

Public Document Pack

Tony Kershaw
Director of Law and Assurance

If calling please ask for:

Adam Chisnall on 033 022 28314
Email: adam.chisnall@westsussex.gov.uk

www.westsussex.gov.uk

County Hall
Chichester
West Sussex
PO19 1RQ
Switchboard
Tel no (01243) 777100



16 July 2019

Pensions Panel

A meeting of the panel will be held at **10.30 am** on **Wednesday, 24 July 2019** at **County Hall, Chichester**.

Tony Kershaw
Director of Law and Assurance

Agenda

Part I

10.30 am 1. **Declarations of Interests**

Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

It is recorded in the register of interests that:

- Mr Donnelly is a Horsham District Councillor
- Mr Hunt is the Chairman of the Chichester Harbour Conservancy
- Mr Jupp has a daughter who works for Blackrock
- Dr Walsh is a Member of the Littlehampton Harbour Board, Arun District Council and Littlehampton Town Council

These financial interests only need to be declared at the meeting if there is an agenda item to which they relate.

10.32 am 2. **Part I Minutes of the last meeting** (Pages 5 - 8)

The Panel is asked to agree the Part I minutes of the meeting of the Panel held on 29 April 2019 attached (cream paper).

10.34 am 3. **Urgent Matters**

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

- 10.34 am 4. **Part II Matters**
- Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.
- 10.35 am 5. **Pension Advisory Board Minutes - Part I**
- The Panel is asked to note the confirmed Part I minutes from the meeting of the Pension Advisory Board on 6 March 2019 and the agenda from the meeting of the Pension Advisory Board on 22 May 2019.
- (a) **6 March - Part I Pension Advisory Board Minutes** (Pages 9 - 16)
- (b) **22 May - Pension Advisory Board Agenda** (Pages 17 - 20)
- 10.40 am 6. **Annual Report and Accounts** (Pages 21 - 100)
- Report by the Director of Finance and Support Services
- The Panel is asked to consider the recommendation within the report.
- 10.55 am 7. **Funding Strategy Statement** (Pages 101 - 158)
- Report by the Director of Finance and Support Services.
- The Panel is asked to consider the recommendation within the report.
- 11.15 am 8. **Business Plan** (Pages 159 - 164)
- Report by the Director of Finance and Support Services.
- The Panel is asked to consider the recommendation within the report.
- 11.35 am 9. **Date of the next meeting**
- The next meeting of the Pensions Panel will be 10.00 a.m. 25 October 2019 at County Hall.

Part II

- 11.35 am 10. **Exclusion of Press and Public**
- The Panel is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the

case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

- 11.35 am 11. **Part II Minutes of the last meeting** (Pages 165 - 170)
- To confirm the Part II minutes of the meeting of the Panel held on 29 April 2019, for members of the Panel only (yellow paper).
- 11.38 am 12. **Pension Advisory Board Minutes - Part II** (Pages 171 - 174)
- The Panel is asked to note the confirmed Part II minutes from the meeting of the Pension Advisory Board on 6 March 2019 (yellow paper).
- 11.40 am 13. **ACCESS Update** (Pages 175 - 180)
- Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).
- The Panel is asked to consider the recommendations within the report.
- 11.50 am 14. **Administration Performance** (Pages 181 - 186)
- Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).
- The Panel is asked to consider the recommendations within the report.
- 12.00 pm 15. **Review of Pension Performance**
- The following reports are for the Panel to review Pension performance over the last quarter.
- (a) **Transaction and Performance** (Pages 187 - 274)
- Portfolios from Aberdeen Standard and Baillie Gifford are attached for members of the Panel only. The UBS report is to follow.
- Paper by the Director of Finance and Support Services summarising transactions and performance during the quarter, for members of the Panel only (yellow paper) – to follow.
- (b) **Independent Fund Advisor Comments**
- Paper from the independent fund advisor giving comments on the quarter, for members of the Panel only (yellow paper) – to follow.
- 12.10 pm 16. **Presentation by Baillie Gifford**

The Panel to receive a presentation on portfolio performance.

To all members of the Pensions Panel

Pensions Panel

29 April 2019 – At a meeting of the Pensions Panel held at 10.30 am at County Hall, Chichester.

Present: Mr Hunt (Chairman)

Mr Bradford, Mr Elkins, Mr Jupp, Mrs Urquhart, Dr Walsh, Mr Donnelly and Ms Taylor

Apologies were received from Mrs Dennis

Part I

1. Declarations of Interests

1.1 Mr Donnelly declared a personal interest as he was a shareholder with Aberdeen Standard and Baillie Gifford.

1.2 Mr Hunt declared a personal interest as Chairman of the Chichester Harbour Conservancy.

2. Part I Minutes of the last meeting

2.1 The Panel agreed an amendment to the final sentence in minute 86.3; changing 'would look' to 'were looking'.

2.2 Resolved – That the Part I minutes of the Pensions Panel held on 28 January 2019, amended as above, be approved as a correct record, and that they be signed by the Chairman.

3. Business Plan 2019/20

3.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

3.2 Rachel Wood, Pension Fund Investment Strategist, introduced the report and explained that the Business Plan looked at the priorities for 2019/20. A key piece of work would be the valuation taking place in 2019. A transfer would also be taking place to a new custodian, Northern Trust. It was also reported that the Scheme Advisory Board had commissioned Hymans Robertson to do some work on Good Governance.

3.3 The Panel made comments including those that follow.

- Queried the increase in costs by 30%. – *Rachel Wood explained that this was a reflection of Hampshire County Council as the new pension administration provider. It was clearly understood at the time of the decision to transfer, that costs would increase, regardless of the provider, in order to provide a better service for members. As service improved it was hoped that costs may reduce, such as actuary costs reducing due to improved reporting mechanisms.*

- The Panel discussed the different roles of the Pensions Panel and the Pension Advisory Board.
- Requested clarity on which training sessions would be useful to attend. - *Rachel Wood explained that all training invitations came with recommendations, but officers could look at bespoke individual member recommendations.*

3.4 Resolved – that the Panel notes the updates to the 2018/19 Business Plan and agree the proposed activities for the 2019/20 financial year.

4. Policy Documents (Administering Authority Discretions, Administration Strategy and Communication Policy Statement)

4.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

4.2 Rachel Wood introduced the report which outlined the policy documents which had been changed as part of the transfer of pension administration to Hampshire County Council. The Pension Advisory Board, and employers had reviewed Administering Authority Discretions and the Administration Strategy

4.3 The Panel commented that schools may find it difficult to pay up front retirement costs and queried if this was normal practice. - *Rachel Wood explained that it was normal practice for schools to pay a lump sum, but there was an option to spread the cost over three years. It was normal for there to be up front payments. Steven Law, Hymans Robertson, added that the size would be capped soon and that there was currently a consultation out on this. Rachel Wood confirmed that employers could always have a discussion with Katharine Eberhart, Director of Finance, Performance and Procurement, if they wished to discuss costs.*

4.4 Resolved – That the Panel notes the Administering Authority Discretions; the Administration Strategy; and the Communication Policy Statement.

5. Administration Transfer and Performance

5.1 The Panel considered a paper by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

5.2 Rachel Wood introduced the report and explained that the transfer of the Pension Administration service, which commenced on 4th March, had been successfully completed. The performance information in the report covered a two-week period. Officers were working with Hampshire County Council on legacy issues. Communications had been sent to all active members referring them to the new pension portal, pensioner members would receive communications soon, followed by deferred members.

5.3 Andrew Lowe, Hampshire County Council (HCC), joined the meeting and reported that targets had been hit and that April performance was looking good. Employer training sessions had been run and newsletters

had been published. HCC were currently receiving high call volumes and were answering 80% of calls. West Sussex calls were taking longer to complete due to the complexity of issues being raised following the transfer. There were currently no concerns on the volume, but the situation would be monitored and extra resources added if necessary.

5.4 The Chairman commented that he felt the transfer had gone well. Ms Taylor reported that she had received no complaints from UNISON members, and personally found the portal easy to use.

5.5 The Panel made comments including those that follow.

- Queried the missing figure at paragraph 6 in the report. – *Rachel Wood confirmed this should be 120.*
- Sought clarity on how complaints were being handled. – *Rachel Wood reported that complaints were still being received, but HCC were turning queries around quickly. Many complaints had subsequently turned into compliments. Issues were expected to reduce when HCC were operating at a 'business as usual' level.*

5.6 Resolved – That the Panel notes the update.

6. Date of the next meeting

6.1 The Panel noted that its next scheduled meeting would take place on 24 July 2019 at County Hall, Chichester.

7. Exclusion of Press and Public

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

8. Part II Minutes of the last meeting

The Panel agreed the Part II minutes of the Pensions Panel held on 28 January 2019.

9. Investment Strategy

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel considered the report and made recommendations to officers concerning the Investment Strategy for the pension fund.

10. Investment Pooling

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel considered the report and made recommendations for pooled investments.

11. Review of Pension Performance

The Panel considered a paper by the Director of Finance, Performance and Procurement.

The Panel received an update from Caroline Burton relating to the quarterly performance reports from the fund managers.

The Panel welcomed the advice.

12. Presentation by UBS

The Panel received an update from Malcolm Gordon, Jonathan Davies and Steve Magill from UBS on the portfolio performance for the quarter.

13. Triennial Valuation (Funding Strategy Statement)

The Panel considered a report by the Director of Finance, Performance and Procurement.

The Panel noted the timetable for the triennial valuation.

The meeting ended at 2.15 pm

Chairman

Pension Advisory Board

6 March 2019 – At a meeting of the Pension Advisory Board held at 9.30 am at County Hall, Chichester, PO19 1RQ.

Present: Peter Scales (Chairman)

Richard Cohen, Miranda Kadwell, Kim Martin, Becky Caney, Chris Scanes and Tim Stretton

Part I

84. Declarations of Interests and Conflicts

84.1 None declared.

85. Part I Minutes of the last meeting

85.1 Resolved – That the part I minutes of the meeting of the Board held on 21 November 2018 be approved as a correct record and signed by the Chairman.

86. Progress Report

86.1 The Board considered the progress report on matters arising from previous meetings (copy appended to the signed minutes).

86.2 Adam Chisnall introduced the report and gave an update on the action on the locations of Declarations of Interest and the Register of Interests on the website. It was not possible to change the location of these items on the website, however a link to the Register of Interests had been added to the Pension Advisory Board to improve accessibility.

86.3 Rachel Wood reported that Key Performance Indicators were outlined within the Administration Strategy appendix to the Pension Fund Policy Documents report.

86.4 Rachel Wood confirmed that the training after the meeting would explain the process for raising issues.

86.5 The Chairman reported that he had met with Katharine Eberhart, Director of Finance, Performance & Procurement and Section 151 officer. Officers were due to talk with Jeremy Hunt, Chairman of the Pensions Panel, regarding attendance at Board meetings.

86.6 The Board discussed appointment terms and queried the action for members whose appointments were due to end. – *Rachel Wood confirmed that officers needed to discuss this with the scheme manager to look at extending the terms.*

86.7 The Board reported that they were happy with the re-wording of the Internal Dispute Resolution Procedure.

86.8 Resolved – That the Board notes the report.

87. Pensions Panel Minutes - Part I

87.1 The Board considered the confirmed part I minutes from the 1 November 2018 Pensions Panel meeting; and the Agenda from the 28 January 2019 Pensions Panel meeting (copy appended to the signed minutes).

87.2 The Board noted that the actuary presentation had also been given to the Board after their last meeting, and welcomed this alignment of training.

87.3 Resolved – That the minutes and agenda be noted.

88. Business Planning and Performance

88.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

88.2 The Chairman introduced the report and how it included comments from the one to one meetings he had had with Board members. The report also included key markers for future agendas.

88.3 The Board made comments including those that follow.

- Thought that the report well represented the one to one meetings that had happened.
- Reflected that Appendix A showed a good report of the work the Board has achieved.
- Noted the concerns raised with previous monitoring of KPIs that did not necessarily show all areas of pension administration. – *Rachel Wood confirmed that there would be better monitoring with Hampshire County Council; with an expectation of 100% achievement of KPIs.*
- Queried the budget underspend. – *Rachel Wood confirmed that the budget came from the Pension Fund, and so underspend would remain within the Pension Fund. Adam Chisnall confirmed that the 0.2 FTE requirement still appropriately covered his support from Democratic Services. The Chairman welcomed the training allowance in the budget which could be utilised if bespoke training was required. The Board requested details of the end of year budget spend.*
- Queried where the annual report was distributed. – *Rachel Wood reported that the report went to employers via a link as part of the Pension Panel papers. The Board queried if the Pension Advisory Board report should be sent separately to employer reps to help inform them of what the Board does. Rachel Wood resolved to look into this.*

88.4 Resolved – That the Board agrees the performance report 2018/19; the budget statement showing expenditure in 2018/19; and the statement for inclusion in the Fund Annual Report. The Board also agrees that the Pensions Panel and the Governance Committee be informed accordingly.

89. Regulations and Guidance update

89.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

89.2 The Chairman introduced the report and highlighted Appendix A which outlined the Local Government Pension Scheme bulletins.

89.3 The Board made comments including those that follow.

- Sought an update on contracted out reconciliation. – *Tara Atkins confirmed that contracting out had been abolished and therefore a reconciliation of the contracted out benefits was needed against the Scheme records and HMRC. A reconciliation exercise is taking place to look into this, which had met the HMRC queries deadline of October 2018. The County Council are awaiting a response to these queries.*
- Noted The Pension Regulator entry and proposed inviting them to a future Board meeting. – *Rachel Wood proposed inviting The Pension Regulator to a meeting after they had completed their survey work.*

89.4 The Chairman referred to Appendix B which outlined key points from the 16 January Scheme Advisory Board meeting. The Chairman agreed to continually circulate the notes to Board members.

89.5 The Board discussed the Hymans Robertson Good Governance survey and queried if they could be involved. – *Rachel Wood resolved to contact Hymans Robertson to put the Board on their radar for the survey work.*

89.6 Resolved – That the Board notes the update.

90. Review of Pension Fund Policy Documents

90.1 The Board received a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

90.2 Rachel Wood introduced the report and explained that the Treasury Management Policy went to the January Pensions Panel. The Administration Strategy had recently been updated following the transfer to Hampshire County Council.

90.3 The Board queried why some of the review dates in Appendix A were in the past. – *Tara Atkins reported that some reviews had been impacted by the transfer of administration and would be considered as part of the transfer project. Rachel Wood confirmed that the Annual Report date was an error and should be July 2019.*

90.4 The Board made comments including those that follow on the Treasury Management policy.

- Queried if there had been any changes to the Treasury Management policy. – *Rachel Wood confirmed there had been no changes. The County Council had a discipline to give an annual approval to the policy.*
- Commented on the CIPFA requirement for section 151 officer to check compliance. It was important for the Board to be aware of the policy, and for the Pensions Panel to approve it.

90.5 Tara Atkins introduced the Administration Strategy and explained how the strategy had undergone a review to reflect the new SLA expectations from Hampshire County Council. The strategy also covered the change in processes for Employers. Employees were not impacted as much, but there were changes in processes for leavers.

90.6 The Board made comments including those that follow on the Administration Strategy.

- Queried when Hampshire County Council would attend a Board meeting. – *Rachel Wood confirmed that Hampshire were due to attend the next meeting.*
- Commented that Hampshire County Council had been meeting with Employers and had been very supportive during the transfer arrangements.
- Asked how many estimates could be requested. – *Tara Atkins reported that members could request one estimate a year, anything beyond this would be chargeable. Annual Benefit Statements are and Pension Modeller tools would be available on the portal. Rachel Wood added that Employers could request two estimates per employee per year without additional charges.*
- Commented that Additional Pension Contribution information was not provided on the Annual Benefit Statements. – *Rachel Wood explained that Capita had limitations on how data could be stored. Hampshire County Council were expected to have fewer limitations and so this information should be available.*
- Queried why new employees were not receiving scheme welcome information. – *Tara Atkins reported that this was the responsibility of employers to signpost. It was recommended to include website link information or a covering letter with the initial employment contract. This could be picked up with the transfer communications.*

90.7 The Board discussed which policies should be discussed at the next Board meeting and chose the Funding Strategy Statement and the Communications Strategy. The Board also agreed to look at the Annual Report at the September meeting.

90.8 Resolved – That the Board notes the register of policy documents and the contents of the Treasury Management policy and the Administration Strategy. The Board requests that the Funding Strategy Statement and the Communications Strategy come to the next meeting for consideration.

91. Administration procedures and performance

91.1 The Board received a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

91.2 Tara Atkins introduced the report and explained that work was continuing to identify the individuals who were affected by the amendment to the regulations.

91.3 The Board made comments including those that follow.

- Queried how aware members were of their responsibility to ensure dependent information was up to date. – *Tara Atkins confirmed that the scheme tried to ensure members were referred to the relevant section to nominate their dependents. It was believed that this section would be easier to access on the new portal. Consideration could be given on future communications plans on this topic.*
- Asked how the expression of wishes on death information was managed on the new system. – *Tara Atkins reported that Hampshire County Council were proactive on this to ensure all routes were exhausted to ensure there were no challenges to expressions of wish.*
- Sought clarity on the future of newsletters and how the portal would be used. – *Tara Atkins reported that officers were aware of the log in issues with the previous portal and hoped that the new portal would be easier. There would be more functionality in the new portal for pensioners. Rachel Wood confirmed that existing channels of communication could be utilised to report on key information.*
- Commented on the problematic issue of leavers using their work email addresses and therefore not receiving information.
- Queried if the Secretary of State had issued guidance on any aspect of the regulations. – *Tara Atkins confirmed that there had been a consultation response on this where the Government could change areas of the regulations without consultation. The Government had reported it would only use this power in particular circumstances.*
- Asked if there had been any breaches since the last report. – *Tara Atkins reported that she was not aware of any breaches. The Chairman requested that all future reports had a section on breaches, even if there were none to report.*

91.4 Resolved – That the Board notes the report.

92. Training

92.1 The Board received a document outlining the training that been recorded for Board members (copy appended to the signed minutes).

92.2 Adam Chisnall introduced the report and noted the progress that had been recorded for the Pension Regulator Toolkit modules. Adam Chisnall also reminded the Board that the annual Financial Statement training with the Regulation, Audit and Accounts Committee would take place on 13 June.

92.3 The Chairman gave a summary of his attendance at a recent CIPFA seminar and how there needed to be more guidance on legislation for what Pension Advisory Boards should be monitoring. The Chairman agreed to inform the Board when he heard more on this.

92.4 The Board noted that they were not responsible for investment decisions.

92.5 Rachel Wood reported that officers were looking at the results of the completed knowledge and understanding tests that the Board members had completed. The results would inform the training strategy would be considered at the next Board meeting.

92.6 Resolved – That the Board notes the training log.

93. Date of Next Meeting

93.1 The Board noted that its next scheduled meeting would take place on Wednesday 22 May 2019 at 9.30 a.m. at County hall, Chichester.

94. Exclusion of Press and Public

Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

95. Part II Minutes of the last meeting

The Board agreed the Part II minutes of the 21 November 2018 meeting.

96. Pensions Panel Minutes – Part II

The Board noted the contents of Part II minutes from the 1 November 2018 Pensions Panel meeting.

97. Asset Pooling

The Board considered an Investment Pooling report by the Director of Finance, Performance and Procurement which had gone to the 28 January 2019 Pensions Panel meeting.

The Board also considered the Chairman's comments on the statutory guidance on asset pooling and agreed to the consultation response.

98. Business Plan (including Pension Administration)

The Board considered the Business Plan report by the Director of Finance, Performance and Procurement which had gone to the 28 January 2019 Pensions Panel meeting.

The Board noted the report and the progress made on the Pension Administration transfer. The Chairman agreed to write a Business Plan for the Board that would align with the Pensions Panel's plan.

The meeting ended at 11.55 am

Chairman

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Tony Kershaw
Director of Law and Assurance

If calling please ask for:

Adam Chisnall on 033 022 28314
Email: adam.chisnall@westsussex.gov.uk

www.westsussex.gov.uk

County Hall
Chichester
West Sussex
PO19 1RQ
Switchboard
Tel no (01243) 777100



14 May 2019

Pension Advisory Board

A meeting of the committee will be held at **9.30 am** on **Wednesday, 22 May 2019** at **County Hall, Chichester, PO19 1RQ**.

Tony Kershaw
Director of Law and Assurance

Agenda

Part I

1. Declarations of Interests and Conflicts

Members and officers must declare any pecuniary or personal interest, or any potential conflicts of interest in any business on the agenda. They should also make declarations at any stage such an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt, contact Democratic Services before the meeting.

2. Part I Minutes of the last meeting (Pages 5 - 12)

The Board is asked to agree the Part I minutes of the meeting of the Board held on 6 March 2019 (cream paper).

3. Pension Advisory Board Membership

The Constitution for the Pension Advisory Board concerning membership terms is as follows:

'The term of office for employer and scheme member representatives is 4 years. This can be extended following reselection up to a maximum of three terms.'

The Board are asked to note that the Chairman has agreed to re-appoint both Richard Cohen and Chris Scanes as representatives for a second 4 year term.

4. Urgent Matters

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

5. **Part II Matters**

Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.

6. **Progress Report** (Pages 13 - 16)

This report contains updates on matters arising from previous meetings.

The Board is asked to note the report and the progress on actions.

7. **Pensions Panel Minutes - Part I**

The Board is asked to note the confirmed Part I minutes from the meeting of the Pensions Panel on 28 January 2019 and the agenda from the meeting of the Pensions Panel on 29 April 2019.

(a) **28 January - Part I Pensions Panel Minutes** (Pages 17 - 20)

(b) **29 April - Pensions Panel Agenda** (Pages 21 - 24)

8. **Regulations and Guidance update** (Pages 25 - 30)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the current issues relating to Scheme Regulations and Guidance.

9. **Business Planning and Performance** (Pages 31 - 46)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to consider and agree the draft business plan for 2019/20 and agree to refer the Business Plan to the Governance Committee for their approval on 24 June 2019 in line with their Terms of Reference. The Board is also asked to agree that the Business Plan is provided to the Pensions Panel for noting.

10. **Review of Pension Fund Policy Documents** (Pages 47 - 60)

Report by Director of Finance and Support Services.

The Board is asked to note the register of policy documents and provide feedback on the policies presented at the meeting.

11. **Administration procedures and performance** (Pages 61 - 106)

Report by Director of Finance and Support Services.

The Board is asked to note the report and confirm any further information that they require.

12. **Good Governance** (Pages 107 - 110)

Report by the Director of Finance and Support Services.

The Board is asked to note the report and consider the options.

13. **Training** (Pages 111 - 114)

The Board is asked to review the training log.

14. **Date of Next Meeting**

The next meeting of the Board will be held at 9.30 am on 4 September 2019.

Part II

15. **Exclusion of Press and Public**

The Board is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

Exempt: paragraph 3, financial or business affairs of any person (including the authority).

16. **Part II Minutes of the last meeting** (Pages 115 - 118)

The Board is asked to agree the Part II minutes of the meeting of the Board held on 6 March 2019 (yellow paper).

17. **Pensions Panel Minutes – Part II** (Pages 119 - 124)

The Board is asked to note the confirmed Part II minutes from the meeting of the Pensions Panel on 28 January 2019 (yellow paper).

18. **Investment Pooling** (Pages 125 - 156)

The Board is asked to consider the following report which went to the Pensions Panel on 29 April 2019.

Report by Director of Finance and Support Services attached for members of the Board only (yellow paper).

The Director's title at the time of the Pensions Panel was Director of Finance, Performance and Procurement.

To all members of the Pension Advisory Board

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Pension Panel	
24 July 2019	Part I
Annual Report and Accounts	
Report by Director of Finance and Support Services	
<p>Summary</p> <p>The Pension Fund is required to prepare an annual report which includes:</p> <ul style="list-style-type: none"> • A report about the management and financial performance during the year • A report explaining the authority's investment policy and a review of the performance of the investments during the year • A report of the administration arrangements during the year • The fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices • The Pension Fund's policy documents. • Any other material which the authority considers appropriate. <p>Key statistics relating to the Fund are set out in the annual report and include:</p> <ul style="list-style-type: none"> • There are 201 active employers in the Pension Fund and 75,191 members (contributors, pensioners and deferred). • The Pension Fund was 95% funded at the most recent formal valuation (March 2016). It is estimated that at 31 March 2019 the Fund was fully funded. • The Fund is valued at £4.374bn as at 31 March 2019 (£4.104bn at year-end 31 March 2018). • During the year the Fund's assets returned 7.06% compared to its benchmark target of 7.68%. • In addition to engaging with companies, the fund managers voted at 99% of domestic and 95% of overseas meetings during the year. <p>Recommendation(s)</p> <ol style="list-style-type: none"> 1. The Panel agree the Annual Report. 2. The Panel note the Statement of Accounts appended to the Annual Report. 3. The Panel note the items raised by the external auditors. 	

Background

Annual Report

1. The Pension Fund is required to prepare an Annual Report which also includes the annual Statement of Accounts and other key information relating to the Pension Fund's management, its investment and administration performance and its statutory policy documents. The content of the Annual Report is informed by guidance by the Chartered Institute of Public Finance (CIPFA) on behalf of the Government.

The accounts of the Fund are submitted to the Regulation, Audit and Accounts Select Committee for their agreement.

Statement of Accounts

2. The West Sussex Pension Fund Statement of Accounts are subject to external audit by Ernst and Young (EY).
3. At the time of writing the audit has been substantially completed and an unqualified opinion is anticipated.
4. However, for information, the following points are made:
 - a. During the audit, EY identified a small number of changes within the draft statements, including additional narrative regarding the McCloud judgement in Note 6 and a revised assessment of pension fund liabilities in Note 20. An additional table has also been included at Note 16 showing the sensitivity of assets valued at level 3 within the fair value hierarchy (in line with the CIPFA Code of Practice and example accounts).
 - b. Due to the tight reporting deadlines, an estimate was used for the private equity valuation in the draft statements, in agreement with EY. The actual valuation received from Partners Group was £2.7m higher than the estimate.

These changes have been made in the final version of the statements.

5. As in 2017/18 EY commented that they were unable to agree the membership disclosure in Note 1 of the statements to the data provided by employers as part of their end of year returns. However they were satisfied that this would not have a material impact on the financial statements. Whilst acknowledging that progress has been made, EY have repeated this comment for the 2018/19 audit. The Fund continues to work proactively with its administration provider and employers to reduce the discrepancy as far as possible.
6. The Statement of Accounts and External Audit Opinion will be considered and approved by the Regulation, Audit and Accounts Committee (RAAC) when they meet on 22nd July 2019.

Katharine Eberhart

Director of Finance and Support Services

Contact: Rachel Wood (0330 222 3387 | rachel.wood@westsussex.gov.uk)

Appendices

Appendix A – Annual Report

Background Papers

[RAAC Paper](#)

West Sussex Pension Fund Annual Report 2018/19



Key Facts

Members and Employers

There are **201 active employers** in the Pension Fund and **75,191 members** (contributors, pensioners and deferred).

Funding level

The Pension Fund was **95% funded** at the most recent formal valuation (March 2016). It is estimated that at 31 March 2019 the West Sussex Pension Fund was fully funded.

Administrative performance

Administration performance against Key Performance Indicators (KPI's) during the year has been set out below.

	Target	2017/18 Actual	2018/19 Actual
Payment of pension benefits within 10 working days of receipt of all required information.	97.00%	91.62%	78.75%
Provision of pension estimates to members of the scheme and to employers within 10 working days of request, and the provision of information on deferred benefits to people who are leaving the pension scheme within 20 working days from receipt of all required information.	97.50%	73.51%	74.15%
Calculation of Deferred Benefits within 20 working days of the request being submitted	97.50%	52.88%	81.36%

Investment Performance

The Pension Fund invests in equities, bond, property and private equity as shown below.

	2017/18 £m	2018/19 £m
Equities	1,977	2,165
Bonds	1,514	1,557
Property (direct)	344	377
Alternatives	121	108
Cash or equiv.	102	99
Total	4,058	4,306

Return of the Fund's assets is summarised below compared to a market benchmark.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%

The Pensions Panel has instructed the fund managers to be active stakeholders. In addition to engaging with companies, **the fund managers voted at 99% of domestic and 95% of overseas meetings during the year.**

Policy Documents

The latest policy documents can be downloaded and can be made available on request.

Policy Document	Description
Administration Strategy ¹	The Strategy is a statement outlining the policies and performance standards aimed at providing high quality pensions and administration service. The Strategy is effective from 4 March 2019.
Administration Authority Discretions	This Policy sets out how the Pension Fund applies provisions of the Scheme that are discretionary. Employers will maintain their own Discretions policy which relates to decisions which they can make under the Scheme. Please Note: The Local Government Pension Scheme (LGPS) is a statutory scheme. The rules and regulations governing the scheme are laid down under Act of Parliament.
Breaches Policy	This Policy sets out the Fund's procedures for the identification and reporting of breaches of statutory requirements to the Pensions Regulator.
Business Plan	This Annual Plan considers performance against the Fund's objectives during the year and out the future priorities.
Communications Strategy Statement	This Statement sets out how the Fund will communicate with members, representatives of members, prospective members and employing authorities.
Funding Strategy Statement	This Strategy identifies how employers' pension liabilities are best met going forward (whilst maintaining as near as possible constant employer contribution rates) and sets out how the Fund will take a prudent long term view of funding those liabilities.
Governance Policy and Governance Compliance Statement	These two Statements detail the Fund's governance and stewardship arrangements and report the extent of compliance against a set of best practice governance principles.
Investment Strategy Statement	This Strategy outlines how investment decisions are made, the types of investment held, fees paid, risk and corporate governance

¹ To be added on publication

The Scheme and Benefit Structure

The Local Government Pension Scheme (LGPS) is a valuable part of the pay and reward package for employees. Benefits are set nationally, and key features are described below.

The Scheme is paid for by member contribution, which are set nationally and range from 5.5% of pay to 12.5% of pay, employer contribution rates, which are determined locally by the Fund Actuary and range from 0% of pay to 42.7% of pay, and investment returns.

- **A funded Scheme**

Unlike other public sector Schemes the Local Government Pension Scheme is funded, which means that it pays for benefits out of assets held by the Pension Fund

- **Secure pension**

The Scheme is known as 'defined benefits' which means each year 1/49th of a members pensionable pay is put into your pension account; at the end of the year the total amount of pension in your account is adjusted to take into account the cost of living. It is not dependent on the returns achieved on the Fund's assets.

- **Flexibility to pay more or less contributions**

A member can boost their pension by paying more contributions and have the option to pay half normal contributions in return half the normal pension (the 50/50 section).

- **Tax efficient now and in the future**

Members receive tax relief on the contributions paid plus the option on retirement to exchange part of a member's pension for tax-free cash.

- **Freedom to choose when to take a pension**

The Pension is usually payable from a member's normal pension age which is linked to a members State Pension age (with a minimum of 65). However a member can choose to retire and take their pension at any time between the age of 55 and 75, with adjustments.

- **Flexible Retirement**

If a member reduces their hours or moves to a less senior position at or after age 55 they can, with an employers' consent (and provided they have met the two years vesting period), draw some or all of the benefits built up. Benefits may be reduced for early payment.

- **Redundancy and efficiency retirement**

If a member is made redundant or retired in the interests of business efficiency at or after age 55 they will (provided they have met the two years vesting period) receive immediate payment of the main benefits built up, with adjustments.

Scheme Management

Although the Local Government Pension Scheme (LGPS) is a national statutory Scheme, it is managed by 89 Administering Authorities in England and Wales. The Administering Authority is responsible for managing and administering the LGPS in relation to for its local area. West Sussex County Council (WSCC) is the Administering Authority for the West Sussex LGPS. To fulfil its role WSCC has set up the following governance arrangements:

- **Scheme Manager**
The Scheme Manager has responsibility for managing and administering the Scheme. For the purpose of West Sussex LGPS the Scheme Manager is WSCC. Its functions are discharged in accordance with the [Scheme of Delegation](#) by Governance Committee and the Director of Finance and Support Services (formerly known as Director of Finance, Performance & Procurement) and the Director of Law and Assurance.

- **Pensions Panel**
The Pension Panel is a sub-committee of WSCC's Governance Committee has [delegated] and has responsibility for the Pension Fund's investment policy and its performance, appointment of advisers and managers, key scheme governance, funding and administration matters and communication with stakeholders.

The Pensions Panel comprises seven County Councillors, one representative from the district councils, one representative from the other major employers (currently vacant) and a representative for members. The Panel is supported by the Director of Finance and Support Services and an Investment Adviser.

- **Pension Advisory Board**
The Board is responsible for assisting the Scheme Manager in matters of governance and administration including compliance with Regulations, guidance and other legislation and securing effective and efficient governance and administration.










The Board comprises seven members (including an independent chair) with equal representation of employers and scheme members. The Board is supported by the Director of Finance and Support Services.

The current Pension Panel and Pension Advisory Board membership, their attendance and training is shown on the following pages.








Those responsible for the management of the Fund have a fiduciary responsibility to act in the best interest of employers, taxpayers and scheme beneficiaries at all times, rather than to represent their own local, political or private interest. Members and officers working in relation to the Scheme are invited to make any declaration of personal or prejudicial interests that they may and are reminded to make a declarations at any stage during meetings if it becomes apparent that this may be required when a particular item or issue is considered. A Register of Interest can be found [here](#).

For further information about the Pension Fund's Governance arrangements, please see the Fund's [Governance Policy Statement and Governance Compliance Statement](#).

**Pension Panel
2018/19**

Pension Panel 2018/19		Meeting	Fundamental			Internal			External					
		Attend.	Day # 1	Day # 2	Day # 3	Financial Statement	Infra and private debt	Club Vita Longevity	Baillie Gifford Conf	SPS Invest Strategies	CIPFA Pensions Conf	LGA Governance Conf	LAPF Strategic Investment	Baillie Gifford: Global Alpha
Jeremy Hunt Chairman County Councillor		4/4		2017			✓	✓	✓					✓
David Bradford County Councillor		4/4					✓	✓			✓			✓
Joy Dennis County Councillor		3/4	2017	2017	2017	✓		✓		✓			✓	
Brian Donnelly District Councillor		4/4		2015	2015	✓	✓	✓						
Roger Elkins County Councillor		3/4				✓	✓							
Nigel Jupp County Councillor		4/4	2017	2017	2017	✓	✓	✓					✓	
Judith Taylor Member Rep		4/4	2016	2016	2016	✓	✓	✓			✓	✓		
Deborah Urquhart County Councillor		4/4		2013			✓	✓						
James Walsh County Councillor		3/4	2012	2012	2012	✓	✓	✓					✓	

Pension Advisory Board 2018/19

		Meeting	Online	Internal				External		
		Attend.	Pension Regulator toolkit	Financial Statement	Risk Framework	Actuarial Matters	Induction	CIPFA Local Pension Board Conf	CIPFA Local Pension Board Sem	CIPFA Local Pension Board Sem
Peter Scales Chairman Independent		4/4	All	✓	✓	✓	✓		✓	✓
Becky Caney Member Rep		2/2	All			✓	✓			
Richard Cohen Employer Rep		4/4	All	✓	✓	✓	✓			
Miranda Kadwell Employer Rep		2/2	All			✓	✓			✓
Kim Martin Employer Rep		2/4	All	✓		✓	✓			
Christopher Scanes Member Rep		4/4	All	✓	✓	✓	✓	✓		✓
Tim Stretton Member Rep		3/4	All			✓	✓	✓		

Scheme Advisors

As Administering Authority West Sussex County Council (WSCC) is required to undertake a number of functions, including administration of the Local Government Pension Scheme (LGPS) benefits on behalf of its members, invest contributions received from members and employers and undertake assessments. To fulfil these requirements, WSCC has appointed a number of external service providers, who are listed below:

Pension Administration

Responsibility for administration of the Scheme was transferred to Hampshire County Council with effect from 4 March 2019. Prior to this the administrative function was undertaken by Capita. The benefits available to members are unchanged and will continue to build up in the same way.



Investment Managers

The Pension Fund invests money not required immediately to pay benefits into a portfolio of equities, bonds, property and private equity via external managers.

Cash is also managed by WSCC's Treasury Management Team in accordance with the Treasury Management Strategy, which can be found on the [website](#).



LGPS Asset Pool

As part of the summer Budget in 2015, the Chancellor announced that administering authorities were required to pool LGPS investments, to deliver significantly reduced costs while maintaining overall investment performance. In response WSCC joined with ten other authorities to create the ACCESS LGPS Asset Pool.

Link Fund Solutions have been appointed as Operator to the ACCESS Pool - providing the sub-funds available for authorities to invest.



Fund Actuary

Employee contributions are fixed by Central Government. However the Actuary is required to set employer contribution rates to ensure benefits under the Scheme are properly funded. The County Council has appointed Hyman Robertson as Fund Actuary.



Independent Adviser

Caroline Burton has been appointed to support the Pensions Panel through reviewing investment activity, giving advice on general investment matters, assisting in the selection of new managers and



offering a practical approach to address and control risk. Caroline was an executive director at Investment Guardian Royal Exchange for a number of years and is currently a non-executive director at three invest related companies.

Internal Auditor

Southern Internal Audit Partnership (SIAP) provides our internal audit service to assist WSCC in ensuring it has appropriate risk management processes, control systems, accounting records and governance arrangements in place.



External Auditor

Ernst & Young have been appointed as external auditors for WSCC to give a view of the financial transactions of the Pension Fund and the amounts and dispositions of the fund's assets and liabilities.



Custodian

A global custodian arranges for the safekeeping of the Fund's assets (excluding property, private equity, pooled investments and some cash), settlement of transactions effected by fund managers, timely collection of income and other administrative actions. BNP Paribas were appointed by the County Council to provide global custody services, stock lending facilities and performance measurement service from May 2017.



Legal Adviser

Orbis Legal Services Partnership (WSCC's legal services team working in partnership with Brighton and Hove City Council, East Sussex County Council and Surrey County Council) for advice covering conveyancing, investment and employer issues.



AVC Provider

All LGPS's have an Additional Voluntary Contribution (AVC) arrangement in which employees can invest money deducted directly from pay. This is arranged through an AVC provider, often an insurance company or building society. These schemes provide members with a flexible and tax-efficient way of topping up their retirement benefits. The current provider is Standard Life, although some members retain paid up plans with Equitable Life, the previous provider.



Subscriber

The Pension Fund was a member of Pensions & Lifetime Savings Association and Pensions Research Accountants Group (PRAG) in 2018/19.

Risk Management

Key Risks

The Pension Fund maintains a risk register to identify key risks, consider and assess the significance, likelihood of occurrence and potential impact of the risk. The 2018/19 key risks and actions taken to mitigate these have been set out below:

Risk	Mitigation
Insufficient funds to meet pension obligations.	<ul style="list-style-type: none"> An Actuary has been appointed who adopts prudent assumptions. Investment performance and strategic asset allocation is reviewed alongside changes in liabilities.
Fund Managers adopt inappropriate strategic asset allocation or has inadequate processes in place.	<ul style="list-style-type: none"> A customised benchmark based on the Fund's assets, liabilities and awareness of risk, return and liquidity requirements has been set based on appropriate advice. Agreements with fund managers are clear in respect of contractual requirements and any discretions.
Failure to comply with expectations on asset pooling or arrangements does not meet the needs of the Fund.	<ul style="list-style-type: none"> Active engagement in the work of the ACCESS pool (Joint Committee and officer). Clear investment strategy requirements set.
Employer contribution rates fluctuate between actuarial valuations due to membership experience	<ul style="list-style-type: none"> Stability of contribution rates is an objective within the Funding Strategy and implemented through pooling certain employers to help manage fluctuations in contribution rates, phasing or stabilisation of some contribution rates and requiring that employers pay the strain cost associated with certain decisions, such as early retirements.
Employer have a declining membership or are no longer in the Scheme but liabilities remain e.g. if employer goes bust, or employer unable to meet liabilities.	<ul style="list-style-type: none"> Certain employers are required to have a bond or guarantee in place. Membership numbers are monitored regularly and employers with low membership numbers are actively managed via a cessation flightpath.
Pension Fund accounts not accurately maintained	<ul style="list-style-type: none"> Regular reconciliation work between accounting and administration systems. Appropriate knowledge, understanding and training.
Failure to comply with changes to LGPS Regulations and/or Inland Revenue Rules	<ul style="list-style-type: none"> All consultation papers issued by the relevant Government departments are responded to where appropriate. Appropriate advice sought from experts and advisers.
The quality of the information provided to members in terms of accuracy, timeliness and clarity falling short of expectations and requirements.	<ul style="list-style-type: none"> Data quality work undertaken and training/guidance is provided to employers. The Fund's Communication Strategy seeks to ensure membership well informed of benefits. Appropriate advice sought from experts and advisers.
Inaccurate and/or incomplete data retained.	<ul style="list-style-type: none"> New employers participating in the Scheme are provided with clear guidance. Where employers fail to supply the correct data or do not follow the correct process, this is escalated.
Knowledge and understanding of the Board and Panel members may not comply with the requirements.	<ul style="list-style-type: none"> Develop a training strategy. Monitor training register.
Board and Panel members may have a conflict of interest.	<ul style="list-style-type: none"> Declarations of interest are required at the start of and during each meeting as appropriate. A clear conflict of interest and disclosure policy is maintained in line with WSCC overriding policies.
Compliance with Data Protection to ensure no breaches	<ul style="list-style-type: none"> Data is managed securely. All staff, including temporary or contract staff, complete information management training.

Internal Audit

The internal audit team are responsible for evaluating the effectiveness of the risk management, control and governance processes to support the risk framework and undertook the following audits during 2018/19 audit plan.

Title	Comments
<p>○ National Fraud Initiative <i>January 2019</i></p>	<p>The biennial Cabinet Office's National Fraud Initiative provides information on potential inappropriate payment as a result of a member being deceased. Data is provided by the internal audit team and compared against national databases.</p> <p>The results from the 2018/19 report identified 139 potentially deceased members. This has been run by audit and the results are being investigated by Hampshire Pension Service.</p>
<p>● Pension Fund – Externally Managed Investments <i>January 2019</i></p>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of the Controls in place, focusing on those designed to mitigate risk in achieving the following key objectives:</p> <ul style="list-style-type: none"> • All holdings are held securely to the ownership / exclusive entitlement of the Pension Fund. • There are adequate mechanisms for ensuring that all investment income due is identified and collected. • The performance of the Investment Fund is subjected to review. <p>The auditors concluded that Adequate Assurance can be placed on the effectiveness of the overall control environment. There is a sound framework of internal control with some opportunities for improvement. No significant risks to the achievement of system objectives have been identified.</p>
<p>● Pensions Administration – Processes and Systems <i>March 2019</i></p>	<p>This audit gave an opinion on the extent to which assurance can be placed upon the effectiveness of internal controls in place, focusing on those designed to mitigate risk in the following areas:</p> <ul style="list-style-type: none"> • Authorisation regarding the addition of a new Pensioner to the payroll • Lump sum payments • Transfers In and Out • The Hartlink system • Reconciliations between administration and accounting IT systems <p>It was recognised that administration of the LGPS transferred to Hampshire County Council on 4 March 2019.</p> <p>The auditor concluded that Adequate Assurance can be places on the effectiveness of controls. There is a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of systems objectives have been identified.</p>
<p>● Pension Fund - Governance and Strategy <i>March 2019</i></p>	<p>This Audit has been undertaken however the results are not yet available.</p>

This internal audit work is in addition to the external audit which takes place annually and focuses on the Pension Funds Financial Statements and ensuring that they are prepared in line with CIPFA's code of practice.

Financial Performance

Cashflow

The Fund needs continued cashflows from contributing members and employers to allow it to invest over the long term and pay benefits from income received, rather than by selling its investment assets.

The table below compares actual income and expenditure during the year to the assumptions made by the Actuary during his most recent valuation.² Estimates by their nature contain a degree of uncertainty. Restructuring activity by employers, changes to the working patterns of members, members taking the option to transfer to the 50/50 Scheme and changes to Regulations can all have an impact.

The Pension Fund maintains an account for each employer participating in the Scheme showing its contributions received, the benefits paid to its members and its share of investment income, administration and investment costs and investment assets.

	2017/18	2018/19		2019/20
	Actual	Estimate	Actual	Estimate
	£m	£m	£m	£m
Contributions (members and employer)	124.3*	127.9	127.5**	133.7
Income on pension fund investments	51.6	53.1	61.4	62.0
Pensions paid	(107.2)	(109.5)	(113.8)	(116.2)
Net Transfers in /(out)	29.4	8.6	(4.3)	7.3
Administration and Governance Costs	(1.6)	(1.7)	(2.3)	(2.1)
Investment Management Costs	(15.7)	(12.2)	(15.5)	(15.8)

* This figure includes £0.4m refunds in contributions paid back to members in 2017/18

** This figure includes a £2.4m payment relating to the exit credit due to an exiting employer and £0.4m refunds in contributions paid back to members in 2018/19

Contribution Receipts

Employers deduct member contributions as part of their payroll and are required to pay this, along with their own contribution, by the 19th of the month following the deduction – for example 19 May for April's payroll.

In total, the Pension Fund received 2,271 contribution payments during the year. Of these, 99.7% were received on time.

Whilst the Pension Fund reserves the right to charge interest on persistent late payments, no charges were made for the year.

² Pensions based on 2016 Actuarial Valuation pensions paid figure (£101.2m) increased by 2.1% per annum. Contributions based on 2016 Actuarial Valuation pensionable pay figure (£379.9m) increased by 2.9% per annum and the employer certified rates as set out for the relevant year in the Actuary's Rates and Adjustment Certificate. Transfers based on average from previous three years. Investment Management costs estimate for 2019/20 based on 2018/19 actual plus 2%.

Recovery of Overpayments

Overpayments mainly occur when pension payments have continued after a pensioner has died. This is analysed over a five year period below: ³

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Brought Forward	(15)	(22)	(32)	(51)	(88)
Overpayment	(47)	(60)	(67)	(111)	(73)
Recovered	36	50	48	67	49
Credit	3	0	0	5	0
Written Off	1	0	0	2	15
Carry Forward	(22)	(32)	(51)	(88)	(97)

Administration and Management Costs

Each of the 89 LGPS Administering Authorities vary significantly in respect of size, use of in-house and external services and structure.

Notwithstanding this, each Administering Authority is required to provide the Ministry of Housing, Communities and Local Government (MHCLG) with information about its administration and fund management for inclusion in the National Accounts (the SF3 Return) and this information can be used as a benchmark.

This SF3 benchmark comparator is available a year in arrears. Therefore the table below compares the Pension Fund's costs for 2017/18 against other Local Authorities SF3 Return alongside comparative information for WSCC only for 2018/19. ⁴

	2017/18		2018/19
	Total SF3	WSCC	WSCC
	£	£	£
Administrative, oversight, governance and investment management	205.24	231.78	237.20
Administrative, oversight and governance costs only (ex investment management)	29.8	22.29	31.13

During 2018/19 the unit cost excluding investment management costs have increased compared to the previous year as a result of the one-off costs associated with the pension administration transfer and the ongoing additional investment to improve the Pension Administration Service to benefit its stakeholders.

³ A revised report has been used to calculate the overpayments and as a consequence the figures have been restated for all the 5 years.

⁴ The 2017/18 information can be found on the [Gov.uk website](https://www.gov.uk).

Administration

Employers and Members

Membership of the LGPS is automatic to all Council employees and employees of certain specified employers (such as colleges, academies, and those who are providing a service transferred from a local authority). Employers are grouped into two categories:

Scheduled: This includes the town, parish, district, borough and county councils, as well as academies, the Police and Crime Commissioner and Office of the Chief Constable where membership is automatic to all employees who have contracts of employment for more than three months or (in the case of town and parish councils) where a resolution has been passed to specify who should be admitted.

Admitted: This includes employers who have contracts for services with a Scheduled employer (above) or who have joined the Scheme due to a community of interest with a Scheduled employer such as quasi-governmental organisations. Membership is normally limited to those employees who originally transferred from the local authority. However some admission arrangements are 'open' so new members are able to join the Scheme.

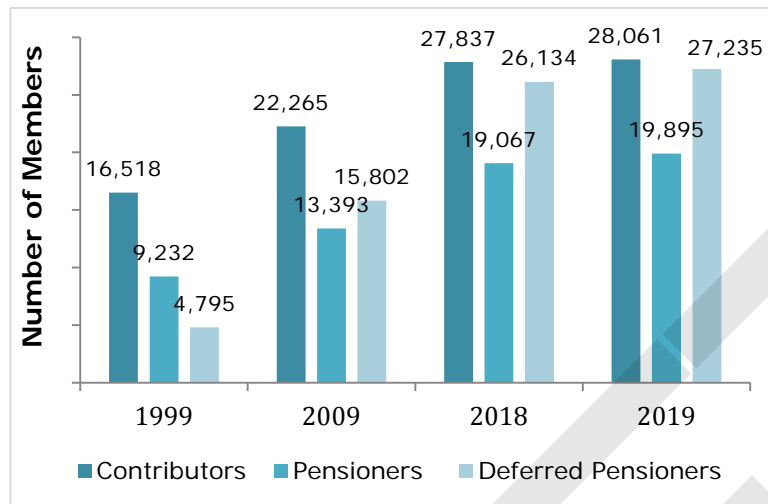
The table below sets out the number of employers at 31 March 2019 who either have members participating in the Scheme and actively contributing to the Pension Fund or those who still have members who are in receipt of benefits (or eligible for receipt of benefits in the future) but who are not contributing (ceased).

During the year, 13 new employers joined the Fund and five became ceased employers.

Further details of the participating employers can be found in Appendix 2.

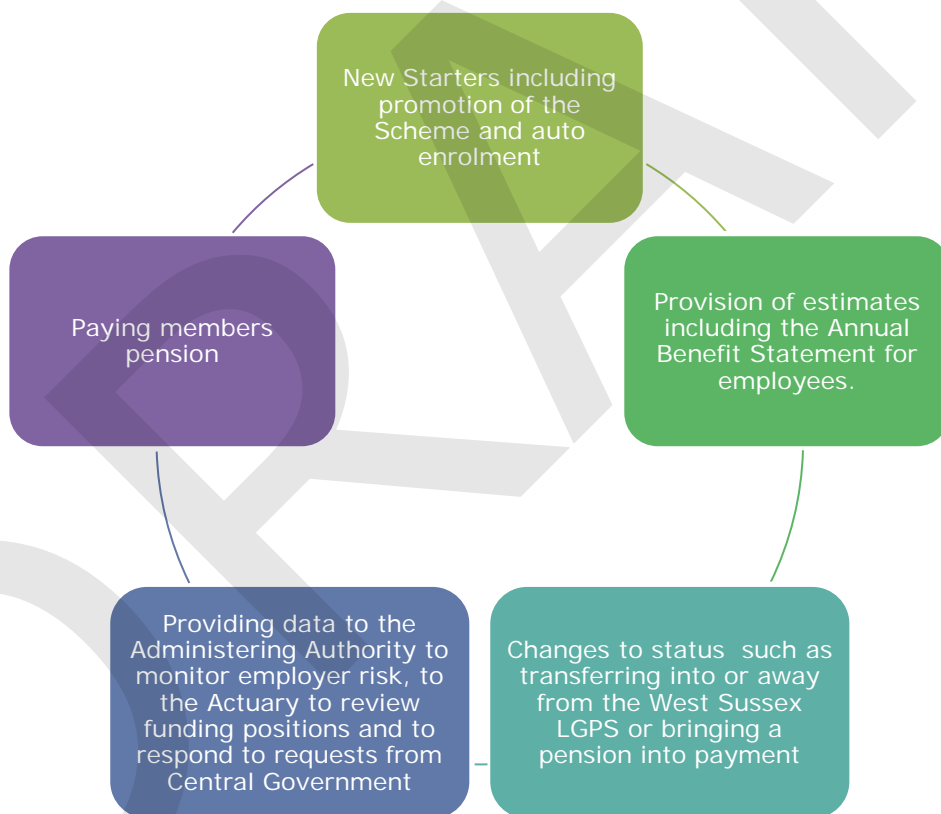
	Active	Ceased	Total
Scheduled	150	49	199
Admitted	51	27	78
Total	201	76	277

Membership of the Scheme is split between active members (contributors), deferred members (former employees who have a deferred pension right to be paid at a point in the future) and pensioners (those receiving pension benefits). Total membership has increased by 146% over the last 20 years and the mix of membership between contributors and pensioners (deferred and active) has flipped from being 54:46 in favour of contributors in 1999, to being dominated by pensioners in 2019 (37:63). This is illustrated below:



Administration Performance

The Pension Administration broadly covers the following events:



The administration of members benefits in the Scheme moved to the Fund's new administration partners, Hampshire County Council during the year. This followed the Cabinet Member for Finance's decision in May 2018 intended to improve the customer service experience and strengthen resilience. From 4 March the Hampshire team were able to progress new cases on behalf of members and complete any in progress cases and focused on delivering a high-quality, customer-focused service to members.

As part of the new service, members are able to register to a user-friendly Member Portal which allows current active members to view the personal details, membership information and the

nominations held by the pension administration team. Member can also update certain information directly which helps ensure that their records are up to date. This is the link to the [member portal](#).

The transfer was solely in relation to pension administration.

As a result of the change to administration, only part year performance figure are available. New performance indicators will be reported against for 2019/20.

The top ten most requested administration cases for the year to 31 January 2019 have been listed on the following page alongside a measure of timeliness. The target for all case types is ten working days from receipt of all required paperwork, with the exception of Deferred Benefits which has a 20 working day target.

	Description	No. Requests	Met Target
1	Maintenance requests from members / employers Updates to pension records including change of address/hours/details, nomination form and new starter creation which should be input onto the admin system	9,293	94.62%
2	Deferred processing Change to membership status from active to deferred for members with more than three months membership following notification of leaving.	7,016	73.54%
3	Retirement (all types) Retirement estimates and actual retirements (early, normal, late)	2,998	86.24%
4	Transfers Actuals for members who want to transfer in/out service to or from the West Sussex LGPS.	2,788	53.47%
5	Refunds Repayments of contributions for members with less than 3 months membership.	2,133	52.84%
6	Death cases (all variants) Relating to death grants and spouse/child pensions set-ups	1,813	94.28%
7	General member enquiries Via the website, phone, email and post	1,788	87.21%
8	Guaranteed Minimum Pension & Abatement Adjustments were made to member records relating to Guaranteed Minimum Pension for Deferred and Pensioner members.	1,235	55.87%
9	Divorce Estimates/actuals and pension sharing orders were provided during the year.	241	48.69%
10	AVCs Starter information, processing application forms and notification to relevant employer and AVC provider.	144	37.44%

Compliments and Complaints

Members and employers of the Fund can let us know about their experiences of dealing with the Fund, to enable any errors to be corrected and help with improving the service.

The Pension Fund has a Compliments and Complaints process, which is available from its [website](#). During the period to 31 December 2018, 76 formal complaints were received. These mainly related to delays in responding to queries. 35 formal compliments were received.

Data Quality

Good quality member data is essential to the successful working of the Fund including the following key aspects:

- Keeping track of each employer's share of assets
- Collecting contributions
- Investing those contributions
- Paying benefits to members as and when they fall due

The Pension Regulator requires that the Fund carries out checks against the presence of "common data" which is necessary for basic pension administration (e.g. surname, National Insurance number, date of birth). The Fund is required to analyse data based on the date it is created. The target varies in recognition that historic data is harder to rectify. The results are shown below:

	Target	Actual 31/01/2019
Legacy Data created before June 2010	95%	88.3%
Current Data created after June 2010	100%	97.8%

The Pension Regulator requires that the Fund carries out checks against the presence of "conditional data" which is specific for the administration of the LGPS (e.g. employment records and history).

The Fund has received a report for our data quality for conditional data and is considering the recommendations raised.

The County Council is developing its Data Improvement Plan.

The Pensions Regulators website can be found [here](#).

Investment Assets, Policy & Performance

Investment Assets

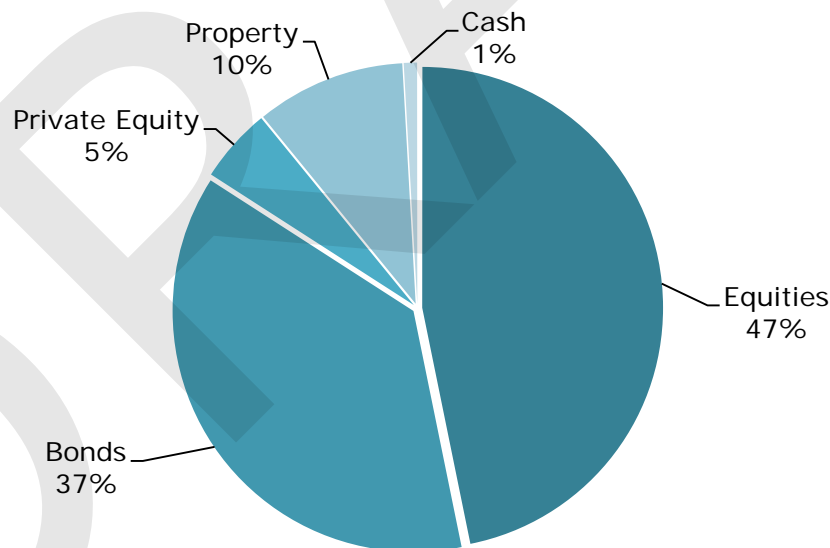
The Fund's primary investment objective is to ensure that over the long term it will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective the Panel maintains an investment policy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

These objectives have been used to develop the Pension Fund's customised benchmark.

An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds.

Although it has reduced over recent years as part of the Fund's de-risking as a result of its strong funding position, the Fund's benchmark includes a significant holding in 'growth' assets, specifically equities, reflecting the relatively immature liabilities of the Fund and the secure nature of most employer covenants. This allows the Fund to benefit from higher returns than from government bonds in the long term to help reduce the cash contribution from employers, whilst providing some stability to employer contribution rates.



Overall transactions are summarised below.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	71.7	(25.3)	-	46.4
Bonds	(11.6)	-	-	(11.6)
Property (direct)	27.6	-	-	27.6
Private Equity	-	-	(28.2)	(28.2)
Cash or equiv.	-	-	-	-
Total	87.7	(25.3)	(28.2)	34.2

Note: The sales for private equity include return of capital, income and realised gain

The table below shows the Pension Fund's assets as at 31 March 2018 and 31 March 2019. Movements between the two years will be a result of transactions and investment returns.

	31 March 2018				31 March 2019			
	UK £m	Non-UK £m	Global £m	Total £m	UK £m	Non-UK £m	Global £m	Total £m
Equities	381.9	1,594.7	-	1,976.6	441.5	1,723.1	-	2,164.6
Bonds ^	988.0	-	503.5	1,491.5	895.1	-	661.8	1,556.9
Property (direct)	344.6	-	-	344.6	377.0	-	-	377.0
Private Equity	-	-	121.1	121.1	-	-	108.0	108.0
Cash or equiv. * ^	65.9	3.1	55.5	124.4	66.3	3.1	29.9	99.3
Total	1,780.4	1,653.2	624.6	4,058.2	1780.0	1756.0	769.8	4,305.8

The above figures do not include investment income, property rent receipts and contributions due to the Fund, amounts receivable from sales or payable for purchases, debtors or tax. These net investment assets amount to £4.9m for 2018/19 (£2.3m for 2017/18).

Within the balanced portfolios, £1,469bn is held in the managers' internal pooled funds (£923m by Baillie Gifford and £546m by UBS) which have been included against the appropriate asset class. Pooled funds aggregate investors' money and invest in a portfolio of assets such as equities and bonds.

** Cash includes the UBS Currency Absolute Return Strategy (CARS) investment.*

^ These figures have been re-categorised in the Financial accounts and so have been restated here.

None of the investments shown below have been transferred to the ACCESS pool.

Investment Performance

To maximise the return from investments, the Fund has appointed active managers to generate excess performance relative to the broad market from the stocks that they hold through the choice of investments they hold. Performance can be generated from:

- Stock Selection for example the shares in a particular sector or market the fund managers hold or sell in comparison to others which can be driven by a managers philosophy, style or research,⁵ or which property is held by the Fund.

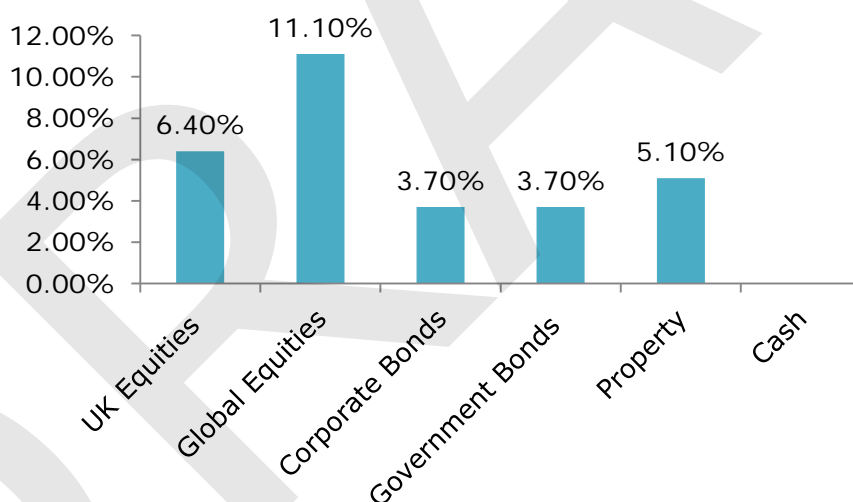
⁵ The two main investment managers have complementary styles which should reduce volatility for the pension fund. Baillie Gifford is classified as a 'growth' manager (which means they buy stocks that typically sell at relatively high price-to-earnings ratios due to high earnings growth, with the expectation of continued high or higher earnings growth) whilst UBS have a value bias (select stocks that they believe to have potential not reflected in the current share price and have a relatively low price-to-earnings ratio). The investment 'style' is the philosophy behind the way in which a manager manages the fund and picks long term stocks.

- Asset Allocation which can be driven by explicit decisions by the fund managers as to whether to hold equities or bonds within the Fund's two large balanced mandates or unintentional asset allocation due to the long term nature of the investment portfolios and illiquidity of an asset class such as the relative holdings in property and private equity portfolios versus the strategic benchmark.

Equity market participants have had a turbulent ride in global stock markets over the 12-month period. Whilst the more positive mood across markets for risky assets was seen early in the New Year and continued throughout the last three months of the period, this was not sufficient to make up for the sharp sell-off in the final quarter of 2018 resulting from tightened financial conditions, uncertainties of Brexit and trade tensions.

Within bond markets, UK government bond yields fall during the period, generating a positive return. The Bank of England raised interest rates in August 2018, but expectations of future rate rises have been curtailed more recently and signals from central banks are that monetary policy will be more supportive than previously expected. Corporate profitability remains high and default rates on riskier companies have been below average. This should be supportive for corporate bonds, but they have been volatile along with equity markets more generally. Despite performing well in the first quarter of 2019, they have performed in line with government bonds over the full 12-month period.

The graph below shows benchmark returns across markets for the 12 months to 31 March 2019:



Short term performance has been behind benchmark.

UBS have underperformed relative to the benchmark during the year as a result of their choice of stocks within the UK and Global Equity portfolio. The portfolios allocation to UK equities has negatively impacted relative returns, whilst Health Care and IT stock selection added value in the last quarter of the year, following underperformance in the prior quarters.

The outperformance from corporate bond selection within the fixed interest portfolio was modest.

Within the Baillie Gifford portfolio, the portfolio has an active share of 89% (it only holds 11% in common with the market benchmarks). Several UK and European equity holdings detracted from performance during the year as a result of uncertainties surrounding Brexit and US-China trade conflict.

The bond portfolio has remained underweight in UK government bonds, where yields are low against international comparisons – but recently this has detracted from returns, relative to the benchmark, with yields falling along with other global markets. Individual bond selection within corporate bonds has been a positive contributor to returns.

Performance over the year has been slightly behind the market due to void levels within the portfolio and costs associated with purchases. As a result of active management, the funds void (3.8%) is now well below benchmark (7.4%) which in a low capital return environment should help the funds return as income becomes a larger part of total return.

The Fund's private equity portfolio is now maturing which means that the managers are returning capital and realised gains on the underlying companies. However too much emphasis should not be placed on short term performance of private equity - the investment horizon is much longer than quoted equities and therefore it makes more sense to analyse over at least a five to seven year period.

The Pension Fund is a long term investor. This means the managers seek to identify and holding a diversified portfolio of businesses which are likely to support above average performance over the next five years or longer.

The investment performance over the short, medium and long term is shown below. Performance has been reported net of fees since April 2005.

	12 months	3 years pa	10 years pa	15 years pa
Fund	7.06%	13.12%	12.83%	9.35%
Benchmark	7.68%	11.19%	11.67%	8.69%
<i>Difference</i>	-0.62%	1.93%	1.16%	0.66%
By fund manager				
<i>UBS</i>	5.84%	12.16%	12.23%	8.33%
<i>UBS Benchmark</i>	7.36%	11.07%	11.50%	8.61%
<i>Difference</i>	-1.52%	1.09%	0.73%	-0.28%
<i>Baillie Gifford</i>	6.84%	14.79%	14.73%	10.72%
<i>Baillie Gifford Benchmark</i>	8.06%	11.92%	11.91%	8.86%
<i>Difference</i>	-1.22%	2.87%	2.83%	1.86%
<i>Aberdeen Standard</i>	4.95%	7.57%		
<i>Aberdeen Standard Benchmark</i>	5.12%	6.42%		
<i>Difference</i>	-0.18%	1.15%		
<i>Private Equity</i>	35.71%	18.63%	13.39%	19.94%
<i>Private Equity Benchmark</i>	11.09%	14.83%	13.78%	10.69%
<i>Difference</i>	24.62%	3.80%	-0.39%	9.25%

Investment Risk

Whilst looking at return it is important to be aware of the risks being taken to achieve this. Risk-adjusted measures (such as relative risk and information ratios) are therefore useful metrics of achieved performance and as covered above the Fund must consider the risk in each of the portfolios and at total Fund level as part of setting its asset allocation.

The relative risk, relative return and information ratio for each of the Fund's largest (balanced) portfolios is set out in the following table for the three years ending 31 March 2019.

The IR achieved over a period gives an indication of how the Fund has implemented its actively managed assets to deliver outperformance of its strategic benchmark through showing that it converted each unit of risk taken into 0.73 units of excess return. Market convention is to consider an IR above 0.50 as "good," above 0.75 as "very good," and above 1.0 as "exceptional".

It is not appropriate to show relative risk or information ratios for the alternative asset classes (private equity and property) as these are relatively illiquid and not valued on a monthly basis.

	UBS	Baillie Gifford	Total Fund ⁶
Relative Risk: 'Relative Risk' is 'tracking error' or the volatility in the Fund's returns versus its benchmark over several consecutive time periods. The measure most commonly used to represent volatility is the standard deviation of monthly returns. (3 Years Annualised)	2.17	3.52	2.41
Relative Return: The return achieved by the Fund relative to the benchmark return. (3 Years Annualised)	1.09	2.87	1.93
Information Ratio (IR): Funds expect that benchmark relative risk will be rewarded with benchmark relative excess return. The 'Information Ratio' brings together the benchmark relative risk and return results and measures a fund's success in converting active investment risk into excess return. The observed risk and return are a function of a number of underlying factors including the investment strategy, flexibility around the strategy, choice of manager, their degree of discretion and, by no means least, the condition of the investment markets. Given the number of variables the IR (3 Yrs Annualised) needs careful interpretation.	0.50	0.82	0.80

⁶ It should be noted that returns are additive i.e. the two returns can be added and averaged. Volatility is not additive because of correlation. A correlation of 1 would mean that Baillie Gifford and UBS outperformed and underperformed in tandem. Risk would add under these circumstances.

Environmental, Social and Governance

Responsible Investment Policy

Corporate Governance considers issues relating to the way in which a company ensures that it is attaching maximum importance to the interest of its shareholders and how shareholders can influence management.

The Pensions Panel is mindful of its legal duty to obtain the best possible financial return on Pension Fund investments, within an appropriate risk profile. However, good practice in terms of social, environmental and ethical issues is likely to have a favourable effect on companies' financial performance.

The Fund's portfolio managers, whilst acting in the best financial interests of the West Sussex Scheme, will consider factors including the effects of social, environmental and ethical issues on the performance of a company when selecting an asset to purchase, retain or sell. The Pension Fund does not have an exclusion policy for any company or sector.

The investment managers take their governance responsibilities seriously. As long term investors they are committed to performing their stewardship role actively to support the investment process that is looking to identify and generate long term sustainable corporate growth.

This is achieved through dialogue with companies throughout the year on a variety of environmental, social and governance (ESG) issues such as strategy, performance, business ethics, corporate governance, climate change, human capital and supply chain management. and by building long relationship with management and board members in order to understand and influence less tangible aspects of a company, such as corporate culture.

By way of an example, as part of its engagement with a building construction suppliers company's CEO, Baillie Gifford has focused on governance and sustainability issues including firm-wide environmental data and carbon emissions disclosure. As a result, the CEO has agreed to take steps to begin reporting in 2019 and the firm has hired an executive who will oversee environmental issues.

The Fund's Investment Managers have adopted the Institutional Shareholder Committee's (ISC's) Code of Responsibilities of Institutional Investors, which aims to enhance the quality of the dialogue of institutional investors with companies to help improve long-term returns to shareholders, reduce the risk of catastrophic outcomes due to bad strategic decisions, and help with the efficient exercise of governance responsibilities, and have signed up to the United Nations Environment Programme Finance Initiatives (UNEP FI) Principles of Responsible Investment (UNPRI). Details of the Investment Managers governance principles can be found on their websites:

- [Baillie Gifford](#)
- [UBS](#) and [UBS climate change strategy](#)
- [Aberdeen Standard](#)
- [Pantheon](#)
- [Partners Group](#)

The Pensions Panel wishes to remain an active shareholder and exercise its voting rights to promote and support good corporate governance and the investment managers will exercise voting rights on behalf of the Fund.

All voting decisions are made by the investment managers with the long term prospects of companies and the best interest of clients in mind.

In exceptional circumstances the managers will attend meetings, where they have large holdings, where there is a contentious issue or where attendance in person rather than voting by proxy is in the best interest of clients.

During the year, the Fund managers on behalf of the Fund had votes placed at 99% of domestic meetings at which they were entitled to vote and 95% of foreign meetings. The Funds record over the recent five years is shown below:

	2015	2016	2017	2018	2019
Number of domestic meetings voted at as % of total meetings	99%	100%	100%	100%	99%
Number of foreign meetings voted at as % of total meetings	92%	94%	95%	94%	95%

It is normal for there to be a lower number of votes cast in foreign markets. Voting practices and the mechanisms of voting vary significantly globally. Issues faced by investors wishing to vote abroad include share blocking, powers of attorney, re-registration of shares into the name of the ultimate beneficial owner, a requirement for wet signatures, the need for physical attendance at the meeting, different format of voting cards, local agent costs, stock lending, voting deadlines and lack of confirmation that the vote has been received and cast.

Where the Fund did not vote during the year, this was due to local documentation requirements not being in place.

In line with the UK Stewardship Code both managers recognise the benefits of working alongside other like-minded investors on policy and company specific matters to increase influence.

For example, UBS has worked with Climate Action 100+ to secure a commitment from Shell to anchor its Net Carbon Footprint (NCF) ambitions to short-term targets and executive pay and in March 2019. The company announced its first three year target - a reduction in its NCF of 2-3% from 2016 – and has immediately linked the pay of the top 150 executives to delivery of the target with the intention to integrate the same target into the remuneration packages of the top 16,000 staff.

Stock Lending and Compliance

Stock Lending

To maximise the returns it can achieve on its investments, the Pension Fund has implemented a stock lending programme.

Stock lending is a market practice where securities are temporarily transferred by one party (in this case the Pension Fund) to another (the borrower).⁷

During the period of the loan the Pension Fund retains rights to corporate actions that would have arisen had the stock not been lent, and the borrower is obliged to pay the Pension Fund all cash benefits, such as dividends, arising during the period of the loan and is obliged to return the securities to the lender either on demand or at the end of the agreed term. The Pension Fund does not retain voting rights when lending a stock.

In return, a rate of commission is agreed between the lender and the borrower to run for the full length of the loan.

The amount of stock on loan and the rate of commission will vary depend on market requirements, the length of the loan, the security required by the Fund and the maturity of the programme.

The table below analyses the Fund's stock lending programme against a benchmark comparator (where available).

	2017/18	2018/19	Benchmark
Stock available to market at year end	£1,640m	£3,668m	
Stock on loan			
Average amount on loan	£57m	£258m	
Amount on loan as at 31 March	£144m	£303m	
Percentage on loan as at 31 March	8.8%	8.5%	
Utilisation	3.9%	9.2%	10.3%
Income			
Gross	£0.200m	£0.736m	
Net	£0.142m	£0.147m	
Net Return in Basis Points	19.2	20.5	24.1

For the period of the loan the Pension Fund retains security (collateral) against the borrower defaulting. The Pension Fund will accept the following non cash collateral:

	Collateral	
	£m	%
Obligations issued or guaranteed by the United States and United Kingdom	0.0	0.0
Obligations issued by other OECD member states or their local government agencies, instrumentalities or authorities provided they have a long term rating of AA- or higher	24.6	7.5
Obligations issued by supranational entities provided they have a long term rating of AA- or higher	-	-
Corporate debt securities including commercial paper and convertible securities issued by US and non US corporations provided they have a short term rating in the highest rating category	-	-
Equity from major indices	303.9	92.5
Total	328.5	100

⁷ Borrowers for the Pension Fund are limited to UK authorised persons and EEA regulated entities.

Custodian Performance

Amaces, an independent custodian monitoring firm, review the service provided by the Fund's custodian. The benchmark figures shown represent the average experience of other Pension Funds using a range of different custodians.

- **Trade Activity**

In 2018/19, the average monthly activity was 216 trades with a value of £103m (2017/18: 199 trades £169m). On a monthly basis the number and value of trades that settle after the Contractual Settlement Date are monitored. Particular focus is placed on the value of any late settling transactions as this represents the biggest operational risk to the Fund. The main reason for trades failing to settle was the counterparty having insufficient securities but other reasons include counterparty not matching our instruction, broker's instruction was late in the market, broker had insufficient stock and broker sent the wrong instruction. However, the custodian offer contractual settlement in 51 markets, meaning that when trades settle late, BNP would claim for late settlement from brokers and reflect this in the Fund's accounting record. Should a trade be reversed, any market exposure risk is borne by the Fund.

Whilst the percentage of late settlements has improved compared to 2017/18 the average figure of late trades as shown below is still above the benchmark figure.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late settlement as % of monthly trades	14.03 %	10.18 %	4.76%
Value of outstanding settlement as % of average monthly trades	0.00%	0.00%	0.23%

- **Income**

Income relates to dividend and interest payments on securities held in the Baillie Gifford and UBS portfolio. Income from direct and indirect property and private equity investments are treated separately. Over the year, the fund received 594 income receipts with a total value of £42.2 million. West Sussex benefits from the custodian's contractual income policy whereby all income due and maturity proceeds are credited on payment date. However, this information is custody-based rather than from an accounting perspective.

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of late income as % of monthly income	15.55%	12.89%	6.52%
Value of outstanding income as % of average monthly income	2.85%	0.00%	1.28%

- **Tax**

The number of tax reclaims as a percentage of total average monthly tax reflects the restrictions with regard to when tax claims can be filed and the time period that it takes to file and receive tax refunds

Indicator	2018	2019	
	Fund	Fund	B'mark
Value of tax outstanding as % of average monthly tax	2700%	3,788%	4,607%
Number of tax reclaims outstanding as % of average monthly tax	2,476%	3,349%	4,848%

- **Foreign Exchange (FX)**

The three main sources of revenue for custodians over and above fees charged are FX, interest and stock lending. Amaces measures small FX deals such as dividend payments which are less than \$200,000 on the basis that the larger trade related deals are normally transacted on a negotiated basis, where rates are agreed before the trade is placed, in an attempt to ensure preferable rates of conversion.

Indicator	2018	2019	
	Fund	Fund	B'mark
FX cost in basis points ⁸	0	8	16

- **Credit interest rate for GBP, Euro and US Dollar**

Over the year under review, cash balances on the UBS and Baillie Gifford part of the fund were swept on a daily basis to BNP's Liquidity Fund. Both managers monitor the rates received on a regular basis. The average credit balance during the year was £46.1m. The custodian also holds fractional balances in foreign currency on behalf of the Fund for short periods. The interest rates received for these balances together with the sterling rate are shown below.

Indicator	2018	2019	
	Fund	Fund	B'mark
Credit interest rate % for GDP	0.13%	0.42%	0.38%
Credit interest rate % for EUR	-0.39%	-0.61%	-0.47%
Credit interest rate % for USD	0.73%	0.76%	1.22%

⁸ Basis points are used to measure movement of less than 1%. One hundred basis points equal 1%, or put another way, one basis point equals one hundredth of a percent.

Transaction Costs

It is considered good practice that the Panel should have a full understanding of the transaction related costs they incur and since 2003 the Fund has commissioned a trading cost analysis which shows commissions, fees and market impact costs incurred by the Fund over the year against an institutional average.⁹ This has been summarised in the table below.

Variances are affected by volatility and liquidity in the various markets traded in, and so costs vary year on year.

In sterling terms, the Fund has made a cost 'saving' of £16.8m against the institutional average over the fifteen years that the Elkins/McSherry report has been produced in full through efficient trading

	Fund £	Fund BP	Universe BP
Commission Paid by managers to brokers at the time of the stock trade. Managers are required to report commissions between trade execution and research, rather than reporting a single commission charge.	339,312	3.4	7.7
Fees Mandatory costs such as stamp duty and local taxes.	804,159	8.0	6.3
Market Impact The difference between the trade execution price and the Volume Weighted Average Price (VWAP) of the stock on trade date.	303,784	3.0	3.4
Trading Cost Commission plus market impact and fees.	1,447,255	14.4	17.4
2017/18	1,034,991	7.7	23.4
2016/17	2,380,483	14.7	28.3
2015/16	1,658,689	18.4	30.9
2014/15	931,226	9.7	32.1

⁹ The Elkins/McSherry Universe is a compilation of actual trade data from hundreds of institutions. They provide trading efficiency analyses that determine the relative cost to trade on various stock exchanges globally and the effectiveness of trades and brokers. This trading data is used to create an institutional average universe of commissions, fees and market impact costs. During the year to 31 March 2018, Elkins McSherry monitored £999.83m in global equities transactions across 2159 trades (2017/18: £1.34bn / 2097 trades).

Asset Pooling – ACCESS Summary

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight County Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Collectively as at 31 March 2019, the pool has assets of £46 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

Governance

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

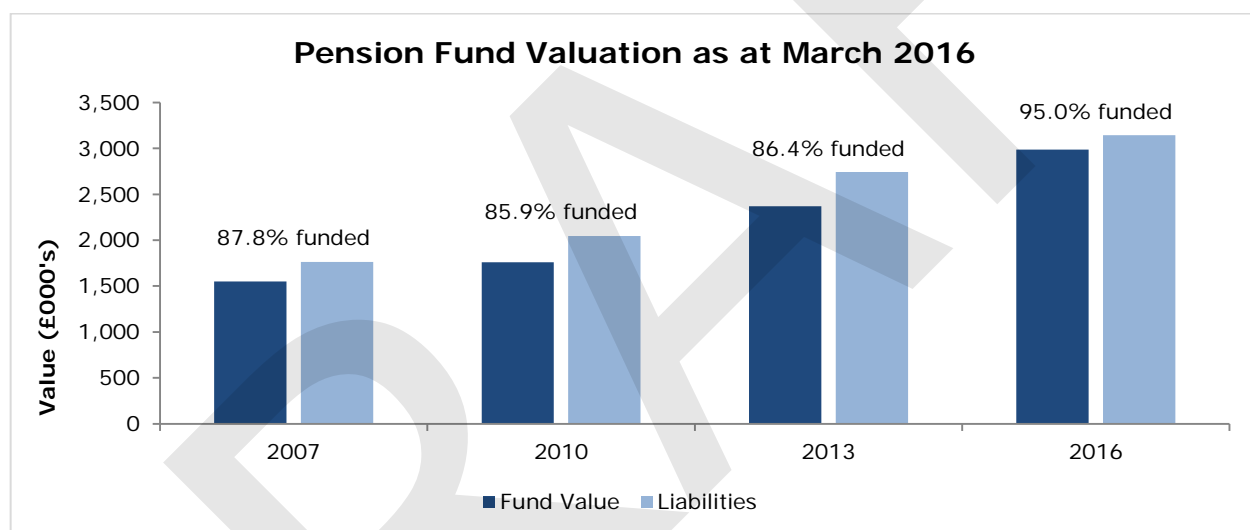
Appendix 3 provides further details on the ACCESS pool.

Actuarial Report on Fund

Fund valuation

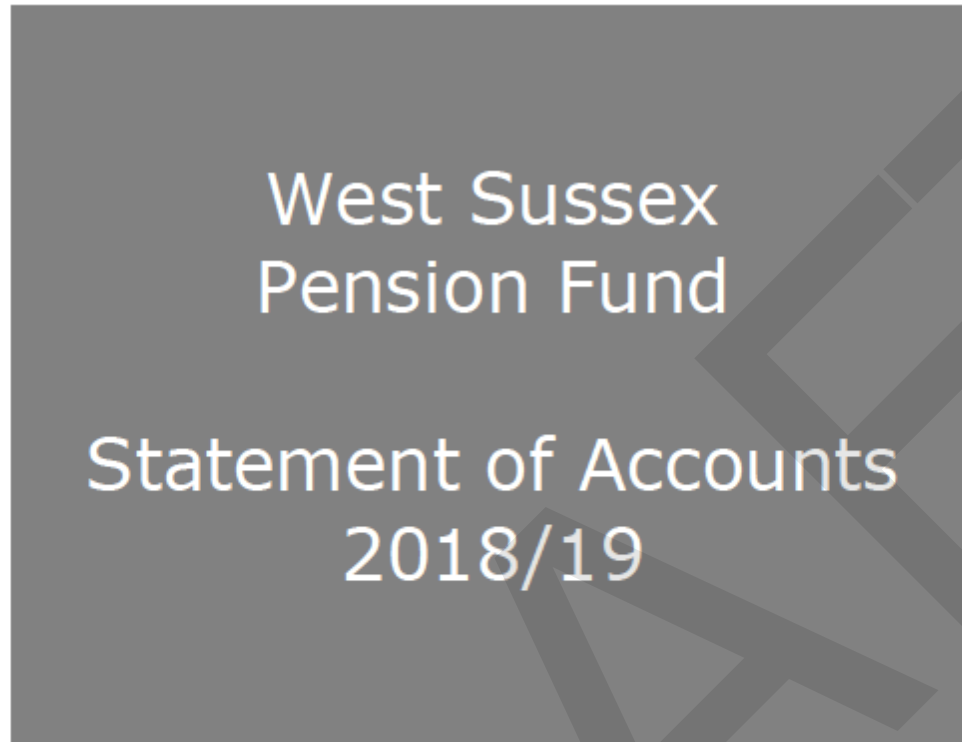
A valuation of the Fund is carried out by the Fund's actuary every three years to test future funding or current solvency of the value of the Pension Fund's assets against its liabilities and to set the employer contribution rates for the next three year period to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. Interim valuations are undertaken from time to time to take account of significant factors affecting assumptions made at the time of the last triennial valuation.

The Fund is currently undertaking a valuation based on assets and liabilities as at 31st March 2019; however the results will not be available until 31st March 2020. This will set the employer contribution rates from 1 April 2020 to 31 March 2023. The results of previous valuations are illustrated below as a comparator.



Further information is included in the Fund's Funding Strategy Statement and its Actuarial Valuation report.

Appendix 1 – West Sussex Pension Fund Statement of Accounts 2018/19



Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2019.

Katharine Eberhart
The Director of Finance and Support Services

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2019 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website www.westsussex.gov.uk/pensions

Financial Report and Accounts 2018/19

The Local Government Pension Fund Scheme Pension Fund Account

2017/2018 £000		Notes	2018/2019 £000
	Dealings with members, employers and others directly involved in the scheme		
124,719	Contributions received	7	130,312
36,921	Transfers in from other Pension Funds	8	4,317
161,640			134,629
(107,235)	Benefits paid	9	(113,811)
(8,288)	Payments to and on account of leavers	10	(11,375)
(115,523)			(125,186)
46,117	Net additions/(withdrawals) from dealings with members		9,443
(17,334)	Management Expenses	11	(17,835)
28,783	Net additions/(withdrawals) including Fund management expenses		(8,392)
	Returns on investments		
51,571	Investment income	12	61,375
(1,158)	Taxes on income	13A	(1,211)
169	Other income		5
226,622	Profit and (losses) on disposal of investments and changes in the market value of investments	14A	218,068
277,204	Net return on investments		278,237
305,987	Net increase in net assets available for benefits during the year		269,845
3,798,289	Add opening net assets of the scheme		4,104,276
4,104,276	Closing net assets of the scheme		4,374,121

Financial Report and Accounts 2018/19

Net Asset Statement

At 31 March 2018 £000		Notes	At 31 March 2019 £000
4,066,693	Investment assets	14	4,322,996
(6,154)	Investment liabilities	14	(9,660)
4,060,539	Net investment assets / (liabilities)		4,313,336
51,379	Current assets	21	72,266
(7,642)	Current liabilities	22	(11,481)
4,104,276	Net assets of the scheme available to fund benefits at the end of the reporting period		4,374,121

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2019. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Financial Report and Accounts 2018/19

Notes to the Accounts

NOTE 1: DESCRIPTION OF THE FUND

The West Sussex Pension Fund ('the Fund') is part of the LGPS and is administered by West Sussex County Council

a. General

The LGPS is a national defined benefit funded pension scheme governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The West Sussex Pension Fund is administered locally by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months. Employees of certain specified employers (such as Colleges, Academies and those who are providing a service transferred from a local authority) can also join the Scheme. Organisations participating in the Fund include:

- **Scheduled Bodies, Resolution Bodies and Academies:** Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- **Admitted Bodies:** Other organisations that participate in the Scheme under an admission agreement between the administering authority, Fundorganisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Police officers, teachers and fire-fighters have their own unfunded statutory arrangements.

Financial Report and Accounts 2018/19

Membership details are set out below:

	31 March 2019	31 March 2018
Number of employers with active members	201	193
Number of active members		
County Council	14,578	14,755
Other employers	13,483	13,082
Total	28,061	27,837
Number of pensioners		
County Council	10,547	10,111
Other employers	9,348	8,956
Total	19,895	19,067
Number of deferred pensioners		
County Council	16,181	15,734
Other employers	11,054	10,400
Total	27,235	26,134
Total number of members in scheme	75,191	73,038

c. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by:

- Active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 42.7% of pensionable pay for the financial year ending 31 March 2019.

d. Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a Career Average Revalued Earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index (CPI).

A range of other benefits are also provided including early retirement, disability pensions and death benefits as explained on the LGPS website.

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NOTE 2: BASIS OF PREPARATION

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2019 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

The accounts have been prepared on a going concern basis.

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NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue recognition

a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Member contributions are accrued at the percentage rate in accordance with the LGPS Regulations 2013. Employer contributions are accrued at the percentage rate set by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in line with the payment schedule. Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other Schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in or out are accounted for when received or paid, i.e when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are also accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment income

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

ii. Stock lending income is recognised as it accrues.

iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

iv. Private equity income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

v. Property income consists primarily of rental income and is accounted for on an accruals basis.

vi. Changes in the value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit or loss during the year.

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Fund Account - Expense items

d. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities, providing that payment has been approved.

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 suffer withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

f. Management expenses

The Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)* as set out below:

- i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.
- iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £5.7m in 2018/19 (£5.4m in 2017/18).
- v. The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.

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Net Asset Statement

g. Financial assets

Financial assets are shown at market value at the reporting date and are recognised in the Net Asset 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 assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). See Note 16.

h. Freehold and leasehold properties

Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16.

i. Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. 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 change in value.

k. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Fund.

l. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.

m. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. These have been invested separately with Standard Life and Equitable Life and are therefore disclosed as a note and not included in the Fund accounts. See Note 23.

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n. Contingent assets and contingent liabilities

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 future events.

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.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes. See Note 25 & Note 26.

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the Fund actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary. See Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between one and thirty-five years. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 17 and the Code, therefore the properties are retained on the Net Asset Statement at fair value. Rental income is recognised in the Fund account on an accruals basis.

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NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The table below describes items for which there is a significant risk of material adjustment the following year.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2019 would result in an approximate 11% increase to employer liability (£519m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2019 would result in an approximate increase in employer liability of between 3 and 5%.</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2019 would result in an approximate increase in employer liability of 2% (£75m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2019 would result in an approximate 8% increase in employer liability (£413m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cash flows.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investment in the financial statements is £110.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

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Freehold and leasehold property	<p>Independent valuation for freehold and leasehold investment property has been provided at 31 March 2019 by Savills (UK) Ltd in accordance with Royal Institution of Chartered Surveyors Red Book.</p> <p>This takes into account observable and unobservable pricing inputs including existing lease terms, independent market research, the nature of tenancies and tenant covenant strength, void levels and estimated rental growth.</p>	<p>Investment properties have been valued on the basis of fair value. "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".</p> <p>Changes in rental growth, void levels and general changes in property market prices could affect the valuation. There is a risk that this investment may be under or overstated in the accounts.</p>
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NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

In December 2018, the Court of Appeal upheld a ruling ("McCloud/Sargeant") that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well.

The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

The Fund recognises this denial of leave to appeal as a post balance sheet event and has adjusted Note 20 as a result showing a revised estimate of the net pension liability to provide for the potential obligations arising from this ruling.

The additional potential obligations relate to the potential need for LGPS benefits accrued from 2014 needing to be enhanced so that all eligible members, regardless of age, will benefit from the transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

NOTE 7: CONTRIBUTIONS RECEIVED

By Category

2017/18		2018/19
£000		£000
98,279	Employers	102,858
26,440	Members	27,454
<u>124,719</u>		<u>130,312</u>

By Authority

2017/18		2018/19
£000		£000
54,873	Administering authority	57,497
61,891	Scheduled bodies	65,473
7,955	Admitted bodies	7,342
<u>124,719</u>		<u>130,312</u>

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

2017/18		2018/19
£000		£000
8,454	Individual transfers	4,317
28,467	Bulk transfers	-
<u>36,921</u>		<u>4,317</u>

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NOTE 9: BENEFITS PAID

By Category

2017/18		2018/19
£000		£000
88,389	Pensions	94,127
16,032	Commutation and lump sum retirement benefit	16,938
2,814	Lump sum death benefit	2,746
<u>107,235</u>		<u>113,811</u>

By Authority

2017/18		2018/19
£000		£000
48,871	Administering authority	51,697
49,885	Scheduled bodies	52,995
8,479	Admitted bodies	9,119
<u>107,235</u>		<u>113,811</u>

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£000		£000
407	Refunds of contributions	2,769
7,556	Individual transfers	6,866
325	Bulk transfers	1,740
<u>8,288</u>		<u>11,375</u>

Refund of contributions includes a £2.4m payment relating to the exit credit due to an exiting employer made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008 and regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018. At the year-end there are further potential liabilities of £0.3m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions from members. See Note 25.

NOTE 11: MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
668	Administrative costs	1,224
999	Oversight and governance costs	1,117
15,667	Investment management expenses	15,494
<u>17,334</u>		<u>17,835</u>

NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
9,120	Management fees	8,346
5,360	Performance related fees	5,723
140	Custody fees	185
1,045	Transaction costs	1,238
2	Treasury management expenses	2
<u>15,667</u>		<u>15,494</u>

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NOTE 12: INVESTMENT INCOME

2017/18		2018/19
£000		£000
34,613	Income from equities	40,321
3,461	Income from bonds	3,652
1,320	Private equity income	2,088
11,698	Property income	14,019
279	Interest on cash deposits	686
200	Income from stock lending	609
<u>51,571</u>		<u>61,375</u>

NOTE 12a: PROPERTY INCOME

2017/18		2018/19
£000		£000
13,193	Rental income	16,479
(1,495)	Direct operating expenses	(2,460)
<u>11,698</u>		<u>14,019</u>

No contingent rents have been recognised as income during the period.

NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

2017/18		2018/19
£000		£000
23	Pension Advisory Board	24
<u>102</u>	ACCESS pool	<u>117</u>
<u>125</u>		<u>141</u>

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2018/19 reflect the Fund's contribution towards the pool's establishment and business as usual activities. These costs are included within oversight and governance costs in Note 11.

NOTE 13a: TAXES ON INCOME

2017/18		2018/19
£000		£000
1,717	Tax paid on dividend payments	1,844
(559)	Tax recoverable	(633)
<u>1,158</u>		<u>1,211</u>

NOTE 13b: EXTERNAL AUDIT COSTS

2017/18		2018/19
£000		£000
26	Payable in respect of external audit	37
<u>26</u>		<u>37</u>

2018/19 costs include £17,000 relating to prior year charges (of which £11,000 has been recharged to employers in respect of IAS19 protocol work). These costs are included within oversight and governance costs in Note 11.

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NOTE 14: INVESTMENTS

Market value 2017/18 £000		Market value 2018/19 £000
	Investment assets	
1,976,634	Equities	2,164,653
155,462	Bonds	118,002
1,391,573	Pooled investments	1,468,720
121,051	Private equity	110,727
344,585	Property	376,950
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
4,066,693	Total investment assets	4,322,996
	Investment liabilities	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
(6,154)	Total investment liabilities	(9,660)
4,060,539	Net investment assets	4,313,336

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NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Current Year				
	Market Value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	155,462	39,661	(77,915)	794	118,002
Equities	1,976,634	573,201	(526,802)	141,620	2,164,653
Pooled investments	1,391,573	26,700	-	50,447	1,468,720
Private equity	121,051	3,859	(32,063)	17,880	110,727
Property	344,585	27,599	-	4,766	376,950
	3,989,305	671,020	(636,780)	215,507	4,239,052
Derivatives	-	-	-	-	-
Sub total	3,989,305	671,020	(636,780)	215,507	4,239,052
Other investment balances					
Cash deposits	68,936			2,561	69,405
Amount receivable for sales	3,522				7,806
Investment income due	4,930				6,733
Amount payable for purchases	(6,149)				(9,296)
Property income received in advance	(5)				(364)
Total assets	4,060,539			218,068	4,313,336

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Previous Year					
	Market Value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	113,765	61,039	(17,860)	(1,482)	155,462
Equities	2,176,840	549,372	(922,499)	172,921	1,976,634
Pooled investments	917,746	456,000	(4,000)	21,827	1,391,573
Private equity	157,870	4,148	(52,114)	11,147	121,051
Property	285,820	38,674	(100)	20,191	344,585
	3,652,041	1,109,233	(996,573)	224,604	3,989,305
Derivatives	-	235,290	(234,790)	(500)	-
Sub total	3,652,041	1,344,523	(1,231,363)	224,104	3,989,305
Other investment balances					
Cash deposits	105,999			2,518	68,936
Amount receivable for sales	1,436				3,522
Investment income due	7,070				4,930
Amount payable for purchases	(786)				(6,149)
Rental receipts in advance	(6)				(5)
Total assets	3,765,754			226,622	4,060,539

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NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2018 £000		31 March 2019 £000
	Bonds	
	UK	
155,462	Government	118,002
<u>155,462</u>		<u>118,002</u>
	Equities (quoted)	
381,898	UK	441,531
1,594,736	Overseas	1,723,122
<u>1,976,634</u>		<u>2,164,653</u>
	Pooled funds	
	UK	
459,403	Government bonds	401,956
373,164	Corporate bonds	375,092
	Overseas	
123,051	Government bonds	132,766
380,439	Corporate bonds	529,035
55,516	Cash	29,871
<u>1,391,573</u>		<u>1,468,720</u>
121,051	Private equity	110,727
344,585	Property	376,950
<u>465,636</u>		<u>487,677</u>
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>77,388</u>		<u>83,944</u>
<u>4,066,693</u>	Total investment assets	<u>4,322,996</u>
	Investment liabilities	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	Total investment liabilities	<u>(9,660)</u>
<u>4,060,539</u>	Net investment assets	<u>4,313,336</u>

Pooled fund analysis has been restated for 2017/18 due to increased accuracy in the reporting of underlying investments in these funds. The pooled fund totals have not been restated.

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NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2018		Share of market value held by fund managers	31 March 2019	
%	£000		£000	%
37.7	1,532,607	UBS Global Asset Management	1,622,145	37.6
50.8	2,061,385	Baillie Gifford & Co	2,202,350	51.1
1.7	67,469	Pantheon Ventures	60,924	1.4
1.3	53,582	Partners Group	49,803	1.2
8.5	344,585	Aberdeen Asset Management	376,950	8.7
0.0	911	Other investments	1,164	0.0
100.0	4,060,539		4,313,336	100.0

Table above amended and 2017/18 restated to include all investment balances.

No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in bond and currency funds, each of these funds is made up of multiple underlying assets. The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

31 March 2018			31 March 2019	
%	£000		£000	%
21.9	890,923	Baillie Gifford managed funds		
		Sterling Aggregate Bond Fund	922,631	21.1
0.8	32,789	UBS managed funds		
		Currency Allocation Return Fund	32,468	0.7
11.5	467,861	UK Corporate Bond UK Plus Fund	513,621	11.7
34.2	1,391,573		1,468,720	33.5

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NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2019, the value of quoted equities on loan was £302.6m (31 March 2018: £144.0m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £328.5m (31 March 2018: £159.4m).

Stock-lending commissions are remitted to the Fund via its custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

NOTE 14e: DIRECT PROPERTY HOLDINGS

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

31 March 2018		31 March 2019
£000		£000
285,820	Opening balance	344,585
	Additions	
29,063	Purchase of existing property	25,541
6,757	New construction	1,512
2,854	Subsequent expenditure	546
(100)	Disposals	-
20,191	Net increase in market value	4,766
<u>344,585</u>	Closing balance	<u>376,950</u>

The future minimum lease payments receivable by the Fund under existing contracts are as follows:

31 March 2018		31 March 2019
£000		£000
13,999	Within one year	16,434
52,042	Between one and five years	58,882
100,959	Later than five years	104,501
<u>167,000</u>	Total future lease payments due under existing contracts	<u>179,817</u>

The above disclosures have been reduced by a credit loss allowance of 0.2% per annum reflecting the fund's assessment on the credit risk of tenants, applied on an individual basis. This has been based on the fund's own historic experience. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

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NOTE 15: ANALYSIS OF DERIVATIVES

The Fund does not invest directly in derivatives.

NOTE 16: FAIR VALUE - BASIS OF VALUATION

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.

- a. Market quoted investments (Level 1)
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b. Quoted bonds (Level 1)
Bonds are recorded at net market value based on their current yield.
- c. Pooled investment vehicles (Level 2)
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- d. Freehold and leasehold properties (Level 3)
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

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e. Private equity (Level 3)

Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group.

Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Partners Group have been given an unqualified opinion.

- The valuation of Pantheon's portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.

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Sensitivity of assets valued at Level 3

Having consulted with independent investment advisors and fund managers on historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Freehold and leasehold property (a)	10%	376,950	414,645	339,255
Private equity (b)	15%	110,727	127,336	94,118
		487,677	541,981	433,373

a) Actual realised returns will depend on factors including independent market research, the nature of tenancies, tenant covenant strength, void levels and estimated rental growth.

b) Actual realised returns will depend on factors including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale.

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NOTE 16a: FAIR VALUE HIERARCHY

Asset and liability valuations have 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. Products classified as Level 1 comprise quoted equities, quoted bonds, quoted index linked securities and unit trusts.

Listed investments are shown at bid price. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based largely on observable market data.

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 include unquoted equity investments which are valued using various valuation techniques that require professional judgement in determining appropriate assumptions.

The valuation of both private equity portfolios have been prepared in accordance with industry guidelines.

The table on the following page provides an analysis of the financial assets and liabilities of the Fund grouped by and based on the level at which the fair value is observable.

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	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	2,282,655	1,468,720	110,727	3,862,102
Non-financial assets at fair value through profit and loss			376,950	376,950
Net investment assets	2,282,655	1,468,720	487,677	4,239,052

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	2,132,096	1,391,573	121,051	3,644,720
Non-financial assets at fair value through profit and loss			344,585	344,585
Net investment assets	2,132,096	1,391,573	465,636	3,989,305

NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000
Private equity	121,051	-	(28,203)	(4,131)	22,010	110,727
Property	344,585	-	27,599		4,766	376,950
	465,636	-	(604)	(4,131)	26,776	487,677

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NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement headings. No financial assets were reclassified during the accounting period.

31 March 2018			31 March 2019		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets			Financial assets		
155,462	-	-	118,002	-	-
1,976,634	-	-	2,164,653	-	-
1,391,573	-	-	1,468,720	-	-
121,051	-	-	110,727	-	-
-	104,268	-	-	123,009	-
-	8,452	-	-	14,539	-
-	16,047	-	-	18,662	-
3,644,720	128,767	-	3,862,102	156,210	-
Financial liabilities			Financial liabilities		
-	-	(6,154)	-	-	(9,660)
-	-	(7,642)	-	-	(11,481)
3,644,720	128,767	(13,796)	3,862,102	156,210	(21,141)
Total			Total		

NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018	31 March 2019
£000	£000
Financial assets	
204,412	210,740
2,518	2,561
Financial liabilities	
-	-
206,930	213,301

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

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NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER ASSETS

Risk and risk management

The 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 by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

The Fund's Investment Strategy Statement (ISS) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The ISS is reviewed regularly to reflect changes in approaches to the Fund's activities.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. The Panel receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Panel. Consideration of the Fund's investment strategy is on-going.

a. Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets.

The object of market risk management is to identify, manage and control market risk exposures within acceptable parameters while optimising returns.

Market risk is inherent in the investments that the Fund makes, particularly through its equity holdings, and is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. A customised benchmark has been adopted which includes maximum exposures to individual investments, and risk associated with the strategy and investment return are regularly monitored and reviewed by the Pensions Panel.

Each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions.

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Other price risks

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 arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk and derivative price risk during periods of transition. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate price risk through diversification and the selection of securities. Exposure is monitored to ensure it is within limits specified in the Fund's investment strategy.

Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. (The prior year comparator is also shown).

	Current year			
	Value at 31 March 2019 £000	Change %	Value on Increase £000	Value on Decrease £000
Asset type				
UK equities	441,531	16.60%	514,825	368,237
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
Total	4,308,458		4,923,769	3,693,147
	Previous year			
	Value at 31 March 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Asset type				
UK equities	381,898	16.80%	446,056	317,739
Overseas equities	1,594,736	17.90%	1,880,194	1,309,278
Bonds	155,462	8.50%	168,676	142,248
Bond funds	1,358,784	8.73%	1,477,406	1,240,162
Cash	68,936	0.50%	69,281	68,591
Property	344,585	14.30%	393,861	295,309
Private equity	121,051	28.30%	155,308	86,793
Currency fund	32,789	10.00%	36,067	29,510
Total	4,058,241		4,626,849	3,489,630

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b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £69.4m in cash (31 March 2018: £68.9m) and cash internally managed by WSCC at 31 March 2019 was £53.6m (31 March 2018: £35.3m). This was held by institutions with the following credit ratings :

	Nominal amount 31 March 2018 £000	Nominal amount 31 March 2019 £000
AAA rated counterparties	15,000	42,200
AA- rated counterparties	-	-
A rated counterparties	89,268	80,809
TOTAL	104,268	123,009

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2019, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

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d. Refinancing risk

The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk

The Fund's global custodian, BNP Paribas has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors BNP Paribas's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will help 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 (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having 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 the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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Funding position as at the last formal funding valuation

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Method:

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

Assumptions:

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

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

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke longevity analysis (VitaCurves) with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, strong asset returns have more than offset the increase in liabilities. Therefore the overall impact has been an improvement in the funding level since the previous valuation.

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

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NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19. This includes an estimate for the McCloud impact (based on the Government Actuary Department's Guidance dated 10 June 2019) and the Actuary's estimate of the potential impact of GMP equalisation.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Actuary has adjusted GAD's estimate to reflect the Fund's local assumptions around salary increases and withdrawal rates.

31 March 2018		31 March 2019	
£m		£m	
(1,973)	Active members	(2,442)	
(902)	Deferred pensioners	(1,012)	
(1,530)	Pensioners	(1,507)	
(4,405)	Present value of promised retirement benefits	(4,961)	
4,104	Fair value of scheme assets (bid value)	4,374	
(301)	Net liability	(587)	

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

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IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2019 and 31 March 2018.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £375m. There is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

	31 March 2018	31 March 2019
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	2.5
Salary increase rate	3.1	3.2
Discount rate	2.7	2.4

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.5% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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.

GMP equalisation

The Fund's actuary has estimated the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

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NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£000		£000
	Debtors:	
2,220	Contributions due - members	2,473
7,794	Contributions due - employers	8,730
1	Prepayments	1,290
1,460	Other debtors	1,238
4,572	Taxation	4,931
16,047		18,662
35,332	Cash balances	53,604
<u>51,379</u>		<u>72,266</u>

Analysis of debtors

31 March 2018		31 March 2019
£000		£000
5,982	Central government bodies	6,443
6,663	Other local authorities	6,954
1,792	Educational establishments	2,512
1,609	Other entities and individuals	2,753
<u>16,046</u>		<u>18,662</u>

NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£000		£000
3	Contributions	-
327	Benefits payable	1,215
7,312	Other current liabilities	10,266
<u>7,642</u>		<u>11,481</u>

Analysis of creditors

31 March 2018		31 March 2019
£000		£000
1,124	Central government bodies	1,021
131	Other local authorities	184
228	Educational establishments	1,239
6,159	Other entities and individuals	9,037
<u>7,642</u>		<u>11,481</u>

The Pension Fund has made a provision for £2.4m relating to the exit credit due to an exiting employer which is payable under the LGPS (Amendment) Regulations 2018.

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NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value 31 March 2018		Market Value 31 March 2019
£000		£000
2,102	Standard Life	2,139
435	Equitable Life	403
<u>2,537</u>		<u>2,542</u>

AVC Contributions of £349,873 were paid directly to Standard Life during the year (2017/18: £305,339). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

NOTE 24: RELATED PARTY TRANSACTIONS

West Sussex County Council

The West Sussex Pension Fund is administered by West Sussex County Council. Therefore, there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the Council incurred costs of £1.1m (2017/18: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £57.5m to the Fund in 2018/19 (2017/18: £54.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2019, the Fund had a daily average investment balance of £50.0m held in Sterling (31 March 2018: £49.7m) earning interest of £0.31m (2017/18: £0.13m) in these funds at a rate of return of 0.62% (2017/18: 0.27%). Additionally, the Fund has earned interest of £0.13m on investments held in foreign currency (2017/18: £0.03m).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

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NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. These costs comprise an element of the recharge from the Fund to the County Council in 2018/19 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

31 March 2018		31 March 2019
£000		£000
16	Total apportioned remuneration	16

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

A contingent liability arises where an event has taken place that gives the Fund a possible obligation, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

Estimates provided to members indicate that at year-end there are potential liabilities of £0.3m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2019 totalled £27.6m (31 March 2018 £30.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

Appendix 2 – Contributing employers during the year

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Adur/Worthing Joint Committee	3378.82	1097.19	4476.01
Angmering Parish Council	27.45	7.89	35.34
Ansty and Staplefield Parish Council	3.93	1.05	4.98
Ardingly Parish Council	0.80	0.20	1.00
Arun District Council	3319.22	685.64	4004.87
Ashington Parish Council	3.34	0.85	4.19
Ashurstwood Village Council	5.97	1.58	7.55
Aspire Sussex Ltd	115.75	28.28	144.03
Balcombe Parish Council	2.64	0.67	3.31
Baldwins Hill Primary School	43.72	10.64	54.36
Balfour Beatty	137.74	35.25	172.99
BAM	3.48	3.97	7.45
Barnham Primary School	66.42	16.29	82.70
Bersted Parish Council	10.66	3.07	13.73
Bewbush Academy	142.94	35.50	178.45
Billingshurst Parish Council	33.18	9.32	42.51
Bishop Luffa School	211.88	56.49	268.37
Blackthorns Primary School	47.74	10.80	58.54
Bognor Regis Town Council	57.83	18.39	76.22
Bohunt Worthing Academy	70.03	19.82	89.85
Bolney Parish Council	1.86	0.47	2.33
Broadbridge Heath Parish Council	3.65	0.98	4.62
Broadfield Primary Academy	136.26	32.52	168.78
Burgess Hill Academy	168.26	39.79	208.06
Burgess Hill Town Council	93.57	32.88	126.45
Capita (SSO)	795.53	241.18	1036.71
Capita IT	438.15	143.27	581.42
Care Quality Commission	0.00	2.87	2.87
Carers Support	12.83	3.62	16.45
Caterlink (Shoreham Academy)	7.34	1.75	9.09
Central CofE Junior School	46.36	12.63	58.99
Change, Grow, Live	19.56	4.32	23.89
Chichester City Council	40.57	16.00	56.57

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Chichester College	2555.91	835.84	3391.75
Chichester District Council	2717.37	873.11	3590.48
Chichester Free School	129.82	39.43	169.25
Chichester Harbour Conservancy	139.26	43.26	182.52
Chichester High School	207.27	55.12	262.39
Churchill - Balcombe Primary School	0.18	0.04	0.23
Churchill - Bersted Green Primary School	4.36	0.97	5.33
Churchill - Bognor Regis Nursery School	0.34	0.07	0.41
Churchill - Coastal Enterprises	0.87	0.22	1.09
Churchill - Northolmes Junior School	0.22	0.05	0.27
Churchill - Nyewood Jnr Sch	2.36	0.57	2.93
Churchill - West Chiltington	1.36	0.35	1.71
Churchill -The Forest	29.56	8.94	38.50
Colgate Parish Council	1.59	0.40	1.99
Collyers College	305.18	85.13	390.32
Crawley Borough Council	3233.10	1012.61	4245.71
Cuckfield Parish Council	18.80	5.17	23.97
Desmond Anderson Primary Academy	135.85	31.11	166.96
Donnington Parish Council	1.33	0.34	1.67
Downsbrook Primary School	52.58	12.77	65.36
Downview Primary School	80.31	19.75	100.06
Durrington High School	299.44	73.01	372.45
Earnley Parish Council	1.42	0.39	1.81
Easebourne Parish Council	2.29	0.58	2.88
East Grinstead Town Council	94.68	31.68	126.36
East Preston Junior School	41.97	10.34	52.30
East Preston Parish Council	9.61	2.76	12.37
East Wittering & Bracklesham Parish Council	4.94	1.48	6.43
Eastbrook Primary	97.48	23.90	121.38
Eastergate Parish Council	3.25	1.24	4.49
Edward Bryant Primary	102.98	25.13	128.11
Essex Cares Ltd	135.00	19.65	154.65
Fernhurst Primary School	40.81	9.58	50.39
Fire Service Charity	20.91	1.69	22.61

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Fittleworth Parish Council	2.07	0.52	2.59
Forge Wood Academy	15.85	4.98	20.83
Freedom Leisure (Ex 6 Villages)	1.45	0.43	1.88
Freedom Leisure Arun Leisure	122.48	28.26	150.74
Gossops Green Primary School	86.91	24.67	111.58
Grace Eyre Northern	18.11	4.48	22.59
Grace Eyre Western	25.16	7.12	32.29
Greater Brighton Metropolitan College	2094.36	504.33	2598.69
Greenway Academy	41.02	11.85	52.87
Groundworks South Trust	1.13	0.32	1.45
Halsford Park Primary School	84.15	20.85	105.00
Harlands Educational Trust	53.44	12.02	65.46
Hassocks Parish Council	21.83	6.35	28.18
Haywards Heath Town Council	46.35	13.21	59.56
Hazelwick Academy	253.21	72.57	325.78
Hilltop Academy	108.00	29.27	137.27
Holmbush Primary School	57.16	13.16	70.33
Homes & Communities Agency	241.61	41.23	282.83
Horsham District Council	2330.32	789.43	3119.76
Hunston Parish Council	2.98	0.80	3.78
Hurstpierpoint Parish Council	18.96	5.41	24.38
Impact Initiatives	1.34	0.35	1.69
Impulse Leisure	46.54	17.98	64.52
ISS Facilities Services	1.99	0.64	2.64
Kingsham Primary School	70.16	15.39	85.55
Lancing Parish Council	28.35	8.92	37.27
Lindfield Parish Council	9.74	2.76	12.51
Lindfield Primary School	84.31	19.00	103.30
Lindfield Rural Parish Council	5.79	1.47	7.27
Littlegreen School	16.80	3.97	20.77
Littlehampton Academy	257.30	77.62	334.92
Littlehampton Harbour Board	30.16	11.17	41.33
Littlehampton Town Council	84.58	25.67	110.25
Martlet Homes	442.13	134.67	576.81
Mears Ltd	26.21	7.50	33.71
Medisort	3.42	0.96	4.38

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Midhurst Rother College	168.32	48.00	216.32
Midhurst Town Council	10.04	2.65	12.68
Mid-Sussex District Council	2646.88	570.92	3217.80
Mitie Ltd	45.95	13.13	59.09
Muntham House School	285.20	88.90	374.09
New Horizons Multi Academy Trust	4.94	1.27	6.21
North Horsham Parish Council	44.09	13.59	57.67
North Mundham Parish Council	2.21	0.60	2.81
Northlands Wood Primary Academy	66.10	16.11	82.21
NSL LTD	8.57	3.13	11.70
Office of the Chief Constable	13324.56	3913.20	17237.76
Orchards Junior School	84.42	21.92	106.34
Ormiston Six Village Academy	99.08	29.01	128.09
Pagham Parish Council	2.88	0.73	3.61
Peabody South East Limited	1.15	0.23	1.38
Petworth Town Council	6.49	21.95	28.44
Places for People	176.54	41.79	218.33
Plaistow & Ifold Parish Council	2.03	0.51	2.54
Police & Crime Commission	211.93	76.60	288.53
Portfield Academy	78.36	18.26	96.62
Pound Hill Infant School	65.07	14.86	79.93
Pulborough Parish Council	15.93	4.52	20.45
Pyecombe Parish Council	0.75	0.19	0.94
Ridge Crest Cleaning Ltd Littlehampton Academy	16.38	2.59	18.97
Ridge Crest Cleaning Ltd Sir Robert Woodard	26.12	4.06	30.17
River Beach Primary	155.13	38.43	193.57
Rose Green Junior School	60.31	14.87	75.18
Royal Society for the Protection of Birds	6.95	1.81	8.76
Royal Town Planning Institute	27.68	8.66	36.34
Rudgwick Parish Council	5.41	1.43	6.85
Rustington Community Primary School	77.50	18.60	96.10
Rustington Parish Council	39.09	12.93	52.02
Saxon Weald Homes	951.39	323.37	1274.76
Schoolsplus	1.95	0.44	2.40
Schoolsworks Multi Academy Trust	62.75	22.51	85.26

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
Seal Primary Academy	82.45	18.75	101.19
Seaside Primary School	101.48	23.20	124.68
Selsey Academy	70.94	16.36	87.30
Selsey Town Council	34.14	9.55	43.68
Seymour Academy	85.88	21.80	107.68
Shaw Homes	154.22	35.24	189.46
Shermanbury Parish Council	1.65	0.42	2.06
Shipley Parish Council	2.25	0.57	2.83
Shoreham Academy	262.36	75.03	337.39
Shoreham Port Authority	684.27	166.63	850.90
Singleton Parish Council	1.54	0.39	1.93
Sir Robert Woodard Academy	193.72	60.72	254.44
Slaugham Parish Council	5.52	1.65	7.17
Slinfold Parish Council	3.49	1.05	4.53
SLM Community	143.87	34.97	178.84
SLM Food & Beverage	15.83	3.76	19.60
SLM Health & Fitness	37.21	8.32	45.54
Sodexo Chichester High School	18.21	3.05	21.26
South Downs Leisure	444.64	100.97	545.61
South Downs National Parks Authority	813.21	295.50	1108.71
Southgate Primary School	87.35	20.49	107.85
Southwater Infants	56.15	14.41	70.56
Southwater Juniors	60.96	18.27	79.24
Southwater Parish Council	59.55	17.42	76.97
Southway Academy	123.17	32.07	155.24
St Lawrence Primary	91.63	23.82	115.45
St Mary's Catholic Primary School	59.24	13.84	73.08
St Philip Howard Catholic High School	194.89	47.58	242.47
Steyning Parish Council	16.40	5.04	21.45
Storrington & Sullington Parish Council	11.31	3.39	14.70
Tangmere Parish Council	3.04	0.79	3.83
Tangmere Primary	45.45	10.83	56.29
Tascor Services Ltd	0.00	1.96	1.96
The Gatwick School	99.97	28.46	128.43
The Globe Primary Academy	117.31	27.23	144.54
The Laurels Primary School	49.60	11.15	60.75

Employer	Employer Contributions £'000	Employee Contributions £'000	Total £'000
The March C of E Primary School	12.34	2.77	15.11
The Mill Primary School	80.29	22.83	103.11
The Music Trust	45.05	16.95	62.01
The Oaks Academy	95.50	20.71	116.21
The Regis Academy	423.30	118.24	541.54
Thomas Bennett Community College	162.20	40.46	202.65
Turners Hill Parish Council	7.09	1.86	8.95
Twineham Parish Council	0.81	0.21	1.02
University College Chichester	1945.22	641.00	2586.22
Upper Beeding Parish Council	8.69	2.50	11.19
Viridor Waste Management	0.00	1.66	1.66
Warden Park Academy	303.66	81.31	384.96
Warden Park Primary Academy	84.61	28.29	112.91
Waterfield Primary School	88.16	20.39	108.55
West Chiltington Parish Council	5.26	1.58	6.84
West Grinstead Parish Council	4.39	1.16	5.55
West Hoathly Parish Council	3.60	0.91	4.52
West Itchenor Parish Council	1.77	0.45	2.21
West Sussex County Council	45655.85	11840.80	57496.65
Westbourne Parish Council	3.35	0.85	4.20
White Meadows Primary Academy	140.45	38.52	178.97
Worthing 6th Form College	379.69	89.51	469.20
Worthing Borough Council	2110.61	87.40	2198.00
Worthing High School	180.07	51.92	231.99
Total	102,858.24	27,454.09	130,312.34

Appendix 3 – ACCESS POOL

Governance

The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Operator

Link Fund Solutions Ltd are appointed to provide a pooled operator service. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool and has regularly submitted progress reports to Government. These are all published on the Pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

	£ billion
Index tracking investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
Total Pooled Investments	19.607

The passive investments funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the Stock Lending programme.
- Providing updates of progress to Government and responding to consultations.

Objectives for 2019/20

Following the launch of a number of sub-funds, progress will continue apace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Financial Management

Pool Set-Up Costs

The set-up costs incurred by the pool include professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception is as below. The costs are split equally amongst the 11 Funds.

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit			3
Other	1	108	101
Total Set Up Costs	60	877	877

Fee Savings

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates in common and by consolidating its index tracking investments with one investment manager. The management fee savings received by the pool are as below:

	2015/16	2016/17	2017/18	2018/19	Total
	£'000	£'000	£'000	£'000	£'000
Set Up Costs	60	877	887	-	1,824
Ongoing Operational Costs	-	-	149	1,248	1,397
Transition Costs	-	-	-	674	674
Total Costs	60	877	1,036	1,922	3,895
Fee Savings	-	-	681	6,378	7,059
Net Savings Realised/(Costs)	(60)	(877)	(355)	4,456	3,164

Expected v Actual Costs and Savings

The table below compares actual costs and savings for 2017-18 and 2018-19 compared to the Business case submission to MHCLG.

	2017/2018		2017/18	
	Actual	Budget	Actual	Budget
	In Year	In Year	Cumulative to date	Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	887	800	1,824	1,400
Ongoing Operational Costs	149	-	149	-
Transition Costs	-	-	-	-
Total Costs	1,036	800	1,973	1,400
Pool Fee Savings	(681)	(950)	(681)	(950)
Net Savings Realised/(Costs)	(355)	(150)	(1,292)	(450)

	2018 – 2019		2018 – 2019	
	Actual	Budget	Actual	Budget
	In Year	In Year	Cumulative to date	Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	-	-	1,824	1,400
Ongoing Operational Costs	1,248	1,266	1,397	1,266
Transition Costs	674	2,499	674	2,499
Total Costs	1,922	3,765	3,895	5,165
Pool Fee Savings	6,378	3,800	7,059	4,750
Net Savings Realised/(Costs)	4,456	35	3,164	(415)

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds of £33.5 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and procuring the Operator.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table above.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings wherever possible. Transition costs for the passive investment mandate were met by the appointed investment manager.

Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.

Pension Panel	
24 July 2019	Part I
Funding Strategy Statement	
Report by Director of Finance and Support Services	
<p>Summary</p> <p>The Pension Fund has commenced its triennial valuation. However there are a number of factors which may impact the outcome or the period that rates need to be set (eg. the McCloud case, HM Treasury's cost control mechanism and the Scheme Advisory Board's (SAB) cost control mechanism and the outcome of several consultations or Government decisions, including a consultation on the frequency of the Local Government Pension Scheme valuation cycles).</p> <p>Since the Pension Panel last met, the Government's request for an appeal against the December 2018 the Court of Appeal judgement relating to transitional protections has been denied by the Supreme Court. This means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision. The court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions – with the benefit structure becoming more generous.</p> <p>Notwithstanding the above uncertainty the Pension Fund has drafted its Funding Strategy Statement. The Statement summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured and follows the Pension Panel's training on funding strategies. The full Statement and feedback is included within this report.</p> <p>Recommendation</p> <ol style="list-style-type: none"> 1. The Panel notes the update on the McCloud judgment 2. The Panel consider the feedback from Employers relating to the draft Funding Strategy Statement. 3. The Panel agree the current version of the Funding Strategy Statement as the approach assumed by the Actuary when calculating employer liabilities and determining the pace at which these liabilities are funded. 4. The Panel agree that further minor changes to the document can be made by the Director of Finance and Support Services in consultation with the Chairman. Any material changes will be brought back to the Pension Panel. 5. The Panel provide comments on the draft response on the changes to the local valuation cycle and management of employer risk and agree that the final response is sent by the Director of Finance and Support Services in consultation with the Chairman. 	

Background

1. The Fund has commenced its triennial valuation. It is anticipated that this will set employer contributions from 1 April 2020 until 31 March 2023. However there are a number of developments which provides significant uncertainty:
 - **The McCloud case:** Where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds. The Government's request for an appeal has been denied but uncertainty of the resulting benefit changes remains.
 - **The HM Treasury cost control mechanism and the Scheme Advisory Board (SAB) cost control mechanism:** Introduced as part of the recent pension reforms to periodically assess the costs of benefits to ensure that the reforms are affordable and sustainable. The cost control mechanism may trigger changes to LGPS benefits and member contributions, but is currently paused in light of the McCloud case.
 - **The outcome of several consultations or Government decisions:** The implementation of these may affect the Scheme (eg. Fair Deal II, Exit Credits, Guaranteed Minimum Pension Indexation and Equalisation and changes to the local valuation cycle and management of employer risk).

McCloud judgment – leave to appeal denied

2. The Pension Panel have received information previously relating to the Court of Appeal's judgement that transitional protections in place following Scheme changes in 2014.
3. On 27 June 2019 the Supreme Court denied the Government's request for appeal. A summary of the issues is included in Addendum 1.

Local government pension scheme: changes to the local valuation cycle and management of employer risk

4. The Ministry for Housing, Communities and Local Government (MHCLG) launched a consultation on 8 May 2019 covering the following areas:
 - Amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle and measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
 - Proposals for flexibility on exit payments, further policy changes to exit credits and changes to the employers required to offer local government pension scheme membership
5. It is proposed that the response from the County Council:

- Raises concerns about moving to a four yearly valuation cycle due to the potential impact on management of employer risks and maintaining the objective of stable employer contribution rates.
 - Supports the ability for Administering Authorities to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation.
 - Requests that safeguards are put in place and clear, considered Guidance is provided to ensure there is a clear framework for requests for interim valuations to avoid short-termism.
6. A full draft response has been attached (Addendum 2) and comments are sought from the Pension Panel. Responses must be provided by 31 July 2019.

Funding Strategy Statement

7. Following the training about funding strategies at the April Pension Panel, and as part of its preparatory work for the 2019 Actuarial Valuation Fund, officers have reviewed and drafting a Funding Strategy Statement for the West Sussex Scheme.
8. The FSS is reviewed in detail at each valuation or between valuations for any minor amendments required reflecting regulatory changes or alterations to the way the Scheme operates. This is in line with CIPFA guidance. The last review was completed as part of the 2016 valuation, and the Statement was agreed by the Pension Panel at their meeting on 30 January 2017.
9. The purpose of the Funding Strategy Statement is to summarise the Administering Authority's approach to funding its liabilities and how employer liabilities are measured (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of:
- Affordability and stability of employer contributions
 - Prudence in the funding basis
 - Transparency of processes
10. The draft Funding Strategy Statement has been reviewed by the Pension Advisory Board in their role of supporting the Scheme Manager by ensuring compliance with Regulations. The comments from the Board are included in their draft minutes (Agenda Item 5).
11. The draft Funding Strategy Statement has been attached for the Panel's review and approval (Addendum 3).

12. The draft Funding Strategy Statement was shared with employers as part of a consultation exercise (Start date: 19/06/2019 // Deadline: 10/07/2019). Responses received are summarised on the following page:

Employer Type	Comments / Feedback
Academy	<ul style="list-style-type: none"> Appears to be good and solid, much as one might expect. With a fully funded scheme, to do all that we can to minimise costs / reduce employer monthly contribution rates. With regard to potential pressures (not least of which the McCloud case), there is a preference to await the outcome and deal with it once it becomes a reality, rather than anticipating "bad news" and keeping contributions high "just in case". Consideration should be made of the impact of providing additional security to the Fund to move an employer through risk categories (eg. medium to lowest).
Parish Council	<ul style="list-style-type: none"> Happy with consolation document.
Academy	<ul style="list-style-type: none"> Happy to follow the proposed schedule, etc, detailed in the Funding Strategy Statement. At this point, with the on-going government appeal, it does not seem appropriate to make any recommendation for change even if we thought there was a need.
Admission Body	<ul style="list-style-type: none"> Happy to go with the recommendations/majority of feedback.
Scheduled Body	<ul style="list-style-type: none"> No comments to add on the draft statement or proposed approach.
Scheduled Body	<ul style="list-style-type: none"> Nothing comments
Admission Body	<ul style="list-style-type: none"> Correction of typographical errors
Admission Body	<ul style="list-style-type: none"> TBC (extension agreed)

13. The Statement may need to be reviewed as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known. Wider consultation will be undertaken on any material changes in approach as a result of these changes.

Katharine Eberhart

Director of Finance and Support Services

Contact: Rachel Wood, Pension Fund Strategist (0330 222 3387)

Addendum

- Addendum 1 – McCloud
- Addendum 2 – Draft response to changes to the local valuation cycle and management of employer risk consultation
- Addendum 3 - DRAFT Funding Strategy Statement

Background

- Court of Appeal decision (McCloud) - <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>
- Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud) https://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf

- Letter on the Pause to the Cost Management Process - <https://www.lgpsboard.org/images/CM/LetterPause.pdf>
- MHCLG Consultation on Changes to the Valuation Cycle: <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk> Valuations

Addendum 1

1. When the Scheme was amended in 2014 the Government introduced 'underpins' to protect members who were nearing retirement. For the LGPS, if a member was aged 55 or above in 2012, was still active in 2014 and retired by 2022 their post 2014 benefits would be calculated based on:
 - a. the new CARE scheme
 - b. the old 1/60th final salary Schemewith the member receiving the higher benefits.
2. In December 2018 the Court of Appeal found that transitional protections provided to older members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes, were unlawful on the grounds of age discrimination and could not be justified (the "McCloud" case)
3. On 27 June 2019 the Supreme Court denied the Government's request for appeal. This means that the Court of Appeal's decision will be upheld and the case will be returned to an employment tribunal for a detailed decision.
4. HM Treasury has previously indicated they want a single solution for all public sector schemes, and it will likely involve a change in benefit structure.

Impacts

5. The Panel should note the following impacts:
 - The court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions – with the benefit structure becoming more generous.
 - The must be seen alongside the cost control mechanism (SAB and HM Treasury), which was expected to improve benefits to members by 1.3% of pay. These changes have been delayed until the Government responds to the McCloud case and the baseline 'cost envelope' used in these valuations will need to be completely re-evaluated. The employee benefit changes were due to be effective from 1 April 2019.
 - Given the unknown nature in the scale and timing of any impact on liabilities as a result of McCloud and the Cost Control Mechanism the Scheme Advisory Board has advised that, unless the Ministry for Housing, Communities and Local Government (MHCLG) notify of detailed benefit changes by 31 August 2019, then the scheme benefit design used in the valuation should be as set out in current Regulations.
 - As part of the valuation, the risk and potential extra costs around McCloud should be considered in the same way as they would for other financial, employer and demographic risks to allow employers to be aware of and make

provision for the potential cost (even though any additional contributions may not commence until after the outcome is known).

- A further valuation may be required once the Government's response to McCloud and the cost control mechanism is known.

Addendum 2

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

Quadrennial Cycle

Question 1:

As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

The Government brought the LGPS scheme valuation onto the same quadrennial cycle as other public service schemes with an effective date of 31 March 2024.

However we believe that three years remains an appropriate period and do not consider that the case has been made to move the local valuations to quadrennial, nor that it will deliver great stability in employer contribution rates and reduce costs.

It should be noted that:

- Regulation 62 of the LGPS Regulations 2013, CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement and the Pension Fund's own Funding Strategy Statement include mechanisms to delivery stability of employer contribution rates.
- The LGPS is funded and holds assets with values and performance that can fluctuate significantly over time. This volatility needs careful and regular management. A longer cycle may lead to the funding position drifting over a longer period and therefore a sharper correction to contribution rate being required at the end of the period (particularly for shorter term employers such as closed charities).
- Accounting standards and guidance require that employers determine the net defined benefit liability with sufficient regularity so that the amounts recognised in the financial statements do not materially differ from the amounts that would be determined at the end of the reporting period. As IAS19/IAS26 reports are calculated on a roll-forward basis, it is not clear what the views of private sector and public sector auditors are if an inter-valuation period is extended and whether interim valuations are required for accounting purposes, increasing costs.
- Employer circumstances and their financial covenant can change quickly, and lengthening the valuation cycle may expose LGPS funds to greater covenant risk. In this context, interim valuations as considered within the Consultation (whether at a whole of fund level or for individual employers) will also increase costs.
- Moving to a four year cycle, with the use of interim valuations, will also add to the burden of already stretched administration teams. When considering any changes to the current arrangements it is equally important to ensure that administering

authorities have the capacity to comply with those changes, at no detriment to their current obligations to scheme members and their dependents.

In the context of the above it is difficult to be certain that moving to a four yearly cycle will save costs given the cost of carrying out interim valuations and any other additional employer work required as a result and not necessarily present value given the more substantive possible costs arising from the funding impacts of a delayed valuation.

Question 2:

Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

In addition to points raised above, a formal valuation is not just about number crunching. It provides a governance opportunity to undertake a 'health check' on the Fund's data and risk management policies, and the metrics provided (cash flows, benefit projections, funding positions etc.) are often used for strategic investment reviews. Increasing the cycle may encourage less governance.

There is a risk of a repeat of the current situation where the 2019 valuations are to be carried out without knowing what the benefit structure of the LGPS as at the valuation date will be as a result of the mis-alignment of timing of benefit/member contribution changes following the cost management process and the local valuation calculations.

Question 3:

Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

We consider that the 'as at' date of the scheme valuation should be ahead of the local fund valuations. This would allow time for:

- The Government Actuary's Department (GAD) to gather the necessary data and do the calculations;
- Discussion to take place on the results with the various national oversight bodies;
- Agreement to be reached over any changes to the benefit structure or employee contribution rates to get the cost of the scheme within the +/- 2% of pay corridor; and
- Software providers to make the necessary changes to systems and for those changes to be fully tested ahead of the effective date.

This should avoid changes to benefits or employee contributions being implemented retrospectively and allow time for administration and valuation systems to be updated to reflect the correct structure for the local valuations.

Question 4:

Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Notwithstanding the comments above, we agree that approach b) (completion of the 2019 valuation with a three year Rates and Adjustments Certificate followed by another valuation as at 31 March 2022 and a two year Certificate) is preferred to a five year gap between the 2019 valuation and the next.

Dealing with changes in circumstances between valuations

Question 5:

Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

We are supportive of the introduction of a broader power (outside of Regulation 64) to carry out an interim valuation and believe that this is important to support administering authorities' risk management generally given the diverse range of sponsoring employers - and specifically should local valuations be moved to a quadrennial cycle.

We consider it would be sensible for funds to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation

Question 6:

Do you agree with the safeguards proposed?

We agree with the proposal that the circumstances in which an interim valuation would be carried out should be properly documented and defined within the Funding Strategy Statement. Regulations and statutory Guidance on protections is also welcome to ensure that there is some consistency across funds. It is important that the scope for requesting and agreeing to interim valuations does not become an unwelcome distraction and divert attention from the delivery of administration services to scheme members and their dependants.

We would consider that the Local Pension Board would have an important role in ensuring that the Scheme Manager is then complying with the above guidance.

It would be of benefit to understand the factors that the Secretary of State would take into account before requiring an interim valuation on representation from a scheme employer. We are particularly keen to avoid 'moral hazard' situations where employers lobby for a valuation to take advantage of favourable market conditions, for example.

It will also be important to:

- Define the necessary outcomes if an interim valuation is carried out eg. the adoption of the required rate, or otherwise.
- Consider the administrative burden of providing data for interim valuations, particularly where requested by scheme employers.

Question 7:

Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

We consider the following circumstances as being appropriate for an Administering Authority to change employer contributions (across all employer types):

- If an employer closes the fund to new entrant
- If there is a material transfer of staff to or from an employer, for example caused by a Machinery of Government change or outsourcing a large numbers of staff to another body.
- If there is a change in covenant

We consider that safeguards should be put in place to remove the ability avoid a scheme employers requesting a reassessment driven by short termism which would negate MHCLG's objective of stability of contributions.

Question 8:

Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these tools?

We consider that there is merit in considered and consulted statutory Guidance being provided. It would make sense that this was an extension of CIPFA's existing Funding Strategy Statement Guidance, or wherever the responsibility for statutory guidance referred to in Regulation 58 resides.

We would caution against the guidance being too prescriptive. It is important to ensure local decision-making and the diversity of funding levels and employers within funds is recognised but as referred above it would be helpful if such guidance were to cover the tests that would need to be met in order for a scheme employer to request an interim valuation itself from the Secretary of State.

Question 9:

Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

The fact that a valuation is interim rather than full does not take away the need for professional advice. Our assumption therefore is that an interim valuation should not be undertaken without having been signed off by the Fund Actuary and this constitutes "*proportionate level of actuarial advice*". However it would be beneficial if this was clarified.

Whilst employers may request interim valuations for accounting purposes it will be important to be clear that it is the administering authorities and not employers who have the final say on reviewing employer contributions. Guidance on this would be helpful to ensure consistency between Administering Authorities.

Our response to # 8 provides some thoughts on who is best placed to offer guidance.

Question 10

Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

It is important to clarify that "exit payments" from the LGPS are not calculated on a full buy-out basis and the Regulations as they currently stand do not subscribe any one basis for valuing exit debts. In practice, these can differentiate materially between different types of employer and between funds.

We believe that additional flexibilities would be helpful in constructively managing the exit of any employer, independent of the basis of the exit valuation.

Whilst there are circumstances when the timing of an exit event and the magnitude of any exit debt may not be known until well after the exit event, Administering Authorities also manage an employer flight path to reduce the likelihood of liabilities on exit being "significantly higher than their ongoing contributions".

We would consider spreading exit payments a risk, even with a legal side agreement being in place. But in appropriate circumstances this additional risks could be managed through:

- The payment arrangement being at the discretion of the Administering Authority (and the guarantor where appropriate), allowing them to make a judgement on the covenant of the underlying employer;
- Locally, there is a maximum period for repayment
- Interest be charged at an appropriate rate
- The Administering Authority should have the ability to request additional security be put in place during the repayment period.

Question 11:

Do you agree with the introduction of deferred employer status into LGPS?

We agree with the introduction of a deferred employer status, subject to further detailed consultation.

However consideration needs to be given as to how we would manage and be aware of the 'relevant events'.

Question 12:

Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

We agree with the introduction of deferred employer debt arrangements, subject to further detailed consultation.

We would consider the following safeguards as being necessary:

- Termination could be triggered on significant deterioration of covenant without an associated insolvency event.
- Either the employer or the fund can trigger termination without agreement of the other party providing that this then leads to an exit valuation being carried out
- A "flight plan" approach whereby the funding and investment strategy are regularly reviewed in light of the longer-term target of being fully funded on a gilts basis may be appropriate, particularly for larger employers.

Question 13:

Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

The Regulations should be limited to key obligations and entitlements of parties, supplemented by supporting Guidance formed with significant input from LGPS practitioners throughout the drafting and consultation stages.

Question 14:

Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

We agree options 2 and 3 should be available as alternatives to the current rules on exit payments.

Question 15:

Do you consider that statutory guidance or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of the proposals?

We believe that guidance is needed. A balance will need to be struck between compulsion to ensure a consistent interpretation of the Regulations and the ability of funds to manage their own funding and employer risks. We would strongly encourage any guidance to go out for full public consultation.

Exit credits

Question 16:

Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

We believe that exit credits should not be applied retrospectively to any contracts that were in force prior to 14 May 2018, whether on a risk-sharing basis or otherwise. In other words, the exit credit regime should only apply to new contracts that were set up from 14 May 2018 onwards.

However, it is worth noting that there is a very wide range of risk sharing arrangements in place and it is important to avoid circumstances where the onus is on the Administering Authority adjudicating on what is, in many cases, a contractual arrangement between two employers, outside of the admission agreement and exit

calculations can vary materially between different types of employer and between funds, based on their own local funding strategy.

Question 17:

Are there other factors that should be taken into account in considering a solution?

It is important to consider the breadth of arrangements in which an employer may bear less pension risk (including "pass through" or cap and collar arrangements, allocation of specific risks (e.g. excessive pay increases), a fixed contribution rate) and the commitment that is often in place for the awarding authority to absorb any assets and liabilities after the contractor exits the fund.

As the contract price and other terms and conditions will have been determined on whatever basis was agreed at the outset, we believe it is important for the Regulations to be amended so that no exit credits are payable for transferee admissions entered into before the date of the Regulatory changes.

Even if a change is agreed to state that the administering authority can determine (as part of its funding strategy) that an exit credit is only due for existing admissions if the contractor is in surplus on a low risk/gilts basis on exit, this would result in a move away from the arrangements intended at the time of the contract being let.

Consideration should also be given of suspension notice cases where there is a potential credit with the grounds for the suspension being consistent with those where a deficit is determined.

Employers required to offer LGPS membership
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Question 18:

Do you agree with our proposed approach?

It is a policy decision for MHCLG on which employers must and which can participate in the LGPS but given the changes in this sector it does now appear arguable that HE/FE is not "public sector" and hence should not be required to admit new members.

It is important however to recognise that choosing this approach may not immediately reduce a HE/FE's pension costs, and contributions may increase in the short term, as administering authorities are likely to want to recalculate the employer contribution rate, allowing for the fact the employer is now closed to new entrants and potentially altering the funding basis to reflect the shorter term nature of the participation of the employer.

We would note that closing the scheme to new members via an Admission Agreement is preferable to an employer becoming a designating employer. The Admission Agreement would form a contractual agreement between the fund and the employer which governs the employer's participation.

We would also note that employers that use this proposal would create a two-tier work force in terms of pensions provision. There will be a need to monitor and ensure that promises are kept to those members currently in the LGPS i.e. that they are not induced

out of the LGPS. The accompanying legislation should make it clear where that responsibility lies and the possible penalties for non-compliance.

Addendum 3

DRAFT Funding Strategy Statement

Introduction and Purpose

This is the Funding Strategy Statement (FSS) of the West Sussex County Council Pension Scheme ("the Scheme"), which is administered by West Sussex County Council, ("the Administering Authority"). The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. Importantly:

- Employees' benefits are guaranteed by the LGPS Regulations.
- Employees' contributions are fixed in the same Regulations, at a level which covers only part of the cost of the benefits.
- Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee.
- Employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The purpose of the FSS is to summarise the Administering Authority's approach to funding its liabilities. This includes reference to the Fund's other policies but it should be noted that it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework that includes:

- The LGPS Regulations.¹
- The Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report.²
- Actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service.
- The Fund's Investment Strategy Statement.³

The FSS has been prepared by the Administering Authority in collaboration with its actuary, Hymans Robertson LLP, [and after consultation with the Fund's employers. It has been adopted for the purpose of the 2019 Actuarial Valuation and is effective from 1 April 2019].⁴

¹ <https://www.lgpsregs.org/>

² <https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/>

³ <https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/>

⁴ Consultation to be launched (June 2019). Feedback will inform any revisions.

Important Note

This Funding Strategy Statement (FSS) has been written during a period of significant uncertainty caused by:

- The McCloud case (where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds).⁵
- The "HM Treasury cost control mechanism" (also introduced as part of the recent pension reforms) being engaged, which may trigger changes to LGPS benefits (currently paused in light of the McCloud case).
- The "Scheme Advisory Board (SAB) cost control mechanism" (also introduced as part of the recent pension reforms) being engaged, which may trigger changes to LGPS benefits and member contributions (also paused in light of the McCloud case).
- The Government's decision to appeal the McCloud case.

At present there are no timescales for the outcome of this appeal or the resulting benefit changes which will largely depend on the outcome.

The Administering Authority has therefore proceeded on the assumption that the scheme will not change in April 2019. As a result:

- Employers should collect employee contributions on the basis of current Regulations
- The 2019 valuations will proceed on the basis of the current benefit and member contribution structure

As and when there are developments, there will need to be reflection on how best to incorporate these into the 2019 Actuarial Valuation employer contribution-setting process.

- If the Government is successful in its appeal:
 - there will be no change to accrued benefits
 - changes to future employee benefits are likely to be implemented as part of the "cost control mechanism" (applicable from 1 April 2019)
 - employer contribution rates are likely to increase as a result.
- If the Government is not successful in its appeal:
 - the court will require steps to be taken to compensate employees who were transferred to the new Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions
 - the SAB and HM Treasury will then review their respective "cost control mechanisms", which may or may not result in future employee benefit changes (from 1 April 2019)
 - it is possible that employer contribution rates could increase as a result.

⁵ <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mccloud-and-ors-judgment.pdf>

In addition to the above, the Fund is currently waiting the outcome of several consultations or Government decisions which may affect the scheme and the FSS, including but not limited to:

- The outcome of the Government's Fair Deal II Consultation, which may introduce new classes of employer into the Scheme.
- A further Consultation on Exit Credits.
- Rectification of issues associated with Guaranteed Minimum Pension Indexation and Equalisation.
- A review of the valuation cycle for the LGPS to align with that of the unfunded schemes (quadrennially).
- Revised CIPFA Guidance for the FSS.

The Administring Authority may revisit the FSS as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known, and will seek wider consultation on any material changes in approach as a result of these changes.

The Aims and Purpose of the Pension Fund

The Administering Authority runs the Fund, ensuring it:

- Receives the proper amount of contributions from employees and employers, and any transfer payments;
- Invests the contributions appropriately with the aim that the Fund's assets grow over time with investment income and capital growth; and
- Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The FSS focuses on how the Administering Authority measures employer liabilities (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of affordability, prudence and transparency. These aims are described in more detail below:

Aim	How this is achieved
Affordability and stability of employer contributions	<p>Through minimising 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.</p> <p>By reflecting the different characteristics of different employers in determining contribution rates and understanding how each employer can best meet its own liabilities over future years</p> <p>By using reasonable measures to reduce funding risks on employer cessations.</p>
Prudence in the funding basis	<p>By using a prudent long term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.</p>
Transparency of processes	<p>By consultating and publishing this FSS.</p> <p>By adopting a consistent application of the FSS.</p>

All employers are responsible for their own section of the Scheme, tracked by the actuary.

Setting Employer Contribution Rates

The way in which the Administering Authority calculates and sets employer contribution rates will vary for different employers to ensure that each employer pays for their own liabilities and the assets meet (as closely as possible) the value of its liabilities when its participation ends. . In doing so, the Administering Authority recognises the balance which needs to be struck between its need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately.

Employer contributions are normally made up of two elements:

1. The estimated cost of new benefits being earned by members year to year, after deducting member's contributions and adding an allowance for administration expenses, referred to as the "primary contribution rate"; plus
2. Any adjustment to the primary rate to reflect the individual circumstances of each employer is referred to as the "secondary contribution rate" which reflects any adjustments required to meet the Fund's desire for stable contribution rates and to recover any differences between the assets built up to date and the value of past service benefits.

The following sections describe how the Administering Authority sets employer contribution rates.

Funding Target Basis, Time Horizon and Probability

General Principles

The Administering Authority groups employers with similar characteristics when determining employer contributions. Examples include funding sources, whether there is anyone guaranteeing an employer's participation in the Scheme and whether an employer will eventually leave the Scheme. Examples of the broad categories in which employers are grouped include:

- Scheduled Bodies, Designated Employers and Academies (for the period that they have a guarantee from the Department for Education) are generally open to new entrants, are considered to be long term and have reliable funding sources.
- Admission Bodies with a guarantee from a Local Authority, Police, other Scheduled Body or a Designated Employer or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority has less insight into their funding sources.
- Admission Body with no guarantee from a Local Authority, Police, other Scheduled Body or a 'Designated Employer' or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority may have no insight into their funding sources.

This categorization determines an employers funding target, the period over which this funding target should be met and the certainty required that the employer will achieve their funding target.

Please note, the above are examples of the broad categories, in practice, there are a range of employers with varying categorisations as described through this Funding Strategy Statement.

Funding Target

The Administering Authority seeks to ensure the long-term solvency of the Scheme through ensuring that it holds sufficient assets to be able to pay all its members benefits. It therefore needs to ensure that the assets held on behalf of each employer meet (as closely as possible) the value of benefits built up to date for the employer's employees and ex-employees (the liabilities) ie. a funding position of 100%.

However, different assumptions will be applied to calculate the value placed by the actuary on the benefits built up to date (and for future benefits).

- If an employer is considered higher risk or approaching the end of its participation in the Scheme or is considered higher risk, then the funding target may be set on more prudent assumptions using a discount rate based on expected returns on the lower risk investments held (government bonds) without applying a margin for greater returns from equity-type investments held.
- For other employers the actuary will calculate expected returns on the lowest risk investments held (government bonds) plus a margin to allow for the greater return that is expected to be generated from equity-type investments held.

- Where an employer is approaching the end of its participation in the Scheme, but this is still more than [4] years away, the actuary may move the discount rate towards a gilts cessation basis gradually over time.

The time horizon over which the employer should achieve its funding target

Each employer in the Scheme will have a time period over which they need to achieve their funding target.

Employers may be given a lower time horizon if they have a less permanent anticipated membership, is approaching the end of its participation in the Scheme or do not have a known funding source to afford increased contributions if investment returns underperform.

The longest time horizon afforded any employer in the Scheme is 20 years (generally reserved for long term employers with reliable funding sources).

The probability required achieving the funding target over a given time horizon, allowing for different likelihoods of various possible economic outcomes

It is extremely unlikely that the contribution rate will absolutely ensure that the combination of contributions and market movements will return a funding position of 100% when an employer reaches the end of their time horizon. Therefore the Administering Authority will take a view on the minimum required probability of an employer reaching their funding target over their time horizon.

Typically, a higher required probability will give rise to higher contribution rates, and vice versa.

Probabilities are applied depending on their nature and security of an employer. The Administering Authority may look for more certainty that an employer will reach its funding target over the given time if they have a less permanent anticipated membership, are approaching the end of their participation in the Scheme or do not have a guarantor. For employers who are open to new entrants considered to be long term a lower level of probability may be appropriate.

In general, the Fund will require all employers to have at least a 66% chance of being fully funded by the end of their time horizon.

Application

The application of the above factors by employer group is shown below:

	Funding Basis	Probability	Time Horizon ⁶
Local Authorities and Police	Ongoing	66%	20 years
Designating Employers	Ongoing	66%	20 years
Academies	Ongoing	70%	20 years
Other Scheduled Bodies	Ongoing	70%	Future Working Lifetime
Admission Body with no Guarantor	Gilts plus an additional allowance for future improvements in life expectancy and future administration expenses. ⁷	75% ⁸	Minimum of Future Working Lifetime and remaining contract period
Admission Body with Guarantor	Ongoing	75%	Minimum of Future Working Lifetime and remaining contract period.
Admission Body on pass through or other risk sharing arrangements	Contractual	75%	Same as ceding employer

⁶ Whilst the Administering Authority would normally expect the same period or derivation method to be used at successive triennial valuations, it reserves the right to propose alternative periods, for example where there were no new entrants.

⁷ Not applicable when moving towards gilts over time

⁸ Where an employer is nearing cessation, the Administering Authority may vary the probability of achieving the funding target to 50% to reduce the chances of a surplus on cessation.

Achieving Stability

The Administering Authority has an overarching objective to keep contributions as stable as possible over time. Therefore, where an employer is considered relatively low risk or provides appropriate security, the Administering Authority, at its absolute discretion, may smooth changes in contributions in the expectation that the employer will still be able to meet its obligations for many years to come (or the Fund will be able to call on any security provided if required). Smoothing techniques include:

- A cap to its employer contribution rate changes within a pre-determined range ("stabilisation"). This can allow for short term investment market volatility to be managed and keep some employers' rates relatively stable. This can be viewed as a prudent long-term approach for some employers. Further details are set out in Appendix 1.
- Phasing in contribution rises or reductions.
- Use of extended time horizons (although the maximum applied is 20 years).
- Pooling of contributions amongst employers with similar characteristics. Pools currently exist for small designated employers and some academies which participate in Multi Academy Trusts. Council funded schools generally are also pooled with their funding Council (although there may be exceptions for specialist or independent schools, where applicable). Those employers which have been pooled are identified in the Rates and Adjustments Certificate and are reviewed at each valuation.

These smoothing techniques will temporarily produce lower contribution levels than would otherwise have applied. It should be noted, that paying lower contributions, even in the short term, may lead to higher contributions in future.

Payment and Review of Contribution Rates

The rates for all employers are shown in the Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. It should be noted:

- The Rates and Adjustment Certificate shows employer contributions expressed as minimum contributions, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken into account by the actuary at subsequent valuations.
- Where employers are in surplus, the secondary rate will be set as a percentage of pay. Where an employer is in deficit, the secondary rate is set as monetary amounts. Exceptions to these guidelines may apply where an employer anticipates large increases in membership (e.g. as a result of auto-enrolment), in which case the Administering Authority reserves the right to require deficit repaid as a percentage of pay with a monetary underpin. Alternative arrangements can be agreed at the ultimate discretion of the Administering Authority.
- The Administering Authority, taking advice from its actuary, may permit some employers to elect to make a lump sum payment at the start of a financial year, or valuation period. In these circumstances a contribution rate adjustment reflecting appropriate actuarial discounts may apply. However, employers adopting this approach should acknowledge the risks involved, particularly in respect of the impact of investment return during the inter valuation period.
- Review of the rates for all employers may be triggered by significant events including but not limited to:
 - changes to LGPS Regulations
 - significant reductions in payroll
 - altered employer circumstances including where an employer is approaching cessation or closes their membership to new entrants
 - Government restructuring affecting the employer's business
 - failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions by strengthening the actuarial assumptions adopted and/or an increased level of security or guarantee.

Additional Employer Costs

Non ill-health early retirement costs

When the atuary calculates an employers liabilities he will assume that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire).⁹

Therefore no allowance is made for premature retirement except on grounds of ill-health.

As a result, employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age.

The Administering Authority's requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).

An employer can request to pay instalments over a three year period, but this would be by exception.

The Chief Finance Officer to agree exceptions to the current practice.

Ill-health early retirement costs

When the atuary calculates an employers liabilities he will make an allowance of ill-health early retirements where a member is entitled to receive early payment of their benefits.¹⁰

The Administering Authority monitors each employer's ill-health experience on an ongoing basis against an allowance determined by the actuary.

If the cumulative strain cost of an employer's ill-health retirements in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as applied for non ill-health cases.

However individual employers may take out ill-health insurance on an individual basis. Under these circumstances:

- the Administering Authority would not monitor the employer's ill health experience against the actuary's allowance
- the employer will be charged additional contributions whenever an employee retries early on ill health grounds under the expectation the employer can recoup the chages from their insurer
- the Administering Authority may allow the insurance premium to be offset against their certified contribution rates. This arrangement is allowed for the period the insurance is in place.

New Employers

⁹ The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.

¹⁰ The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.

General Principles

Scheduled Bodies

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies to join the Scheme. As these events are rare and tend to be unique in nature, the Administering Authority does not have a prescribed method for allocating an initial funding position. This would be determined on a case by case basis.

The new body's contribution rate would be determined in line with the guidance in this FSS.

Designating Employers

Typically, new Designating Employers constitute new membership in the Scheme (there is no past service liabilities at outset), therefore there no assets are usually transferred to the new employer at outset. However this would be determined on a case by case basis.

The new Designating Employers initial contribution rate will be set equal to that of the Small Scheduled Bodies pool.

Academies & Free Schools

The initial liabilities of a new Academy or Free School will be based the past service liabilities of its active members in the Scheme on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

The new Academy or Free School will then be allocated an initial asset share from West Sussex County Council's (WSCC's) assets in the Scheme. This asset share will be calculated using the estimated funding position of WSCC at the date of Academy or Free School conversion, having first allocated assets in WSCC's share to fully fund deferred and pensioner members subject to a maximum of 100% of liabilities. The asset allocation will be based on market conditions and the new Academy or Free School's active membership in the Scheme on the day prior to conversion. The initial assets are then determined by multiplying this funding level by the new Academy or Free School's initial liabilities.

The new Academy or Free School's initial contribution rate will beset equal to that of WSCC except:

- where a new Academy is part of a Multi Academy Trust (MAT) already participating in the Fund, where the new Academy can elect to be pooled with the other Academies in the MAT (and within the Fund) for contribution rate purposes. In this scenario, the Academy's initial contribution rate will be set equal to that of the MAT's pooled rate.
- where a new Academy or Free School wishes to pay an individual rate calculated by the Fund Actuary.

At subsequent valuations an Academy or Free School's rate will be determined on an individual basis, unless pooled with their MAT in which case they will pay the MAT rate as deterimred in line with the guidance in this FSS.

It should be noted that its underlying cashflows and experience will be tracked individually by the actuary whether pooled or not.

Admission Bodies

Contractors

Where there is a new Admission Body set up as a result of a TUPE transfer of some staff from the letting employer to the contractor the Admission Body would be set up in the Scheme as a new employer with responsibility for all the accrued benefits of the transferring employees.

Unless agreed otherwise with the Administering Authority, the funding level will be calculated as the market value of assets being equal to the value placed by the actuary on the benefits built up to date for the transferring employees (so the admission body will start fully funded on an ongoing funding basis).

The contractor's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority, the contractor and the Administering Authority.

Employers who "outsource" have some flexibility in the way they deal with the pension risk potentially taken on by the contractor, such as Pass Through. Under Pass Through, the contractor pays the certified rate and the contract price being adjusted such that the contractor's pension costs and the letting employer retains some (but possibly not all) pensions risks. The application of any Pass Through arrangement is a contractual provision between the contractor and Employer. Employers may choose to put other risk sharing arrangements in place, in consultation with the Fund.

Other

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as Section 75 NHS Partnerships) to join the Scheme if they are sponsored by a Scheduled Body, guaranteeing their liabilities and also providing a form of security. Given the rare occurrence of these bodies joining the Scheme, their initial asset allocation and contribution rate will be considered on a case by case basis considering the guidance provided by this FSS.

Application

The application of the above factors by employer group is shown below:

	Asset Allocation	Initial Rate	Treatment at subsequent valuations
Local Authorities and Police	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.
Designating Employers	N/A	Small Scheduled Bodies Pooled rate.	Small Scheduled Bodies Pooled rate.
Academies	Estimated funding position of the active liabilities of WSCC after fully funding WSCC's deferred and pensioner liabilities. This is subject to a maximum initial funding level of 100%	Option to pay WSCC's rate, a rate determined by the actuary in line with the FSS or if part of a MAT may elect to pay rate equal to that of the MAT's pooled rate.	Determined on an individual basis, or MAT pooled rate.
Other Scheduled Bodies	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.	Determined on a case by case basis in line with FSS.
Admission Body with no Guarantor	Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis.	Determined on an individual basis.	Determined on an individual basis.
Admission Body with Guarantor	Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis.	Determined on an individual basis.	Determined on an individual basis.
Admission Body on pass through / other risk sharing arrangements	Determined on a case by case basis	Determined on a case by case basis	Determined on a case by case basis

Exiting employers: cessation valuations

General Principles

The Administering Authority may consider any of the following as triggers for the cessation on an employer's participation in the Scheme:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Administering Authority;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Administering Authority.

Assessment

On cessation, the Administering Authority will instruct the actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

The actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Scheme from the likelihood of any material loss emerging in future. This may include making an allowance for future administration costs associated with administering the benefits of the former employer's members and the risk of members living longer than anticipated.

Where there is a deficit:

- The normal approach is for payment of this amount in full by the Admission Body as a single lump sum payment.
- In some instances, the Administering Authority has the discretion to defer charging a cessation liability for up to three years if the employer is expected to acquire one or more active members in the Scheme over the period by issuing a written notice ("a suspension notice").
- If it is not possible for the deficit to be paid as a single lump sum the Administering Authority may permit the employer to make regular contributions to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The Administering Authority would reserve the right to invoke the cessation requirements in the future.
- In the event that the Administering Authority is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Scheme. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Scheme or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

Where there is a surplus:

- An employer is entitled to receive an exit credit from the Administering Authority. This must be paid within three months of the date on which the employer ceased to participate in the Scheme, or such longer time as the Administering Authority and exiting employer agree.¹¹

Employers with no remaining active members

When an employer ceases their participation in the Scheme, and provided their exit obligations are met, they will have no further obligation. However as member benefits are guaranteed, it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other employers participating in the Scheme will be required to contribute to pay all remaining benefits: this will be done by the actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the actuary to the other employers participating in the Scheme at successive formal valuations.

Application

The application of the above factors by employer group is shown below:

	Basis	Exit Liability Payment Terms	Exit Credit Payment Terms
Local Authorities and Police	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Designating Employers	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Academies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased
Other Scheduled Bodies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within three months of the date on which the employer ceased

¹¹ Currently being reviewed by Central Government

Admission with no Guarantor	Body	Gilts cessation basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased
Admission with Guarantor	Body	Ongoing basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased
Admission on pass through / other risk sharing arrangements	Body	Ongoing basis	Immediate or Payment Plan	Within three months of the date on which the employer ceased

Other Actuarial Matters

Security as a requirement for participation

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The Administering Authority requires security to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit on the employer's appropriate cessation basis.

In addition it should be noted:

- Where the Admission is to a contractor, the Administering Authority requires that the security must be to the satisfaction of the Administering Authority as well as the letting employer.
- Where a new admission body is not a contractor, the security must be to the satisfaction of the Administering Authority (and any employer providing a guarantee where applicable).
- All security requirement must be reassessed periodically.

Security in the context of setting employer contribution rates

The Administering Authority may permit greater flexibility within the framework for setting employer contributions if the employer provides added security to the satisfaction of the Administering Authority. Such security may include, but is not limited to a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and/or
- whether the Admission Agreement is likely to be open or closed to new entrants

It should be noted, that Local Authorities and the Police are already afforded the maximum flexibility in respect of setting contribution rates due to the security of their funding sources. Therefore, this policy does not apply to them.

Policies on bulk transfers

Bulk transfers of member take place where ten or more members transfer to another Administering Authority's LGPS or where two or more members transfer to a non-LGPS fund. Each case will be treated on its own merits, but in general, where active members are transferring the Administering Authority will pay bulk transfers in line with factors provided by the Government Actuary's Department for individual transfers with an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

For transfer involving deferred and pension members (such as when employers in different funds merge) the Administering Authority will pay the asset share attributed to the transferring members including an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

The Administering Authority permits shortfalls to arise on bulk transfers if the employer participating in the Scheme has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to the Scheme to increase between valuations. Where this is not met, the Administering Authority may require a higher transfer amount or immediate contribution from the employer(s) involved.

Appendix 1 – Stabilisation

“Stabilisation” is an approach used by the Administering Authority to allow for short term investment market volatility to be managed and keep some employers’ rates to be relatively stable.

The application for Scheduled Bodies is shown in more detail below (provided there are no anticipated material events e.g. significant reductions in active membership):

Type of employer	
Max cont level	
Max cont increase	To be determined as part of the 2019 Valuation modelling
Max cont decrease	

Employers whose contribution rates have been “stabilised” may therefore be paying more or less than they might otherwise have paid at any one time. Employers should be aware that:

- Their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- Lower (higher) contributions in the short term will be assumed to incur a greater loss (gain) of investment returns on any deficit. Thus, deferring (or not) a certain amount of contribution may lead to higher (lower) contributions in the long-term; and
- It may take longer to reach full funding, all other things being equal.

Appendix 2 – Funding strategy and links to investment strategy

General Principle

The Scheme has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner.

The investment strategy is set by the Administering Authority and describes the precise mix, manager make up and target returns.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers. [Link between funding strategy and investment strategy](#)

The Scheme must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the Actuarial Valuation and funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the actuary, the current funding policy is consistent with the current investment strategy of the Scheme. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

However, in the short-term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium-term, asset returns will fall short of this target. The stability measures described in will damp down, but not remove, the effect on employers' contributions.

How does this differ for a large stable employer?

The actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- **Prudence** - the Fund should have a reasonable expectation of being fully funded in the long-term;
- **Affordability** – how much can employers afford;

- **Stewardship** – the assumptions used should be sustainable in the long-term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- **Stability** – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key objectives often conflict. For example, minimising the long-term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling (“ALM”). An ALM is a set of calculation techniques applied by the actuary, to model the range of potential future solvency levels and contribution rates.

The actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority’s aims of prudent stewardship of the Fund.

[Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation].

Does the Administering Authority monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, at least quarterly. It reports this regularly to the Pensions Panel.

Appendix 3 - Statutory reporting and comparison to other LGPS funds

Background

Under Section 13(4)(c) of the Public Service Pensions Act 2013 The Government Actuary's Department (GAD) must, following each actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on whether the rate of employer contributions are set at an appropriate level to ensure the solvency of each fund in the LGPS England & Wales and to ensure the long term cost efficiency of each fund in the LGPS England & Wales.

This additional oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if the rate of employer contributions is set to target a funding level for the Scheme of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

- employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long term cost efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to following absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is not primarily concerned with comparing funds with a given benchmark.

Relative considerations include:

- the implied deficit recovery period; and
- the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- if there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period;
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future;
- the extent to which the required investment return under “relative considerations” above is less than the estimated future return being targeted by the Administering Authority’s investment strategy;
- the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual experience of the Scheme.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix 4 – Regulatory framework

Background

The Funding Strategy Statement is the framework within which the actuary carries out valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- "to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities."

The requirement to maintain and publish a FSS is contained in the LGPS Regulations which are updated from time to time.

In publishing the FSS the Administering Authority has to have regard to any guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and to its Investment Strategy Statement.

The FSS applies to all employers participating in the Fund.

Consultation

The FSS must first be subject to consultation with such persons as the Authority considers appropriate.

The Administering Authorities consultation process for this FSS was as follows:

- a) The Administering Authority hosted employer events in May 2019, July 2019 and [November 2019] at which questions regarding the funding strategy could be raised and answered.
- b) A draft version of the FSS was issued to all participating employers and the Pension Advisory Board in May and June 2019 for comment;
- c) The FSS was updated where required and then published, in March 2020.

Publication

The FSS is made available through the following routes:

- Published on the website, at www.westsussex.gov.uk/pensions;
- A full copy linked from the annual report and accounts of the Fund;
- Copies made available on request.

Review

The FSS is reviewed in detail at each valuation.

It is possible that minor amendments may be needed between valuations. These would be needed to reflect any regulatory changes or alterations to the way the Scheme operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and/or
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Panel and would be included in the relevant Panel Meeting minutes.

Related policy documents

The FSS is a summary of the Administering Authority's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.westsussex.gov.uk/pensions.

Appendix 5 – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

The Administering Authority should:-

- operate the Scheme as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Scheme employer;
- collect employer contributions and employee contributions, investment income and other amounts due to the Scheme;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's investment strategy and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Scheme;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the actuary;
- prepare and maintain a Funding Strategy Statement ("FSS") after consultation;
- provide data and information as required by GAD to carry out their Section 13 obligations;
- notify the actuary of material changes which could affect funding; and
- monitor all aspects of the Fund's performance and funding and amend the related policy document as necessary and appropriate.

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own, as determined by the actuary by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership which could affect future funding.

The actuary should:-

- prepare valuations, including the setting of employer contribution rates. This will involve agreeing assumptions with the Administering Authority having regard to the FSS and LGPS Regulations and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Scheme, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- provide data and information required by GAD to carry out their Section 13 obligations;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:-

- investment advisers (either internal or external) should ensure the Fund's investment strategy remains appropriate and consistent with its funding strategy;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Scheme assets in line with the investment strategy;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Scheme;
- legal advisers (either internal or external) should ensure the Scheme's operation and management remains fully compliant with all regulations and broader local government requirements including the Administering Authority's own procedures;
- The Ministry of Housing, Communities and Local Government (as assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS funds to meet Section 13 requirements.

Appendix 6 – Key risks and controls

Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Financial (F);
- Demographic (D);
- Regulatory (R); and
- Governance (G).

Financial risks

	Risk	Summary of Control Mechanisms
F	Assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
F	Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as an integral part of the funding strategy.</p> <p>Use asset liability modelling to measure 4 key outcomes.</p>
F	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer-term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>

	Risk	Summary of Control Mechanisms
F	Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring of active managers relative to their benchmark.
F	Pay and price inflation significantly more than anticipated.	<p>Focus the actuarial valuation process on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
F	Effect of possible increase in employer contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
F	Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
D	Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund actuary has direct access to the experience of over 50 LGPS Funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
D	Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

	Risk	Summary of Control Mechanisms
D	Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill-health retirement experience is monitored, and insurance is an option.
D	Effects of Auto enrolment	Mechanism for reviewing and addressing the factors in the Regulations to ensure that systems (Payroll, Pensions and HR) can support auto-enrolment, e.g. correct processing and timely payment of contributions
R	Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
R	Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis
R	Changes by Government to particular employer participation in LGPS funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategies as appropriate.

	Risk	Summary of Control Mechanisms
G	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions expressed as monetary amounts.</p>
G	Actuarial or investment advice is not sought, or is not heeded or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
G	Administering Authority failing to commission the Fund actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
G	An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <u>Notes (h)</u> and <u>(j)</u> to <u>3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p>

	Risk	Summary of Control Mechanisms
		<p>Where permitted under the Regulations, requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>

Appendix 7 – Actuarial assumptions

Background

Actuarial assumptions are expectations of future experience used to place a value on future benefit payments (“the liabilities”).

Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

2019 valuation assumptions

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The table below shows the recommended assumptions for the 2019 valuation relative to the assumptions used in the 2016 valuation. The Administering Authority believes that these assumptions are appropriate for the West Sussex Fund.

Assumption		31 March 2019	31 March 2016
Financial assumptions			
Discount rate			3.8% p.a.
Salary growth			2.9% p.a.
Pension Increases			2.1% p.a.
Demographic assumptions			
Longevity			
Baseline			Club Vita
Improvements			“Non-peaked” CMI 2013 projections subject to a 1.5% underpin
Withdrawals			2016
Ill health retirements			2016
Promotional salary growth			2016

Cash commutation		75% max
50:50 option take up		1%

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

Basis Used

The Administering Authority’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Scheme in the long-term.

However, in certain circumstances a more prudent basis applies.

What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Scheme’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of assets returns relative to long-term yields on UK Government bonds (“gilts”). There is, however, no guarantee that the mix of assets returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long-term view of prospective asset returns is taken. The long-term in this context would be 20 to 30 years or more.

For the purpose of the valuation at 31 March 2019 and setting contribution rates effective from 1 April 2020, the actuary has assumed that future investment returns earned by the Fund over the long term will be [X.X%] per annum greater than gilt yields at the time of the valuation.

In the opinion of the actuary, based on the current investment strategy, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

[TBC]

The same salary assumptions are applied to all employers.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than the retail prices index (RPI), has been the basis for increases to public sector pensions in deferment and in payment. The basis of such increases is set by the Government and is not under the control of the Administering Authority or any employers.

[TBC]

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS Funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Scheme. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future.

[TBC]

General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the contribution rate unless otherwise deemed appropriate. These calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix 8 – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long-run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer-term.
Deficit	The shortfall between the assets value and the funding target . This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed

interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee guarantor / A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s **covenant** to be as strong as its guarantor’s.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.

LGPS The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for more details.

Pooling Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally

agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see [3.4](#)).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary rates. In broad terms, this relates to the shortfall of its asset share to its funding target. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the funding targets as well as the Primary rates and Secondary rates for employers. This is normally carried out in full every three years (last done as at 31 March 2013/2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the funding targets and contribution rates are based on long-term bond market yields at that date also.

Appendix 9 – Previous Valuation Results

Summary of Past Valuation Results

A summary of the whole Fund valuation results and key assumptions for each of the previous three valuations is given below. For further details relating to the previous valuation results and assumptions please refer to the relevant valuation reports.

Valuation Results

Valuation date	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Assets (£m)	1,549	1,759	2,370	2,989	
Liabilities (£m)	1,763	2,047	2,741	3,141	
Surplus/(Deficit) (£m)	(214)	(288)	(371)	(152)	
Funding level	88%	86%	86%	95%	

Assumptions

Valuation date	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Discount rate p.a.	6.1%	6.1%	4.6%	3.8%	
Salary growth p.a.	4.7%	1% for 2 years then 5.3%	3.8%	2.9%	
Pension increases p.a.	3.2%	3.3%	2.5%	2.1%	
Longevity – baseline table	PXA92 mortality tables (with age ratings)	Club Vita Curves	Club Vita Curves	Club Vita Curves	
Longevity – future improvements	calendar year 2017 for current pensioners, calendar year 2033 for prospective pensioners	80% of medium cohort with a 10 year lag and 1.0% p.a. minimum improvements	'non-peaked' CMI 2010 projections with 1.25% underpins and declining mortality at older ages	'non-peaked' CMI 2013 projections with 1.5% underpins and declining mortality at older ages	

Appendix 10 - Rates and adjustments certificate

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Pension Panel
24 July 2019 Part 1
Business Plan Update
Report by Director of Finance and Support Services
<p>Summary</p> <p>The Pensions Panel approved its Business Plan for 2019/20 when it met on 29 April 2019.</p> <p>The Panel will receive an update on progress against the Business Plan objectives, details impact on risk (where applicable) and proposes actions each quarter.</p> <p>Recommendation</p> <p>That the updates to the Business Plan are noted.</p>

Background

1. The Business Plan sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.
2. The Pensions Panel approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund. A report based on any emerging key business issues, any issue with the highest levels of risk identified, any area of concern with administration performance or any other matter the Director of Finance Performance and Procurement wishes to bring to the attention of the Panel is then provided to the Panel each quarter.
3. The Fund's overarching objectives are set out below:
 - **Governance:** Act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, and well based, ensuring sound governance, risk management and compliance and that the management of the Fund is undertaken by people who have the appropriate knowledge and expertise.
 - **Investments and Funding:** To maximise returns from investments within reasonable risk parameters and with clear investment decisions based on a prudent long term funding priorities given the preference to keep employer contribution rates are reasonably stable where appropriate.
 - **Administration and Communication:** Deliver a high quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

Update on Business Plan Priorities – Q1

4. The table below provides an update on the Business Plan Priorities for 2019/20.

	Area	Update
a)	Pension Administration (including Employer data quality)	<p>Hampshire Pension Services have completed their End of Year process to provide updated membership data for the Actuarial Valuation and to members via the Annual Benefit Statements.</p> <p>Work is now underway between Hampshire Pension Services and West Sussex County Council to agree and implement plans for data quality improvement.</p> <p>A detailed update is provided elsewhere on the agenda.</p>
b)	Reconciliation to HMRC of GMP (Guaranteed Min Pension)	Results from the Capita specialist Guaranteed Minimum Pension (GMP) team on the responses from HMRC to the reconciliation issues raised are expected in September 2019. This will determine appropriate 'next steps'.
c)	Annual Report and Accounting	<p>The Annual Reports has been provided to the Pension Panel for their consideration and the Accounts have been approved by the County Council's Regulation, Audit and Accounts Committee following external audit work by Ernst & Young.</p> <p>A detailed update is provided elsewhere on the agenda.</p>
d)	GDPR	No update.
e)	Investment Strategy	Following the Pension Panel's decision in April officers have engaged with the County Council's procurement team to determine the appropriate route.
f)	Working collaboratively on the ACCESS Pool	The ACCESS Joint Committee met on 11 June 2019 and considered matters including transfer of assets to the Authorised Contractual Scheme and the governance arrangements relating to the Pool.
	Working at Fund level to reflect the addition of the ACCESS Pool	A detailed update is provided elsewhere on the agenda.
g)	ESG	Further representation has been made by Worthing Climate Action Network to the Chairman regarding the Pension Fund's investment strategy and holdings in fossil fuel companies.

	It is proposed that the Pension Panel receive further training on this matter in the autumn.
h) Custodian transition	The transfer to the new custodian (Northern Trust) was completed on schedule (1 July 2019).
i) 2019 valuation preparation	The draft Funding Strategy Statement has been considered by the Pension Advisory Board and circulated to employers as part of the Pension Fund's consultation. Data is due to be submitted to the Actuary in late June 2019.
j) Work by the Scheme Advisory Board	Engagement with employers on the valuation outcomes is expected in Autumn 2019. Officers have participated in the Good Governance survey, commissioned by the Scheme Advisory Board. An initial report is expected later in July 2019.

Risks

- There are no changes to the risks relating to the Pension Fund activities to draw to the Pension Panel's attention.
- The Risk Monitor is included in Appendix 1.

Training

- A Training Strategy has been established to aid the Pension Panel and Pension Advisory Board members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.
- Appropriate training events are listed below for the Panel to consider:

Dates	Event	Venue
5 – 6 September 2019	LGC Investment Summit	Celtic Manor, Newport
25 September 2019	CIPFA Introduction to the LGPS	Canary Wharf, London
1 October 2019	UBS Trustee Training Step 1	Liverpool Street, London
3 October 2019	LGA Fundamentals Day 1	Westminster, London
9 – 10 October 2019	Baillie Gifford LGPS Conference	Edinburgh
5 November 2019	UBS Trustee Training Step 2	Liverpool Street, London
6 November 2019	LGA Fundamentals Day 2	Westminster, London
13 November 2019	CIPFA Pensions Network Conference	London Stock Exchange, London
18 December 2019	LGA Fundamentals Day 3	Westminster, London
18 – 20 May 2020	PLSA Local Authority Conference	Cotswolds

Katharine Eberhart

Director of Finance and Support Services

Contact: Rachel Wood, Pension Fund Strategist (0330 222 3387)

Appendix 1

Risk Theme	Action
Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	Prudent assumptions adopted by the Fund Actuary. Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Regularly review investment performance and funding levels.
Insufficient resources to comply with the Administering Authority's Regulatory responsibilities.	Develop and monitor Business Plan on a regular basis. Ensure service contracts are clearly specified and obligations met.
Poor quality data resulting in error and misstatement.	Develop and implement a Data Improvement Plan. Maintain robust accounting records.
Officer, Panel and Board knowledge and understanding resulting in poor decision making and disengagement on key issues.	Develop, implement and monitor a Training Strategy.
Performance of the Fund's assets creates volatility and pressure on employer contribution rates.	Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement. Clear Investment Management Agreements in place. Regularly review investment performance and funding levels. Consideration of Environmental, Social and Governance issues on the performance of the portfolio.
The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance.	Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level.
Change to payroll and pension admin provider resulting in incomplete or inaccurate data being transferred and stakeholders not adopting new requirements.	Well defined project which is robustly managed including appropriate due diligence and testing throughout the project. Clear communication with stakeholders during project and as part of business as usual.
Failure to secure value for money through managing contracts with third parties	Strong contract management Compliance with procurement requirement and standing orders for provision of services to the Fund.
Political environment (locally or nationally) impact on investment markets and legislative requirements.	Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses. Develop, implement and monitor a Training Strategy.
Conflict of interest for members and employers	Clearly defined roles and responsibilities for those working for the Pension Fund. Maintenance of Conflict of Interest policy and register by the County Council.
Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	Clear Admission Agreements in place. Guidance published and reviewed relating to the Scheme requirements. Proactive engagement with employers.
Cyber crime resulting in personal data for members being accessed fraudulently.	Strong IT environment for administration system and web-based Portals.

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