

# West Sussex Pension Fund

## Statement of Accounts 2019/20

### 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 2020.

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 2020 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](http://www.westsussex.gov.uk/pensions)

The Local Government Pension Fund Scheme  
Pension Fund Account

2018/2019 £000	Notes	2019/2020 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>		
130,312	7	138,083
4,317	8	17,562
<b>134,629</b>		<b>155,645</b>
(113,811)	9	(114,575)
(11,375)	10	(15,861)
<b>(125,186)</b>		<b>(130,436)</b>
<b>9,443</b>		<b>25,209</b>
<b>Net additions/(withdrawals) from dealings with members</b>		
(17,835)	11	(17,075)
<b>(8,392)</b>		<b>8,134</b>
<b>Net additions/(withdrawals) including Fund management expenses</b>		
<b>Returns on investments</b>		
61,375	12	72,914
(1,211)	13A	(638)
5		2
218,068	14A	(153,114)
<b>278,237</b>		<b>(80,836)</b>
<b>Net return on investments</b>		
<b>269,845</b>		<b>(72,702)</b>
<b>Net increase in net assets available for benefits during the year</b>		
<b>4,104,276</b>		<b>4,374,121</b>
<b>Add opening net assets of the scheme</b>		
<b>4,374,121</b>		<b>4,301,419</b>
<b>Closing net assets of the scheme</b>		

## Net Asset Statement

At 31 March 2019 £000	Notes	At 31 March 2020 £000	
4,322,996	Investment assets	14	4,195,984
(9,660)	Investment liabilities	14	(16,730)
<b>4,313,336</b>	<b>Net investment assets / (liabilities)</b>		<b>4,179,254</b>
72,266	Current assets	21	131,328
(11,481)	Current liabilities	22	(9,163)
<b>4,374,121</b>	<b>Net assets of the scheme available to fund benefits at the end of the reporting period</b>		<b>4,301,419</b>

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2020. The actuarial present value of promised retirement benefits is disclosed at Note 20.

## Notes to the Accounts

### NOTE 1: DESCRIPTION OF THE FUND

The West Sussex Pension Fund ('the Fund') is part of the Local Government Pension Scheme (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

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2020. The actuarial present value of promised retirement benefits is disclosed at Note 20.

- 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 Chief Constable (Sussex Police Authority) Sussex Police & Crime Commissioner, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- Admitted Bodies Other organisations participate in the Scheme under an admission agreement between the administering authority and the relevant employers. 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.

Membership details are set out below:

	<b>31 March 2019</b>	<b>31 March 2020</b>
Number of employers with active members	201	198
<b>Number of active members</b>		
County Council	14,578	14,202
Other employers	13,483	14,649
<b>Total</b>	<b>28,061</b>	<b>28,851</b>
<b>Number of pensioners</b>		
County Council	10,547	10,904
Other employers	9,348	10,699
<b>Total</b>	<b>19,895</b>	<b>21,603</b>
<b>Number of deferred pensioners</b>		
County Council	16,181	16,831
Other employers	11,054	12,263
<b>Total</b>	<b>27,235</b>	<b>29,094</b>
<b>Total number of members in scheme</b>	<b>75,191</b>	<b>79,548</b>

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 2020.
- 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 40.3% of pensionable pay for the financial year ending 31 March 2020.

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.

**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 2019/20, 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 2020 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. The West Sussex LGPS remains a statutory open scheme, with a strong covenant from the participating employers and is therefore able to take a long term outlook when considering the general investment and funding implications of external events. The Pension Fund remains a long term investor and has reduced its allocation to equities with a preference to more stable bond assets to reduce the volatility of its investment assets. The Fund will continue to monitor all risks on an ongoing basis and will consider appropriate actions where necessary. □

The Fund was 112% funded as at 31 March 2019 valuation. Although this had reduced at 31 March 2020 it is estimated that the scheme was still fully funded. The Pension Fund takes a prudent approach when setting employer contributions and its contribution strategy is considered against detailed scenario testing by the Fund Actuary. There is no expectation that the contribution rates will need to be reviewed or revised prior to the best valuation but the position will be kept under review, particularly for any shorter term employers.

During the year the Fund received £138.1m in contribution income - 80% of which is from lower risk employers i.e. local councils and police. A further 8% comes from academies who have a guarantee from the government. The fund remains cash-flow positive with the majority of investment income being reinvested rather than used to pay benefits.

The majority (74.3%, or £54.2m) of the Fund's investment income is currently re-invested within the two investment portfolios (Baillie Gifford and UBS). The Fund has undertaken modelling on the impact on cash-flows from any reduction of employer and investment income. This shows that even with a reduction in contribution and property income and an increase in pension payments the fund would remain cash-flow positive. As at 31 March 20 the Pension Fund was holding £119m in cash and holds 85% of its assets in liquid form which could be realised within 3 months in a managed way should the need arise.

**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. No bulk transfers have taken place in 2019/20 or the prior year.

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.

**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 £4.2m in 2019/20 (£5.7m in 2018/19).
- 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.



**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.

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.

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

The spread of Coronavirus had a significant impact on markets in the run up to year-end and will continue to weigh heavily on global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and/or liabilities of the Pension Fund. The Administering Authority monitors risks on an ongoing basis and will consider appropriate actions where necessary.

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 2020 would result in an approximate 10% increase to employer liability (£448m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2020 would result in an approximate increase in employer liability of between 3% and 5% (£134m and £224m).</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2020 would result in an approximate increase in employer liability of 1% (£24m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2020 would result in an approximate 10% increase in employer liability (£421m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager valuations as at the end of the reporting period.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. This takes into account observable and non-observable pricing inputs including public market developments (industry sector and peers), private market transactions, company specific considerations, public indices and cashflows</p>	<p>The total private equity investment in the financial statements is £91.1m. There is a risk that this investment may be under or overstated in the accounts.</p>

<p>Freehold and leasehold property</p>	<p>Independent valuation for freehold and leasehold investment property has been provided 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>However the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Market activity is being impacted in many sectors. The valuation has therefore been reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution - should be attached to the valuation than would normally be the case.</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. The total property investment in the financial statements is £366.1m. 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**

There have been no notable events occurring after the balance sheet

**NOTE 7: CONTRIBUTIONS RECEIVED**

By Category

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
102,858	Employers	108,941
27,454	Members	29,142
<u><b>130,312</b></u>		<u><b>138,083</b></u>

By Authority

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
57,497	Administering authority	59,943
65,473	Scheduled bodies	70,531
7,342	Admitted bodies	7,609
<u><b>130,312</b></u>		<u><b>138,083</b></u>

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

By Category

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
4,317	Individual transfers	17,562
-	Bulk transfers	-
<u><b>4,317</b></u>		<u><b>17,562</b></u>

**NOTE 9: BENEFITS PAID**

By Category

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
94,127	Pensions	98,099
16,938	Commutation and lump sum retirement benefit	13,888
2,746	Lump sum death benefit	2,588
<u><b>113,811</b></u>		<u><b>114,575</b></u>

By Authority

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
51,697	Administering authority	51,901
52,995	Scheduled bodies	53,319
9,119	Admitted bodies	9,355
<u><b>113,811</b></u>		<u><b>114,575</b></u>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
2,769	Refunds of contributions	930
6,866	Individual transfers	14,931
1,740	Bulk transfers	-
<u><b>11,375</b></u>		<u><b>15,861</b></u>

Refund of contributions includes a £0.4m payment relating to exit credits due to two exiting employers made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008, regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018 and The Local Government Pension Scheme (Amendment) Regulations 2020. This is in addition to the £2.3m accounted for in 2018/19 but not yet settled.

**NOTE 11: MANAGEMENT EXPENSES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
1,224	Administrative	1,136
1,117	Oversight and governance	1,325
15,494	Investment management	14,613
<u><b>17,835</b></u>		<u><b>17,075</b></u>

**NOTE 11a: INVESTMENT MANAGEMENT EXPENSES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
8,346	External managers fees	9,101
5,723	Performance related fees	4,171
185	Custody fees	160
1,238	Transaction costs	1,178
2	Treasury management expenses	3
<u><b>15,494</b></u>		<u><b>14,613</b></u>

**NOTE 12: INVESTMENT INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
40,321	Dividends from equities	51,409
3,652	Interest on bonds	2,771
2,088	Private equity income	762
14,019	Property income	16,538
686	Interest on cash deposits	1,095
609	Stock lending income	339
<u>61,375</u>		<u>72,914</u>

**NOTE 12a: PROPERTY INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
16,479	Rental income	17,474
<u>(2,460)</u>	Direct operating expenses	<u>(936)</u>
<b>14,019</b>		<b>16,538</b>

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

**NOTE 13: OTHER FUND ACCOUNT DISCLOSURES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
24	Pension Advisory Board	26
<u>117</u>	ACCESS pool	<u>108</u>
<b>141</b>		<b>134</b>

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 2019/20 reflect the Fund's contribution towards the pool's activities. These costs are included within oversight and governance costs in Note 11.

**NOTE 13a: TAXES ON INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
1,844	Tax paid on dividend payments	2,789
<u>(633)</u>	Tax recoverable	<u>(2,151)</u>
<b>1,211</b>		<b>638</b>

**NOTE 13b: EXTERNAL AUDIT COSTS**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
<u>37</u>	Payable in respect of external audit	<u>23</u>
<b>37</b>		<b>23</b>

2019/20 costs include a charge of £5,500 for the prior year in respect of IAS19 assurance work. These costs are included within oversight and governance costs in Note 11.

**NOTE 14: INVESTMENTS**

<b>Market value 2018/19 £000</b>		<b>Market value 2019/20 £000</b>
	<b>Investment assets</b>	
2,164,653	Equities	1,984,456
118,002	Bonds	115,365
1,468,720	Pooled investments	1,584,546
110,727	Private equity	91,117
376,950	Property	366,125
69,405	Cash deposits	43,551
6,733	Investment income due	7,446
7,806	Amounts receivable for sales	3,378
<b><u>4,322,996</u></b>	<b>Total investment assets</b>	<b><u>4,195,984</u></b>
	<b>Investment liabilities</b>	
(9,296)	Amounts payable for purchases	(16,365)
(364)	Property income received in advance	(365)
<b><u>(9,660)</u></b>	<b>Total investment liabilities</b>	<b><u>(16,730)</u></b>
<b><u>4,313,336</u></b>	<b>Net investment assets</b>	<b><u>4,179,254</u></b>



**NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

	<b>Current Year</b>				
	<b>Market Value at 1 April 2019</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market Value at 31 March 2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bonds	118,002	11,129	(22,102)	8,336	115,365
Equities	2,164,653	662,791	(651,095)	(191,893)	1,984,456
Pooled investments	1,468,720	79,025	(25)	36,826	1,584,546
Private equity	110,727	1,379	(30,648)	9,659	91,117
Property	376,950	2,256		(13,081)	366,125
	<b>4,239,052</b>	<b>756,580</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<b>4,239,052</b>	<b>756,580</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
Other investment balances					
Cash deposits	69,405			(2,961)	43,551
Amount receivable for sales	7,806				3,378
Investment income due	6,733				7,446
Amount payable for purchases	(9,296)				(16,365)
Property income received in	(364)				(365)
<b>Total assets</b>	<b>4,313,336</b>			<b>(153,114)</b>	<b>4,179,254</b>

## Financial Report and Accounts 2019/20

	Previous 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
	<b>3,989,305</b>	<b>671,020</b>	<b>(636,780)</b>	<b>215,507</b>	<b>4,239,052</b>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<b>3,989,305</b>	<b>671,020</b>	<b>(636,780)</b>	<b>215,507</b>	<b>4,239,052</b>
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)
Rental receipts in advance	(5)				(364)
<b>Total assets</b>	<b>4,060,539</b>			<b>218,068</b>	<b>4,313,336</b>

## NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2019 £000		31 March 2020 £000
	<b>Bonds (quoted)</b>	
	UK	
118,002	Government	115,365
<u>118,002</u>		<u>115,365</u>
	<b>Equities (quoted)</b>	
	UK	
441,531	Overseas	294,079
1,723,122		1,690,377
<u>2,164,653</u>		<u>1,984,456</u>
	<b>Pooled funds (quoted)</b>	
	UK	
401,956	Government bonds	515,866
375,092	Corporate bonds	723,341
	Overseas	
132,766	Government bonds	21,052
529,035	Corporate bonds	280,450
29,871	Cash	43,837
<u>1,468,720</u>		<u>1,584,546</u>
110,727	Private equity (unquoted)	91,117
376,950	Property (unquoted)	366,125
<u>487,677</u>		<u>457,242</u>
69,405	Cash deposits	43,551
6,733	Investment income due	7,446
7,806	Amounts receivable for sales	3,378
<u>83,944</u>		<u>54,375</u>
<u>4,322,997</u>	<b>Total investment assets</b>	<u>4,195,984</u>
	<b>Investment liabilities</b>	
(9,296)	Amounts payable for purchases	(16,365)
(364)	Property income received in advance	(365)
<u>(9,660)</u>	<b>Total investment liabilities</b>	<u>(16,730)</u>
<u>4,313,336</u>	<b>Net investment assets</b>	<u>4,179,254</u>

**NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER**

<b>31 March 2019</b>			<b>31 March 2020</b>	
<b>%</b>	<b>£000</b>		<b>£000</b>	<b>%</b>
		<b>Share of market value held by fund managers</b>		
37.6	1,622,145	UBS Global Asset Management	1,487,321	35.6
51.1	2,202,350	Baillie Gifford & Co	2,233,290	53.4
1.4	60,924	Pantheon Ventures	48,385	1.2
1.2	49,803	Partners Group	42,732	1.0
8.7	376,950	Aberdeen Asset Management	366,125	8.8
0.0	1,164	Other investments	1,401	0.0
<b>100.0</b>	<b>4,313,336</b>		<b>4,179,254</b>	<b>100.0</b>

Northern Trust manage the stock lending programme and the income held on this account is included in the other investment balance shown above. Property income receipts in advance is also included in other investments.

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.

<b>31 March 2019</b>			<b>31 March 2020</b>	
<b>%</b>	<b>£000</b>		<b>£000</b>	<b>%</b>
		<b>Baillie Gifford managed funds</b>		
21.1	922,631	Sterling Aggregate Bond Fund	1,016,520	23.6
		<b>UBS managed funds</b>		
0.7	32,468	Currency Allocation Return Fund	27,062	0.6
11.7	513,621	UK Corporate Bond UK Plus Fund	540,964	12.6
<b>33.5</b>	<b>1,468,720</b>		<b>1,584,546</b>	<b>36.8</b>

**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 2020, the value of quoted equities on loan was £203.4m (31 March 2019: £302.6m).

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 £263.6m (31 March 2019: £328.5m).

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.

**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.

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
344,585	Opening balance	376,950
	Additions	
25,541	Purchase of existing property	-
1,512	New construction	-
546	Subsequent expenditure	2,256
-	Disposals	-
4,766	Net increase/(decrease) in market value	(13,081)
<u><b>376,950</b></u>	Closing balance	<u><b>366,125</b></u>

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

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
16,434	Within one year	16,618
58,882	Between one and five years	58,147
104,501	Later than five years	93,654
<u><b>179,817</b></u>	Total future lease payments due under existing contracts	<u><b>168,419</b></u>

**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 2020) 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 (see note 5).

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 March 2020 fund-of-fund reports.

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 estimated 31 March 2020 fund-of-fund reports.

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.

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 2020.

	<b>Assessed valuation range</b>	<b>Value at 31 March 2020</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>(+/-)</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Freehold and leasehold property (a)	10%	366,125	402,738	329,513
Private equity (b)	15%	91,117	104,784	77,449
		<b>457,242</b>	<b>507,522</b>	<b>406,962</b>

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.



**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 and property 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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Values at 31 March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,099,784	1,584,546	91,154	3,775,484
Non-financial assets at fair value through profit and loss			366,125	366,125
<b>Net investment assets</b>	<b>2,099,784</b>	<b>1,584,546</b>	<b>457,279</b>	<b>4,141,609</b>

Values at 31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial assets</b>				
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
<b>Net investment assets</b>	<b>2,282,655</b>	<b>1,468,720</b>	<b>487,677</b>	<b>4,239,052</b>

**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 2019	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000
Private equity	110,727	-	(29,269)	(11,161)	20,820	91,117
Property	376,950	-	2,256	(13,081)	-	366,125
Equity	-	37	-	-	-	37
	<b>487,677</b>	<b>37</b>	<b>(27,013)</b>	<b>(24,242)</b>	<b>20,820</b>	<b>457,279</b>

A delisted equity asset has been reclassified from level 1 to level 3 which is reflected in the above table.

**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.

Fair value through profit and loss £000	31 March 2019		Liabilities at amortised cost £000		31 March 2020		Liabilities at amortised cost £000
	Fair value through profit and loss £000	Assets at amortised cost £000			Fair value through profit and loss £000	Assets at amortised cost £000	
				<b>Financial assets</b>			
118,002	-	-	-	Bonds	115,365	-	-
2,164,653	-	-	-	Equities	1,984,456	-	-
1,468,720	-	-	-	Bond and currency funds	1,584,546	-	-
110,727	-	-	-	Private Equity	91,117	-	-
-	123,009	-	-	Cash	-	162,639	-
-	14,539	-	-	Investment balances	-	10,824	-
-	18,662	-	-	Debtors	-	12,240	-
<b>3,862,102</b>	<b>156,210</b>	-	-	<b>Financial liabilities</b>	<b>3,775,484</b>	<b>185,703</b>	-
-	-	(9,660)	-	Investment balances	-	-	(16,730)
-	-	(11,481)	-	Other current liabilities	-	-	(9,163)
<b>3,862,102</b>	<b>156,210</b>	<b>(21,141)</b>	-	<b>Total</b>	<b>3,775,484</b>	<b>185,703</b>	<b>(25,893)</b>

**NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

31 March 2019 £000		31 March 2020 £000
210,740	<b>Financial assets</b>	
2,561	Fair value through profit and loss	(137,073)
	Amortised cost - unrealised gains	(2,961)
	<b>Financial liabilities</b>	
	Fair value through profit and loss	-
<b>213,301</b>	<b>Total</b>	<b>(140,033)</b>

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

**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 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.

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 2020	Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Asset type</b>				
UK equities	294,079	27.50%	374,951	213,208
Overseas equities	1,690,377	28.00%	2,163,682	1,217,071
Bonds	115,365	9.10%	125,863	104,867
Bond funds	1,557,485	9.41%	1,704,044	1,410,925
Cash	43,551	0.30%	43,682	43,420
Property	366,125	14.20%	418,115	314,135
Private equity	91,117	28.40%	116,994	65,240
Currency fund	27,062	10.00%	29,768	24,356
<b>Total</b>	<b>4,185,161</b>		<b>4,977,099</b>	<b>3,393,222</b>
	Previous year			
	Value at 31 March 2019	Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Asset type</b>				
UK equities	441,531	16.60%	514,825	368,217
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
<b>Total</b>	<b>4,308,458</b>		<b>4,923,769</b>	<b>3,693,127</b>

Interest rate risk is monitored by the investment managers and the County Council's treasury management team.

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

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates vary and can affect both income and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

Assets exposed to interest rate risk	Current year		
	Value at 31 March 2020	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	43,551	436	(436)
Cash balances	119,088	1,191	(1,191)
Bonds	115,365	1,154	(1,154)
<b>Total</b>	<b>278,004</b>	<b>2,781</b>	<b>(2,781)</b>
Assets exposed to interest rate risk	Previous year		
	Value at 31 March 2019	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	69,405	694	(694)
Cash balances	53,604	536	(536)
Bonds	118,002	1,180	(1,180)
<b>Total</b>	<b>241,011</b>	<b>2,410</b>	<b>(2,410)</b>

Currency risk

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

Fund managers monitor the currency risk and this is considered by the Pensions Panel when making strategic asset allocation decisions.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Hymans Robertson, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

The analysis assumes that all other variables, in particular interest rates, remain constant. If sterling strengthens/weakens against other currencies in which the Fund holds investments, it would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Current year			
	Value at	Change	Value on Increase	Value on
	31 March 2020	%	£000	Decrease
	£000		£000	£000
Overseas equities	1,690,377	10.00	1,859,414	1,521,339
Overseas bonds	301,502	10.00	331,652	271,352
Overseas private equity	91,117	10.00	100,228	82,005
<b>Total</b>	<b>2,082,996</b>		<b>2,291,295</b>	<b>1,874,696</b>

Assets exposed to currency risk	Previous year			
	Value at	Change	Value on Increase	Value on
	31 March 2019	%	£000	Decrease
	£000		£000	£000
Overseas equities	1,723,122	10.00	1,895,434	1,550,810
Overseas bonds	661,801	10.00	727,981	595,621
Overseas private equity	110,727	10.00	121,800	99,654
<b>Total</b>	<b>2,495,650</b>		<b>2,745,215</b>	<b>2,246,085</b>

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 £43.6m in cash (31 March 2019: £69.4m) and cash internally managed by WSCC at 31 March 2020 was £119.1m (31 March 2019: £53.6m). This was held by institutions with the following credit ratings :

	<b>Nominal amount 31 March 2019</b>	<b>Nominal amount 31 March 2020</b>
	<b>£000</b>	<b>£000</b>
AAA rated counterparties	42,200	
AA- rated counterparties	-	-
A rated counterparties	80,809	162,639
<b>TOTAL</b>	<b>123,009</b>	<b>162,639</b>

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 2020, 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.

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, Northern Trust 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 Northern Trust'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 2019 and the next valuation will take place as at 31 March 2022.

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.

## Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,374 million, were sufficient to meet 112% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £455 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 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 2019 valuation were as follows:

	31 March 2019 %
Discount rate	3.1
Salary increase assumption	2.8
Benefit increase assumption (CPI)	2.3

## Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's

	Males	Females
Current Pensioners	22.2 years	24.2 years
Future Pensioners	23.3 years	25.9 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 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The FSS will also be reviewed at that time.

**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.

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£m</b>		<b>£m</b>
(2,442)	Active members	(1,617)
(1,012)	Deferred pensioners	(1,084)
(1,507)	Pensioners	(1,670)
<u>(4,961)</u>	Present value of promised retirement benefits	<u>(4,371)</u>
4,374	Fair value of scheme assets (bid value)	4,301
<u>(587)</u>	Net liability	<u>(70)</u>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2019 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).

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 2020 and 31 March 2019.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £463m. The Fund actuary estimates the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £225m.

	31 March 2019 % p.a.	31 March 2020 % p.a.
Inflation / pensions increase rate	2.5	1.9
Salary increase rate	3.2	2.3
Discount rate	2.4	2.3

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.50% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

	Males	Females
Current pensioners	22.2 years	24.2 years
Future pensioners *	23.3 years	25.9 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.

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.

**NOTE 21: CURRENT ASSETS**

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
2,473	Debtors:	
8,730	Contributions due - members	2,835
1,290	Contributions due - employers	5,969
1,238	Prepayments	1,404
4,931	Other debtors	1,573
<u>18,662</u>	Taxation	<u>459</u>
53,604	Cash balances	<u>12,240</u>
<b><u>72,266</u></b>		<b><u>119,088</u></b>
		<b><u>131,328</u></b>

Analysis of debtors

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
6,443	Central government bodies	4,078
6,954	Other local authorities	3,844
2,512	Educational establishments	1,486
2,753	Other entities and individuals	2,832
<u>18,662</u>		<u>12,240</u>
		<b><u>12,240</u></b>

**NOTE 22: CURRENT LIABILITIES**

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
-	Contributions	-
1,215	Benefits payable	1,095
10,266	Other current liabilities	8,068
<u>11,481</u>		<u>9,163</u>
		<b><u>9,163</u></b>

Analysis of creditors

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
1,021	Central government bodies	1,032
184	Other local authorities	663
1,239	Educational establishments	-
9,037	Other entities and individuals	7,468
<u>11,481</u>		<u>9,163</u>
		<b><u>9,163</u></b>

The Pension Fund has made a provision of £0.4m relating to exit credits due to two exiting employers made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008, regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018 and The Local Government Pension Scheme (Amendment) Regulations 2020. This is in addition to the £2.3m accounted for in 2018/19 but not yet settled.

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

<b>Market Value £000</b>		<b>Market Value £000</b>
2,139	Standard Life	2,108
<u>403</u>	Utmost (previously Equitable Life)	<u>429</u>
<b><u>2,542</u></b>		<b><u>2,537</u></b>

AVC Contributions of £444,912 were paid directly to Standard Life during the year (2018/19: £349,873). 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.

A policy holder meeting on 1 November 2019 voted in favour of the proposed Part VII transfer of Equitable Life's business to Utmost Life. The High Court gave its approval on 4 December and the transfer took place on 1 January 2020.

**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 £0.6m (2018/19: £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 £59.9m to the Fund in 2019/20 (2018/19: £57.5m). 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 2020, the Fund had a daily average investment balance of £107.7m held in Sterling (31 March 2019: £50.0m) earning interest of £0.68m (2018/19: £0.31m) in these funds at a rate of return of 0.63% (2018/19: 0.62%). Additionally, the Fund has earned interest of £0.02m on investments held in foreign currency (2018/19: £0.13m).

Governance

One member of the Pensions Panel is 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.

**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. The total Pension Fund expense relating to Key Management Personnel is set out below:

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
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 £0.7m 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 2020 totalled £24.9m (31 March 2019 £27.6m).

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.