 2019
Active members (£m)	2,625	3,854
Deferred members (£m)	1,278	1,220
Pensioners (£m)	2,590	2,373
Total (£m)	6,493	7,447

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £586m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £266m.

Financial assumptions

Year ended (% p.a.)	31 March 2020	31 March 2019
Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.6%	2.8%
Discount Rate	2.3%	2.4%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and 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	21.2 years	23.6 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	21.9 years	25.0 years

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

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	572
0.5% p.a. increase in the Salary Increase Rate	1%	68
0.5% p.a. decrease in the Real Discount Rate	10%	646

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 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Peter MacRae

16 April 2020

For and on behalf of Hymans Robertson LLP