

Annual Report 2019/20

Published by: **Cheshire West and Chester Council as
Administering Authority for the Cheshire Pension Fund**

Council Offices, 4 Civic Way, Ellesmere Port, CH65 0BE

www.cheshirepensionfund.org

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Introduction

Welcome to the Annual Report of the Cheshire Pension Fund for the year ending 31 March 2020

This has been another busy year as we have completed the three yearly valuation of the Fund's pension liabilities. This showed that the Fund's assets, as at March 2019, were sufficient to meet its pension promises. Whilst very good news, we are conscious this is a snapshot at a point in time. We have reviewed the Funding Strategy and Investment Strategy Statement to ensure that, going forward, our approach to managing contributions and investments gives us the best chance of maintaining this funding position whilst delivering stable and affordable contribution rates for employers and the taxpayer.

The Covid-19 pandemic dominated the end of the year and we are very mindful of the impact this had on our scheme members, participating employers, and our staff. We offer our condolences to scheme members who have lost loved ones and our thanks to those caring for the sick and vulnerable and to everyone who contributed by observing social distancing.

The Fund's investment strategy and reduced exposure to equities was effective in reducing the impact of major market changes as the impact of the Covid-19 pandemic was felt in global financial markets. The Fund achieved a total return for the year of -1.3%, marginally behind the benchmark return of -0.8%. (Fund returns remain ahead of benchmark for all other periods). The value of assets during the year decreased from £5.604 billion to £5.514 billion.

The Fund continues to build its approach to ethical, social and governance considerations in its updated Investment Strategy Statement and Responsible Investment Policy. We have commissioned a review of the climate footprint of the investment portfolio with a view to developing a climate stewardship plan.

Further progress was achieved in pooling assets with other partner funds in the LGPS Central Pool. The Fund invested £524m into the LGPS Central Ltd Climate Factor Fund, which has been designed to take into account the risks, and opportunities associated with climate change, and at the same time achieve superior investment returns over the long-term.

The Benefits Administration team have had a successful year, responding to over 52,000 individual requests for information whilst increasing the number of annual benefits statements delivered on time and our thanks to employers for their support in providing missing data, which has helped to improve data quality. Our programme of improvements continues as we look to develop member self-service options, multi skill our staff and streamline business processes so we can respond even more quickly to our scheme members and employers.

Following the May 2019 local council elections, there were five changes to the membership of the Pension Fund Committee, with one further change during the year. A comprehensive induction and training programme is in hand to ensure new Committee members have the knowledge and skills necessary to undertake their role.

The Local Pension Board has continued to provide valuable support to the Council as Administering Authority and has been recognised as an example of best practice. One employer representative was reappointed to the Board following expressions of interest. A process is underway to seek expressions of interest in a member representative role as one current incumbent's terms of office ends in June 2020.

The 2019/20 Accounts on pages 75-118 show that the Fund continues to be cash flow positive, after taking into account investment income of £40m. A small underspend was delivered against the administration budget, which continues to grow in line with scheme membership and employer participation.

Once again, I'd like to thank everyone who has worked for, or with the Cheshire Pension Fund over the last twelve months for their support and continued commitment.

Mark Wynn

Chief Operating Officer

Cheshire West and Chester Council

Management and Financial Performance

Scheme Management and Advisors (as at 31 March 2020)

Administering Authority

Cheshire West and Chester Council
4 Civic Way, Ellesmere Port, CH65 0BE

Cheshire West and Chester Council Officers

Mark Wynn Chief Operating Officer

Maggie Sheppard
Head of Pension Fund

Vanessa Whiting and Karen McIlwaine
Director of Governance and Monitoring Officer (job share)

Pension Fund Committee

Councillor Myles Hogg
Cheshire West and Chester Council (Chairman)

Councillor Gareth Gould Cheshire West and Chester Council

Councillor Harry Tonge (Joined January 2020)
Cheshire West and Chester Council

Councillor Paul Williams (left January 2020)
Cheshire West and Chester Council

Councillor Gina Lewis Cheshire West and Chester Council

Councillor Carol Bulman Cheshire East Council

Councillor Paul Findlow Cheshire East Council

Councillor Amanda Stott Cheshire East Council

Councillor Sam Corcoran Cheshire East Council

Councillor Cathy Mitchell Warrington Borough Council

Councillor Mike Wharton Halton Borough Council

Paul Matthews Member Representative (GMB)

Local Pension Board members

Peter Raynes Chairman (Independent)

Councillor Robert Bisset Employer Representative
(Cheshire West and Chester Council)

Adrienne Laing Employer Representative (The Challenge
Academy Trust)

Geoff Wright Member Representative (UNISON)

Neil Harvey Member Representative (GMB)

Asset Pool Operator

LGPS Central Limited Mander House, Mander Centre,
Wolverhampton WV1 3NB

Investment Managers

Adams Street Partners UK LLP
4th Floor, 75 Davies Street, London W1K 5JN

Arrowgrass Capital Partners LLP
3rd Floor, 10 Portman Square, Marylebone, London, W1H 6AZ

Baillie Gifford & Co
Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN

Blackstone
The Blackstone Group, 40 Berkeley Square, London, W1J 5AL

BlueBay Asset Management
77 Grosvenor Street, London, W1K 3JR

Darwin Property Investment Management Limited
11 New Street, St Peter Port, Guernsey, GY1 3EG

Janus Henderson Global Investors
201 Bishopsgate, London, EC2M 3AE

Legal & General Investment Management
One Coleman Street, London, EC2R 5AA

Lexington Partners UK LLP
42 Berkeley Square, London, W1J 5AW

M&G Investments
10 Fenchurch Avenue, London, EC3M 5AG

Pantheon Ventures (UK) LLP
10 Finsbury Square, 4th Floor, London, EC2A 1AF

Patrizia UK Ltd
166 Sloane Street, London, SW1X 9QF

Winton Capital Management
Grove House, 27 Hammersmith Grove, London W6 0NE

Custodian

BNY Mellon Asset Servicing

London Branch, One Canada Square, Canary Wharf, London, E14 5AL

AVC Providers

Scottish Widows

PO Box 902, 15 Dalkeith Road, Edinburgh, EH16 9AS

Utmost

PO Box 484, Walton Street, Aylesbury, Bucks, HP21 7WW

Standard Life

1 Baileyfield Crescent, Edinburgh, EH15 1ET

Actuary

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

Investment Advisor

Mercer

Belvedere, 12 Booth Street, Manchester, M2 4AW

Legal Advisor

Cheshire West and Chester Council

Director of Governance, 4 Civic Way, Ellesmere Port, CH65 0BE

Auditors

Grant Thornton

Audit and Assurance, Public Sector, Royal Liver Building,
Liverpool, L3 1PS

Banker

Lloyds Bank plc

Chester Branch, Foregate Street, Chester, CH1 1XP

Scheme Administrator

Cheshire West and Chester Council

HQ, 58 Nicholas Street, Chester, CH1 2NP

Risk Management

Each year the Fund produces a Business Plan setting out the high level objectives for the next four years. In addition, the Fund produces a plan for the actions to be achieved in the following twelve months. The associated risks are captured within the risk register.

These risks are categorised in the risk register against the Fund's long term strategic objectives in respect of:-

- **Governance**
- **Administration and Communication**
- **Funding and Investments**

Risks are considered against a series of mitigations designed to reduce their likelihood and/or impact. Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

The Pension Fund Committee is responsible for approving the Business Plan, including the objectives and the risk register. The Committee regularly reviews the risk register to ensure that key risks are identified, evaluated and controlled at a suitable level. The Committee will also ensure that any planned mitigating actions are put into place.

Investment Risk

The Investment Sub-Committee regularly reviews investment risk and manager performance at its quarterly meetings and is assisted by the Fund's Investment Advisors Mercer Ltd.

LGPS Central Pool

There is a separate risk register relating to investment pooling which the Practitioner Advisory Forum, the main Partner Fund working group, maintains. The LGPS Central Joint Committee oversees the risk register to ensure risks are logged and mitigating actions put in place.

LGPS Central Ltd, the pooling delivery company, maintains its own risk register, which is overseen by the company board.

Systems of Internal Control

The Fund's Statement of Accounts and Annual Report are subject to an external audit by Grant Thornton, who provide a separate opinion for both the accounts and the annual report. Grant Thornton also conduct a number of interim audits throughout the year to test the design effectiveness of the Fund's internal controls.

In addition to external audit the Fund receives regular reviews from the Council's internal audit department who test the internal control systems and processes employed. Internal audit obtain assurance on the internal control environment through a series of audits of key areas. The outputs from these audits are presented to the Local Pension Board.

During 2019/20 internal audit conducted two audits which covered the transition of assets into the LGPS Central pool and the Fund's GMP reconciliation project. Both received good assurance ratings.

The following table summarises the highest scoring risks identified in setting the 2020/21 business plan, after taking into account mitigating actions and controls.

Objective	Priority/ Outcome	Risk	Planned Action	Risk Status
Governance	LGPS Asset Pooling	Failure to successfully transition Fund assets to the LGPS Central investment pool leading to planned savings and benefits not set out in pooling business case not being realised	<ul style="list-style-type: none"> Appointment of specialist transition managers for asset transfers as required Engage with other partner funds to confirm/update shared objectives for pooling delivery company now that it has been in operation for two years to inform future business planning Update legal agreements, where appropriate in the light of the outcomes of the review Consider opportunities to align custody arrangements with pool depositary ahead of transition 	Amber
Governance	Transparent performance reporting and compliance with best practice	Failure to improve the quality of data held by the Fund and clear backlogs of casework leading to errors in calculating benefits, delays in processing casework and failure to meet statutory disclosures resulting in regulatory penalties	<ul style="list-style-type: none"> Extend automatic identification of breaches within the administration database to cover all casework processes Improve the suite of exception reports to identify missing and erroneous data and implement a process to clear those queries Develop a suite of performance reports incorporating both the Fund's and the Employer's performance against the Administration Strategy Undertake a data cleanse of 'common data' with all employers ahead of their migration to Monthly Interfacing (MI) Complete the transition of employers to MI including starters and leavers, allowing data queries to be resolved in-year Introduce standardised processes for receiving all data from Employers via an online portal 	Amber
Governance	Supported, empowered and enabled employers	Employers fail, or are unable to meet their responsibilities and achieve performance standards set out in the Administration Strategy	<ul style="list-style-type: none"> Administration Strategy to be reviewed with input from PCF and employer support/training offer to be reviewed and developed to support employers in meeting their obligations Implementation of Employer self-serve, work trays and monthly interfacing Review training and engagement approach for Academy sector given significant changes in that sector 	Amber
Administration	Digitally enabled interaction, communication and self-serve. Secure and efficient transmission of high quality data. Supported, empowered and enabled employers	Failure to deliver Monthly Interfacing functionality and secure employer buy-in/engagement	<ul style="list-style-type: none"> Engagement with all employers to undertake the steps required to on-board them onto MI Working with larger employers in the Fund to on-board the majority of scheme members in 2020 	Amber
Administration	Optimal use of technology to support transmission of high quality data	Poorly informed decision making due to poor quality data and/or ineffective communication	<ul style="list-style-type: none"> Implement a new Data Management Strategy once all employers on MI Introduce Monthly Reporting from Employers and re-define the information to be provided to include common data set to facilitate continual data validation Implement validation checks on information provided by employers to ensure it is complete and accurate before it is accepted as casework by the Fund Continue with data cleansing resulting from TPR Data Scores Complete tracing of any 'lost contact' members Review local governance arrangements in the light of recommendations from national Scheme Advisory Board Good Governance Review (expected to be published in 2020) 	Amber
Financial Sustainability	Competitive and sustainable cost base	Failure to exploit opportunities presented by the Council's new integrated business system change programmes (B4B) and investment in Windows 10/Office 365	<ul style="list-style-type: none"> Direct liaison with Agilysis (implementation partner) regarding specific pension requirements. Implementation of off-site print solutions Review electronic file storage on SharePoint and Shared Drives once Office 365 rolled out and update data retention and deletion accordingly 	Amber
All	All	Loss of key skills and expertise at officer and member level due to staff/electoral turnover, leading to reduced capacity and delays in delivering key business objectives.	<ul style="list-style-type: none"> Develop/update member and officer training and development plans to address skills/knowledge gaps identified. Induction training for new Committee members as required. Promote further take up of professional training opportunities for staff Ongoing recruitment to fill vacant posts/create temporary additional capacity 	Amber
All	All	Failure to manage the impact of recovery from the Covid-19 pandemic leading to increased risk of financial loss to the Fund, poor employer engagement, delays in service to scheme members and detrimental impact on staff wellbeing and productivity	<ul style="list-style-type: none"> Develop recovery priorities and approach in the light of national and local advice. Ongoing briefing for employers and regular virtual meetings wherever possible Continue regular staff bulletins and meetings. Encourage use of virtual catch ups to provide support and reduce isolation 	Amber

Funding and Investments

In addition to the service risks identified above, the Fund is exposed to a range of specific investment and funding risks. These are explained in detail, along with the risk management measures the Fund has put in place, in Note 19 on page 104 of the Statement of Accounts.

In April 2020 the Fund launched its revised Investment Strategy Statement and Responsible Investment policy. The latter considerably strengthens the Fund's approach in respect of managing Climate Change related investment risk. The Fund is now formally acknowledging that there is a risk from holding fossil fuel based investment assets. These assets pose a particular risk in that markets may re-price fossil fuel assets in response to growing public concerns over climate change and the response of policy makers to this concern. Therefore, the Fund is proposing to adopt a precautionary approach to climate change investment risk and to pro-actively manage the risk by:

- Commissioning an independent assessment of its publicly listed investment assets to determine the Fund's overall carbon footprint and assess potential climate change impacts and opportunities.
- Producing a climate change stewardship plan to set goals of engagement with companies, fund managers and policy makers and influencers. The Fund believes that all companies should fully adhere to the requirements of the Paris Agreement on climate change and will actively engage with companies, ideally in partnership with like-minded investors, to ensure companies align their business plans with the 1.5C target.
- Publishing a Climate Risk Report, which will comply with the requirements of Task Force on Climate-related Financial Disclosures (TCFD) and, wherever possible, fully assess the impact of all new investment decisions on the carbon footprint of the investment portfolio.

The Fund obtains independent assurance about the internal control frameworks of its investment managers and custodian by obtaining copies of their audit reports, as set out in the table below.

Fund Manager	Type of Report	Assurance Obtained	Reporting Accountant
Legal & General	ISAE 3402	Reasonable assurance	KPMG LLP
Baillie Gifford & Co	ISAE 3402	Reasonable assurance	PricewaterhouseCoopers LLP
Patrizia	ISAE 3402	Reasonable assurance	BDO LLP
Bluebay	ISAE 3402	Reasonable assurance	PricewaterhouseCoopers LLP
Janus Henderson	ISAE 3402	Reasonable assurance	PricewaterhouseCoopers LLP
Blackstone	SOC 1	Reasonable assurance	Deloitte and Touche LLP
M&G Investments	SOC 1	Reasonable assurance	Ernst & Young LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
Adams Street Partners		Reasonable assurance	KPMG LLP
Darwin	ISAE 3402	Reasonable assurance	Ernst & Young LLP
Arrowgrass	ISAE 3402	Reasonable assurance	PricewaterhouseCoopers LLP
Bank of New York Mellon		Reasonable assurance	KPMG LLP
Lexington Capital Partners		Reasonable assurance	Ernst & Young LLP

LGPS Central Ltd started to trade on 3 April 2018 and is currently undergoing its first internal control review. Details of the review will be published in the Fund's Annual Report in 2021.

Employer Fund Level Monitoring and Dynamic Risk Management

The Fund has recognised that over time, the characteristics and funding objectives of its participating employers have become increasingly diverse. In order to ensure that each employer takes an appropriate level of investment risk consistent with its long term funding objective, four distinct investment strategies are in operation.

Funding levels for each strategy are monitored on a regular basis.

Financial Performance

2019 Triennial Valuation

Every three years the Pension Fund is subject to a formal valuation by the Fund Actuary which produces two key outputs.

- Firstly, it quantifies the funding Level i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensions and pensions in payment are matched by the market value of the Fund's assets. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.
- Secondly, it sets the rate at which employers should contribute to the Fund for the following three years.

The formal valuation report by the Fund Actuary, including the minimum contribution rates to be paid by each employer from 1 April 2020 to 31 March 2023 is available on the Fund's website at the following link <https://www.cheshirepensionfund.org/members/wp-content/uploads/sites/2/2020/04/200330-CPF-2019-Valuation-Final-Results-Report.pdf>

The table below summarises the funding position of the Cheshire Pension Fund as at 31 March 2019 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2016).

Summary Valuation Results

	31 March 2019	31 March 2016
Total past service liability (£m)	5,739	4,620
Fund assets (£m)	5,583	4,153
Surplus/(deficit) (£m)	(156)	(467)
Funding level	97%	90%

The main changes highlighted by the 2019 valuation were:

- The reported funding level improved from 90% at 31 March 2016 to 97% at 31 March 2019, and a reduction in the funding deficit from £467m to £156m.
- The improvement in funding position between 2016 and 2019 is mainly due to strong investment performance.
- Liabilities have increased due to a reduction in future expected investment returns and an increase in the assumed rate of future inflation.
- Changes to the longevity assumptions reflecting slowing of the improvement in life expectancy.

Fund Account- Comparison of 2019/20 Forecasts to Actual

The table below outlines the Fund's performance for key financial variables against forecast for the 12 months to 31 March 2020.

Fund Account 2019/20	Forecast	Actual	Variance
	£000	£000	£000
Contributions	156,918	167,493	10,575
Payments	(167,325)	(191,276)	(23,951)
Admin/Oversight and Governance expenses	(4,661)	(4,132)	529
Transfers in/(out)	0	(5,601)	(5,601)
Net investment income	35,114	40,056	4,942
Investment expenses	(24,949)	(21,978)	2,971
Change in market value	120,150	(74,043)	(194,193)
Net increase in the fund	115,247	(89,481)	(204,728)

The main decrease from the forecast figures to the actual figures is the change in market value which is difficult to predict.

Operational Expenses – Comparison of 2019/20 Forecasts to Actual

	Forecast	Actual	Variance
	£000	£000	£000
Administration/Oversight and Governance			
Employees	1,979	1,804	(175)
LGPS Central running costs	1,083	943	(140)
Supplies and Services	484	366	(118)
Actuarial Fees	382	370	(12)
Investment Advisor Expenses	197	164	(33)
Capital Repayment	65	71	6
IT Costs	312	267	(45)
Printing & Postage	86	70	(16)
External Audit Fees	23	27	4
Legal Fees	50	50	0
Total	4,661	4,132	(529)
Investment Management			
External Fund Managers	24,836	21,880	(2,956)
Custodian	113	98	(15)
Total	24,949	21,978	(2,971)

Administration/Oversight and Governance costs were £0.529m less than forecast, primarily due to staff turnover reducing employee costs and savings in supplies & services.

Investment management expenses were underspent primarily due a reduction in external fund manager fees following the decrease in market values in the last quarter of the year because of the impact of Covid-19 on markets.

LGPS Central Set Up Costs

	Cumulative to 31/03/2018
	£000s
Set up Costs:	
Recruitment	27
Procurement	2
Other support costs	284
Staff Costs	142
Other Costs	59
Share purchase costs	1,315
Loans	685
Total set up costs	2,514

LGPS Central Ltd, the pooling delivery company was fully set up by 31 March 2018 and no further set up costs have been incurred from 1 April 2019.

Forecast for 3 Years – 2020/21 to 2022/23

The following tables show the forecasts for the Fund Account and Net Assets Statement for the three years to 31 March 2023 based on the most up to date information.

Note: The budgets have been restated to incorporate increases resulting from changes to the staffing structure, additional costs associated with running the asset pool and costs associated with operational developments within the Fund.

Forecast Fund Account for 3 Years – 2020/21 to 2022/23

	2020/21	2021/22	2022/23
	Restated	Restated	
	£000	£000	£000
Contributions	192,292	184,617	186,463
Payments	(191,353)	(194,223)	(197,137)
Admin/Oversight and Governance expenses	(4,658)	(4,716)	(5,104)
Net investment income	31,766	40,120	41,489
Investment expenses	(20,733)	(20,930)	(21,749)
Change in market value	122,885	128,631	130,001
Net increase in the fund	130,199	133,499	133,963

Note: Contributions and payments are based on current expectations; administration and investment management expenses are based on current budgets, and net investment income and change in market value are based on the long term forecast returns for each asset class held.

The forecasts for total investment assets are based on the actual allocations at 31 March 2020 figures multiplied by the forecast returns for each asset class as provided by the Fund's investment advisor.

Three Year Forecast Management Expenses - 2020/21 to 2022/23

	2020/21	2021/22	2022/23
	Restated	Restated	
	£000	£000	£000
Administration/Oversight and Governance			
Employees	2,091	2,151	2,209
Asset Pool running costs	1,164	1,175	1,234
Supplies and Services	687	647	731
Actuarial Fees ¹	219	226	394
Investment Advisor Expenses	162	167	172
IT Costs	163	173	181
External Audit Fees	23	23	24
Printing & Postage	76	78	81
Legal Fees	73	76	78
	4,658	4,716	5,104
Investment Management			
External Fund Managers	20,620	20,817	21,636
Custodian	113	113	113
Total	20,733	20,930	21,749

1. Actuarial fees in 2022/23 are higher due to this being a valuation year.

The Fund revises the three years budgets annually based on the latest information available at the time, as a result of this the figures for 2020/21 and 2021/22 are restated.

Analysis of Pension Contributions

The table below shows the value of primary pension contributions received on time and late.

	Total	On Time		Late	
	£000	£000	% (by value)	£000	% (by value)
Employee	38,300	38,171	99.6%	129	0.4%
Employer	129,193	128,660		533	
Total	167,493	166,831		662	

The Fund classes contributions income as being received on time when it is received within 22 days (if received electronically), commencing from the end of the month in which the amount is deducted from the earnings. Contributions received over 22 days are classed as late.

No interest charges were applied to employers during the year as a result of late payments.

The Fund continues to monitor the timeliness of contribution receipts from all employers and will charge a mandatory penalty when an employer breaches on three or more occasions over a six month rolling period. Material (Red) breaches will also be reported to The Pensions Regulator.

In total the Fund recorded 73 late payments of contributions from 33 employers on the Breaches Log in 2019/20. Of these, 26 were Amber relating to three Employers who on a number of occasions had made late payments to the Fund, one of these employers was also reported to the Pensions Regulator as a Red breach during the year. The remaining 46 breaches were paid shortly after the deadline of the 22nd of the month.

Pension Overpayments

The Cheshire Pension Fund pays around 30,000 pensioners every month, with a monthly gross payroll in excess of £12 million. With such a large volume of pensioner payments, it is inevitable that there will be times when a member has been receiving more pension than they are entitled to.

Wherever possible the Fund will recover any overpayment and will only write off an overpayment as a last resort when all other avenues have been exhausted.

Analysis of Pension Overpayments

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	Total
	£000	£000	£000	£000	£000	£000	£000
Overpayments Recovered	132	26	34	49	52	35	328
Overpayments written off					5		5
Written off due to death	6		3	2		7	18
Annual Pension Payroll	155,722	148,638	141,304	136,864	133,155	129,111	844,794
Write offs as % of payroll	0.003%	0.00%	0.003%	0.004%	0.004%	0.005%	

National Fraud Initiative

The Fund participates in the National Fraud Initiative (NFI), which is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

The NFI is biennial with the last initiative being in 2018/19. It identified only twenty-six cases that required investigation. Following initial investigation, for six of these cases there had been no overpayment, but the remaining twenty showed an overpayment was made and further action was taken as follows

- In eleven cases overpayments were recovered
- The Fund is liaising with the relevant parties to recover the other nine overpayment cases.

Investigation procedures involve writing to members where a mismatch is identified, performing DWP traces on members that cannot be contacted or writing to registrar offices to confirm and obtain a copy of the death certificate. Overpayments recovered or written off as a result of the National Fraud Initiative are included in the pensions overpayments table above.

Administration Report 2020

Work has continued on the transformation project, known as Project Chrysalis.

The Fund has introduced Monthly Interfacing (MI), which provides employers with an online portal where they can upload monthly 'per member' data to the Fund. MI replaces the existing system of annual 'per member' data returns from employers and will allow the Fund to resolve data queries much sooner. This in turn will result in an improved service for our customers and increased value for money.

Around 70 of the 305 participating employers were live on MI by 31 March 2020. The Fund has completed many of the necessary preparatory steps with more employers so they can move to the new system early in 2020/21. The requirement remains for all employers to transition to MI during the year.

The Fund has a dedicated team supporting employers with their transition to MI. Having this dedicated team has allowed us to provide considerable support to employers as they switch to the new system.

As a number of employers had not transitioned to MI by 31 March 2020 the Fund has requested the usual year-end return (known as LGS50s) from those employers one last time for the 2019/20 year.

The Fund relaunched its dedicated website www.cheshirepensionfund.org which provides a wealth of useful information for members and employers, with improvements to the look and feel of the site making it easier to navigate. A number of online forms have been introduced removing the need for members to download, complete and post paper copies to the Fund.

Other workstreams are progressing well, for instance a plan has been developed to multi skill staff within the Operations area of the Fund within the next 18 months which will further improve the service for our customers and increase resilience.

Work on Project Chrysalis will continue through 2020/21 and beyond.

Coronavirus Impact

At the end of 2019/20 the coronavirus pandemic forced staff members to move to working wholly from home and introduced changes to systems and processes to maintain service delivery.

Earlier in 2019 the Fund took a series of important steps which meant we were in a good position to deal with the impact of the pandemic at short notice.

- Firstly, we updated the Fund's Business Continuity Plan and undertook a desktop exercise with the Council's Transactional Service Centre, who process the pensioner payroll on behalf of the Fund. This allowed us to identify the dependencies between the two teams and introduce robust processes which could be put in place quickly.
- As part of the Council's wider programme we introduced flexible and mobile working for staff and ensured they had all the necessary IT kit to work from home. Staff members have been working from home either one or two days a week and so were familiar with that way of working.

As you would expect some changes to working practices became necessary due to the pandemic, for instance holding virtual meetings. In addition, the Fund has moved to accepting electronic documentation in some areas to avoid unnecessary delays in processing benefits.

Many of the temporary changes introduced will now be reviewed to see whether they can be adopted on a more permanent basis to improve value for money and create capacity for staff by reducing the number of paper-based tasks that they undertake and help us to progress our digital transformation.

Data Quality

Data Quality has continued to be a key focus area for the Fund and is closely monitored by the Local Pension Board.

Annual Benefit Statements (ABS)

Considerable data cleansing work was carried out during 2018/19 and 2019/20 resulting in a marked increase in the number of Annual Benefit Statements (ABS) issued on time in 2019. In 2019 the Fund was able to issue ABS to 85% of the eligible members, compared to 77% in 2018.

Since the August 2019 ABS deadline the Fund has been working to resolve a considerable number of outstanding data queries and issue ABS to a further c2,000 members. The majority of the remaining members who did not receive an ABS have since been proven to have left the Fund prior to 31 March 2019 and so were not actually eligible to receive an ABS.

Employers have been contacted about these members both to confirm that they have left the scheme and to obtain the necessary information in order to process them as a leaver.

The Fund expects the continued data cleansing work, along with the introduction of MI, will lead to a further improvement in the number of members who receive their ABS on time in future years.

The Pensions Regulator (TPR) – Data Scores

The Fund is required to provide data scores to TPR on an annual basis as part of the scheme return each autumn. The scores which have been submitted for the past two years are shown in the table below:

	TPR Scheme Return	
	1-Sep-18	1-Sep-19
Common Data	98.10%	98.07%
Scheme Specific Data	68.80%	74.18%

Common data relates to information such as name, address, national insurance number etc. and the Fund is almost at 100% for this information. The Fund has lost contact with a number of members who haven't notified us of a change in their address, which largely account for why the data score is not 100%. A tracing company has been appointed to trace these members so we can process their benefits.

The Scheme Specific Data (SSD) Score is based upon information specific to a member needed to enable the Fund to process their record. The Fund submitted its scores for both 2018 and 2019 based upon its own 'foundation' approach to the data it should measure. This centred around the service history available for each member and the 'foundation' approach to measuring data was approved by the Local Pension Board.

A definition of SSD was provided by the LGPS Scheme Advisory Board after the 2019 data return. The Fund's administration database provider has produced a report which will allow the Fund to produce the information directly from the database to produce the data scores from now on.

The new report includes additional data checks which need to be met before each item of data is classified as present. The data checks are quite detailed which will likely mean that the Fund will see a decrease in its scores initially, once we switch to using the new report as the source of measuring data.

Technology and Pensions Administration System Development

The Pensions section uses the Universal Pensions Management (UPM) pensions administration software supplied by Civica, utilising benefits calculation, task management, document imaging, document production and workflow functionality.

The Fund has worked closely with Civica to introduce a technology roadmap to streamline and standardise processes in the fund, for example the introduction of Monthly Interfacing.

The Fund has been exploring the ability to introduce Straight through Processing (STP). This is where the database processes the more straightforward casework allowing staff to concentrate on complex cases and other areas of work. Again, this will provide value for money by both speeding up the processing of casework and freeing up capacity within the team to concentrate on more complex casework and administration casework backlogs.

The Fund will also be seeking to introduce Member Self-Serve technology in 2020/21 which will improve digital capabilities to interact with our members which is a key development objective for the Fund.

The Fund's contract with Civica expires in 2022 and so the Fund will be undertaking a procurement exercise, using the National LGPS Frameworks, to source a database provider. This process will commence in the autumn of 2020.

The Pension Fund has a dedicated website www.cheshirepensionfund.org which provides information on all aspects of the LGPS and has dedicated sections for the Fund's customer groups - including active members, deferred members, pensioners, councillor members and employers. It also contains key publications such as policy statements and a back collection of annual reports.

The Fund's Communication Policy Statement which provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders is set out in the Communications Policy Statement section of this report.

Member Engagement

Each year a series of roadshows are undertaken which allow the Fund to interact with its membership. The roadshows are held across the borough throughout the year and provide an opportunity for both existing and potential members of the Fund to raise queries and ask questions about their pension on a 'drop in' basis.

Following feedback received from members who attended the roadshows in 2018/19, the Fund introduced a rolling programme of roadshows that would take place throughout the year, whereas previously they took place over one 3-4 week period.

The new approach means that nine roadshows will take place across the borough during February, June and September. This will give members more opportunity to attend at different times of the year and at different venues.

Three roadshows took place in February 2020 and were attended by more than 100 members and the Fund received positive feedback.

The topics raised by attendees at the events were similar to those raised at the events in the previous years. Questions concerning an individual's personal circumstances were the most common, closely followed by questions around the impact of the different pension accrual rates, as well as the main differences between final salary and career average arrangements.

Major Projects

As well as the normal workload the Fund has continued working on two major projects throughout the year:

- GMP
- Pensions Increase and Payroll

Guaranteed Minimum Pension (GMP)

With the introduction of the single tier state pension in 2016, the LGPS is no longer contracted-out of the state second pension. As a consequence, HMRC no longer track contracted-out rights and issued closure schedules to pension schemes to enable them to compare the GMP figures held on their systems to that of HMRC. This is known as the GMP reconciliation.

By the end of March 2019 the Fund had completed the comparison of the 125,500 GMP values with those held by HMRC identifying c12,000 queries – that is where the member could either have been over or underpaid.

Around 9,000 of the queries had a variance below the £2 de minimus suggested by the Government and so were not adjusted. Of the remaining 3,000 cases, all were investigated and 91 had an overpayment with a combined total of £93,000 and 46 had an

underpayment with a combined total of £31,000. All cases were identified and rectified by early 2020.

The Pension Fund Committee endorsed a recommendation which ensured that any member who has received an overpayment in the past did not have to repay any monies up to the rectification date but their continuing pension was reduced to the correct figure. In addition any pensioner that had been underpaid would be reimbursed the pension that they were due in full since the date that underpayment commenced.

Pensions Increase and Payroll

The Fund uses the services of the Council's Transactional Service Centre (TSC) to administer its pensioner payroll. The Council is replacing its back office system, Oracle with a new system called Unit 4. This meant that the Fund needed to find a new way to calculate the annual pensions increase taking into account the varied increase dates and entitlements.

The Fund liaised with Civica, the pension database provider, and was able to introduce a process which would allow the Fund to uplift pensions for the annual increase within the pension database itself and then extract a report to advise TSC of the new pension figures to pay.

However, before this task could be completed a full reconciliation was undertaken between the pension figures held on the Fund's database and those held on Oracle to confirm they were aligned. This reconciliation took place over the autumn/winter of 2019.

The Fund was then able to complete the 2020 pensions increase process and provide uprated pension figures to TSC in time for the April pay in 2020.

Key Performance Data

The tables below summarise the Fund's performance in processing key casework over the year and have been produced in line with CIPFA guidance. The information captures data in two formats:

1. Number of cases completed for each category during the year, including opening and closing balances for that year.
2. Outlining compliance against local key performance indicators and against disclosure regulation requirements.

The disclosures were introduced in the CIPFA Annual Report guidance last year. A national review will take place in 2020/21 to refine the disclosures to ensure consistency across all LGPS Funds.

The Local Pension Board receives quarterly updates on administrative performance and this will continue.

Table 1

		2019/20			
Casework Type	Completed 2018/19 Cases	Cases Outstanding at start of period	Cases commenced in year	Cases completed in year	Cases outstanding at year end
Deaths	1,317	158	1,339	1,312	185
Retirement Estimates	6,102	906	6,655	6,315	1,246
Retirements	2,949	140	4,709	4,718	131
Deferments	2,769	2,287	4,241	2,439	4,089
Transfers In	1,039	311	1,271	1,191	391
Transfers Out	1,700	367	1,665	1,540	492
Joiners	2,656	398	3,331	3,420	309
Aggregation	969	5,159	3,142	2,933	5,368
Refunds	1,823	285	2,205	2,107	383
Leavers	5,103	2,222	6,585	6,421	2,386
Totals	26,427	12,233	35,143	32,396	14,980

Table 2

	Local KPI Target	Achieved	Cases Completed within KPI	Legal Requirement from notification	Achieved
	No. of Days	%			%
Deaths (Active)	5	81%	25	2 Months	100%
Deaths (Deferred)	5	81%	38	2 Months	100%
Deaths (Acknowledgement)	5	91%	827	2 Months	95%
Deaths (Dependant Benefit)	10	87%	703	2 Months	100%
Retirements (Active members)	5	85%	669	2 Months	99%
Retirements (Deferred members)	5	88%	1,010	2 Months	99%
Deferment	30	50%	892	2 Months	67%
Transfer In	10	97%	338	2 Months	100%
Transfer Out	10	97%	391	2 Months	67%
Refunds	10	71%	683	2 Months	99%



Pensions Staffing Structure

The Pensions Team sits within the Finance Service of Cheshire West and Chester Council and is responsible for the day to day management of the Fund, including the administration of scheme membership.

Work is continuing to multi skill staff on a wider variety of tasks so that we can achieve a more resilient workforce that can provide value for money and an improved service for our customers. Multi skilling development plans have been produced and will commence in 2020/21.

The Fund is organised across three functional areas :

- **Operations Team** – which is further split between two teams:
 - **Benefits Team** – responsible for the calculation of retirement benefits, early leavers, deceased members, transfers for divorced members, and transfers in and out of the fund and arranging additional contributions contracts.
 - **Business Information, Development and Improvement Team** – responsible for maintaining the UPM pension's database, research and delivery of the development roadmap and providing support to staff members in the most efficient use of the UPM pension's database. The team are also responsible for the production of reports to satisfy all statutory and operating requirements, and to assist in continually improving the data held by the Fund.

- **Stakeholder and Engagement Team** – responsible for processing scheme admissions and cessations, notifying new employers of their responsibilities to the Cheshire Pension Fund, arranging and providing training to new employers, attending and delivering presentations at retirement seminars hosted at external sites, creating and maintaining factsheets for members and employers and updating the Cheshire Pension Fund website.
- **Finance and Investments Team** – responsible for the management of investments and production of the Statement of Accounts.

There are 46 (45 in 18/19) full time equivalent (FTE) posts in the Pensions section

The Operations team had 36 (35 in 18/19) staff responsible for pensions administration. The administration staff to fund-member ratio is one FTE to 2,875 members (one to 2,853 in 18/19), based on a total fund membership of 103,486 (99,848 18/19). As at 31 March 2020 the Fund had one vacancy for a Pensions Technician which will be filled in early April.

Of the remaining 10 staff, 5 are based in the Finance and Investments section and 4 in Stakeholder and Engagement with the Head of Pension Fund bringing the total to 46.

In addition the Fund has seconded a project manager to assist with the transformation programme, Project Chrysalis.

Process	2015/16	2016/17	2017/18	2018/19	2019/20
Total Membership Number	86,401	93,440	96,825	99,848	103,486
Investment Management Expenses					
Total Cost £000	23,985	25,564	27,466	24,366	21,978
<i>Sub cost per Member</i>	<i>278</i>	<i>274</i>	<i>284</i>	<i>244</i>	<i>212</i>
Administration Costs					
Total Cost £000	1,633	1,771	2,147	2,188	1,981
<i>Sub cost per Member</i>	<i>19</i>	<i>19</i>	<i>22</i>	<i>22</i>	<i>19</i>
Oversight and Governance costs					
Total Cost £000	699	1,001	1,213	1,271	2,151
<i>Sub cost per Member</i>	<i>8</i>	<i>11</i>	<i>13</i>	<i>13</i>	<i>21</i>
Total Management Expenses	26,317	28,336	30,826	27,825	26,110
Total Cost per Member	305	303	318	279	252

Membership and Employer Movement and Scheme Complexity

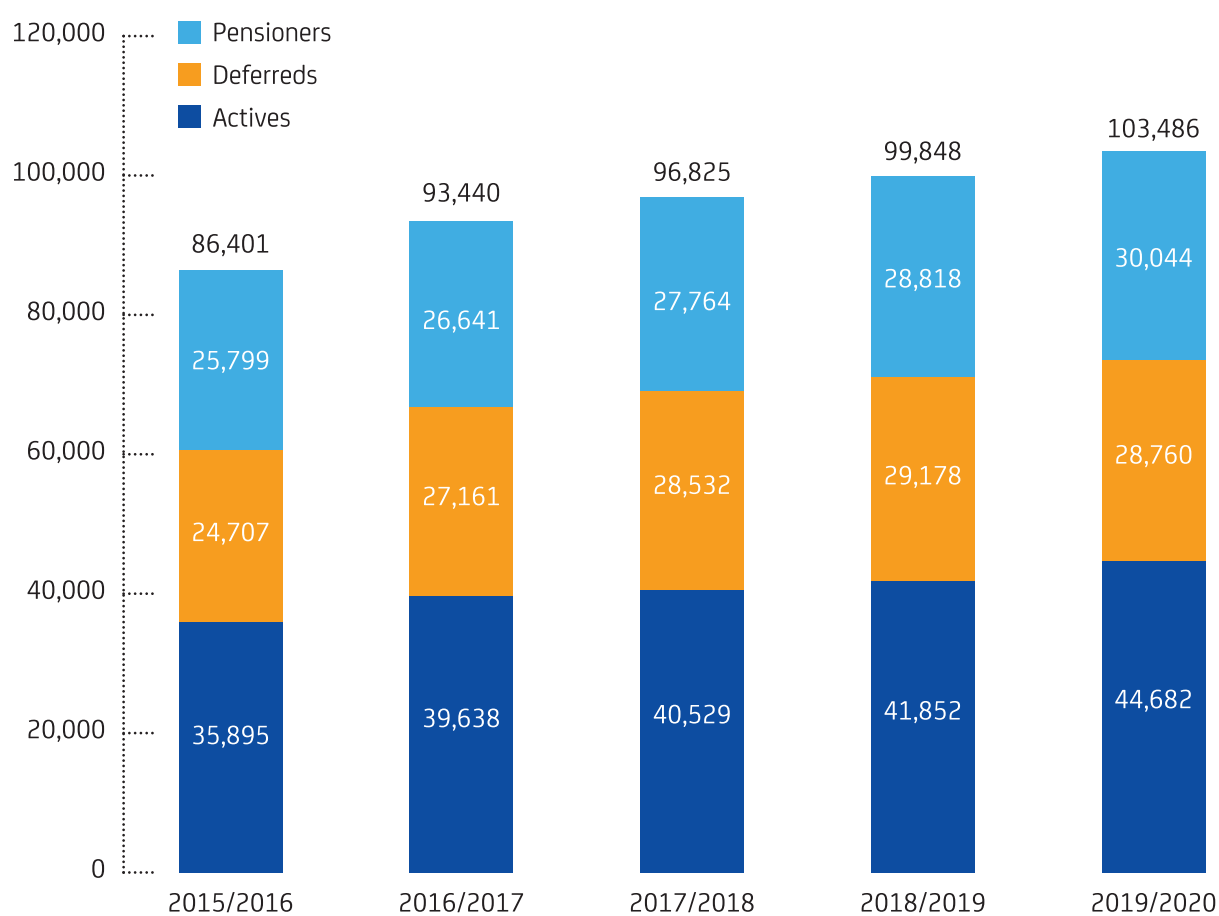
Membership numbers have increased year on year for both active and pensioner members. There has been a slight year on year reduction in deferred membership which is partly due to a regulatory change in 2019 which changed the earliest retirement age from 60 to 55 for a number of members resulting in around 400 members electing to retire early.

It is expected that the number of deferred members will rise once the Fund processes all the leaver cases identified in the data cleansing workstream.

The chart below shows the membership movements for the past five years.

Membership and Employer Movement and Scheme Complexity

The Fund continues to experience a year on year increase in the number of members across all categories (Active, Deferred and Pensioners). In addition the number of Employers in the Fund also continues to grow as the tables below illustrate.



The number of Employers participating in the Fund also continues to grow as the table below illustrates.

	2015/16	2016/17	2017/18	2018/19	2019/20
Number of Employers (who paid contributions during the year)	226	254	283	290	305

The increase in membership and number of employers adds to the already challenging workload of the Fund. This is compounded by the increased complexity of the scheme with the introduction of CARE which now means that the Fund is effectively managing three separate benefit structure as summarised below:

Pre April 2008	April 2008 to March 2014	April 2014 on
Membership based	Membership based	Earnings based
Final Salary link	Final Salary link	Career Average Revalued Earnings
1/80 th accrual	1/60 th accrual	1/49 th accrual
3/80 th Mandatory Lump Sum	Convert pension for lump sum 1:12	Convert pension for lump sum 1:12

Further amendment to the benefits package may also be made in the future in order to keep the costs of the national scheme within the cost cap. Further changes to the benefits package would add yet more complexity to scheme administration.

Fund's Membership Profile over a 5 year period

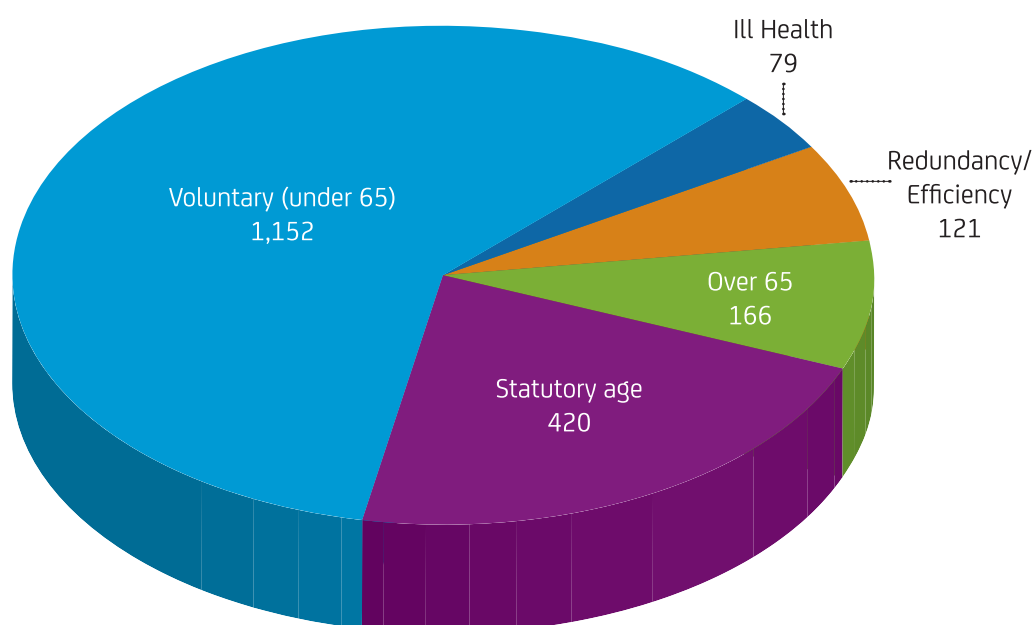
Membership	2015/16	2016/17	2017/18	2018/19	2019/20
Active	35,895	39,638	40,529	41,852	44,682
Deferreds	24,707	27,161	28,532	29,178	28,760
Pensioners	25,799	26,641	27,764	28,818	30,044
Total Membership	86,401	93,440	96,825	99,848	103,486

The table below summarises the age ranges of the membership at the end of 2019-20 over the three categories of Active, Pensioner and Deferred.

Age Group	Active		Pensioner		Deferred	
	Number	%	Number	%	Number	%
0-5	0	0	1	0	0	0
6-10	0	0	27	0.09	0	0
11-15	0	0	42	0.14	0	0
16-20	162	0.36	87	0.29	0	0
21-25	1,385	3.1	40	0.13	106	0.37
26-30	3,015	6.75	4	0.01	827	2.88
31-35	3,820	8.55	2	0.01	2,136	7.43
36-40	4,711	10.54	9	0.03	3,007	10.46
41-45	5,409	12.11	30	0.1	3,509	12.2
46-50	6,521	14.59	60	0.2	4,656	16.19
51-55	7,428	16.62	171	0.57	5,972	20.76
56-60	6,779	15.17	1,200	3.99	5,920	20.58
61-65	3,887	8.7	4,740	15.78	2,212	7.69
66-70	1,233	2.76	6,842	22.77	364	1.27
71-75	274	0.61	6,829	22.73	48	0.17
76-80	37	0.08	4,207	14	2	0.01
81-85	14	0.03	2,888	9.61	1	0
86-90	6	0.01	1,788	5.95	0	0
91-95	1	0	824	2.74	0	0
96-100	0	0	227	0.76	0	0
101-105	0	0	25	0.08	0	0
106-110	0	0	1	0	0	0
Totals	44,682	100	30,044	100	28,760	100

Retirements during 2019/20

There were 1,938 retirements during 2019/20 as summarised in the chart below:



Internal Dispute Resolution Procedure

The Fund receives a limited number of complaints each year and deals with all complaints in accordance with Cheshire West and Chester Council's complaints policy.

There are times when Scheme members, employers and the Administering Authority may find themselves in disagreement about a pension issue. The first approach in these situations is for those involved to talk to each other to reach a resolution. However, should this not prove possible, the Fund has established an Internal Disputes Resolution Procedure (IDRP).

The IDRP is a two stage process. When the Fund or an Employer makes a decision about a beneficiary's benefit under the LGPS rules, if for any reason a member, pensioner, deferred pensioner or potential beneficiary is not satisfied about a decision made they can apply to the employer or the Fund to have their complaint reviewed under a stage 1 of the IDRP.

If the beneficiary is dissatisfied with the stage 1 decision they may invoke stage 2 of the IDRP within 6 months of the stage 1 decision.

If after the stage 2 decision the beneficiary is still dissatisfied they can contact The Pensions Ombudsman (TPO) for help when dealing with a complaint. Fortunately such instances are few and far between as most issues are settled locally. In the last year there has been 1 IDRP case raised with the Pension Ombudsman against the Administering Authority and the outcome was that it was not upheld.



Investment Policy and Performance

Investment Management

Management of Cheshire Pension Fund's assets is determined within the context of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). The Regulations require the Fund to publish its Investment Strategy Statement which documents the current investment strategy, provides transparency in relation to how the Fund's investments are managed and acts as a high level risk register. This document can be found on the Fund's website and provides further detailed information about how the Fund manages its assets.

In summary, the Fund manages four distinct investment strategies. This ensures that each of the Fund's 415 scheme employers has access to an investment strategy that meets their long term funding requirements. During 2019/20 two of the four investment strategies were managed dynamically, meaning that the level of investment risk can be adjusted if the funding level moves ahead of or behind the long term funding plan. In practice this means that the Fund monitored funding level progression against pre agreed trigger

points that prompted an increase or decrease in the level of growth and defensive assets held. Asset allocations are only adjusted where the change does not have a negative impact on employer contribution rates.

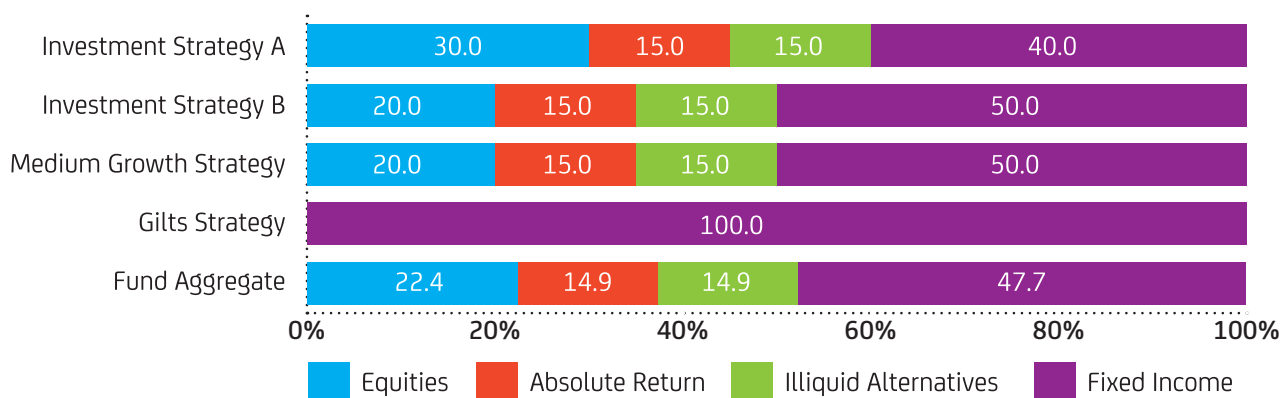
Each investment strategy has a strategic asset allocation, which targets the required long term rate of return, whilst ensuring that the portfolio maintains an acceptable level of risk and an appropriate level of diversification. The strategic asset allocation is formally reviewed every three years alongside the actuarial valuation. It is considered and endorsed by the Pension Fund Committee after taking advice from the Fund's professional advisers. In March 2020 the Committee approved a revised strategic asset allocation model which will apply from 1 April 2020.

Further details on the Fund's revised investment strategy, responsible investment policy, risk management strategy and governance arrangements are available on the Fund's website.

www.cheshirepensionfund.org

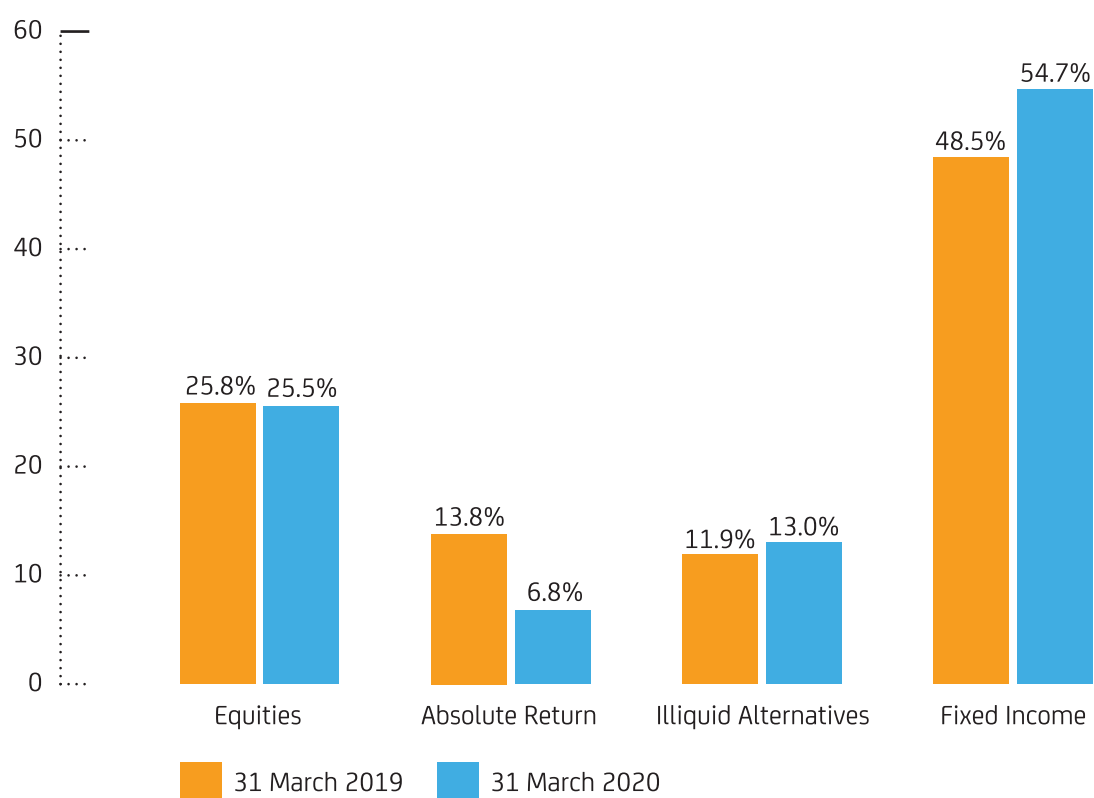
Strategic Asset Allocation

The strategic asset allocation for each investment strategy is shown in the chart below, alongside a weighted aggregated asset allocation at whole fund level. The strategic asset allocations were unchanged during 2019/20.

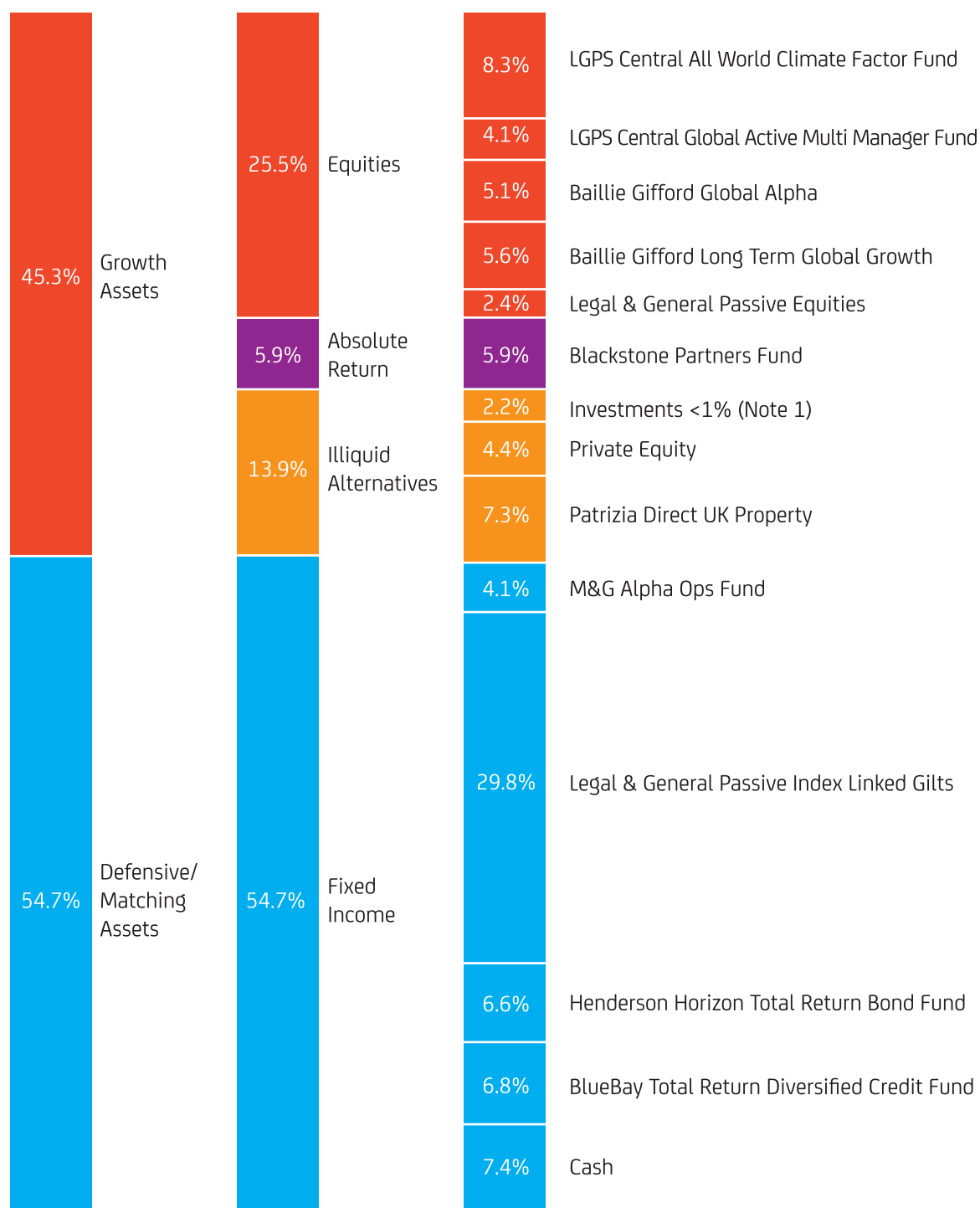


Actual Asset Allocation

The market value of the Fund's investments, cash and other assets, as at 31 March 2020, was £5.502 billion, compared with a value of £5.589 billion as at 31 March 2019. The chart below shows the distribution of assets across the main investment categories. These change year on year as a result of changes to the strategic asset allocation, the performance of the underlying asset classes and managers, and rebalancing across managers and asset classes.



The chart below shows the overall asset allocation mix between growth and defensive assets along with the allocation to major asset classes and individual asset managers as at 31 March 2020.

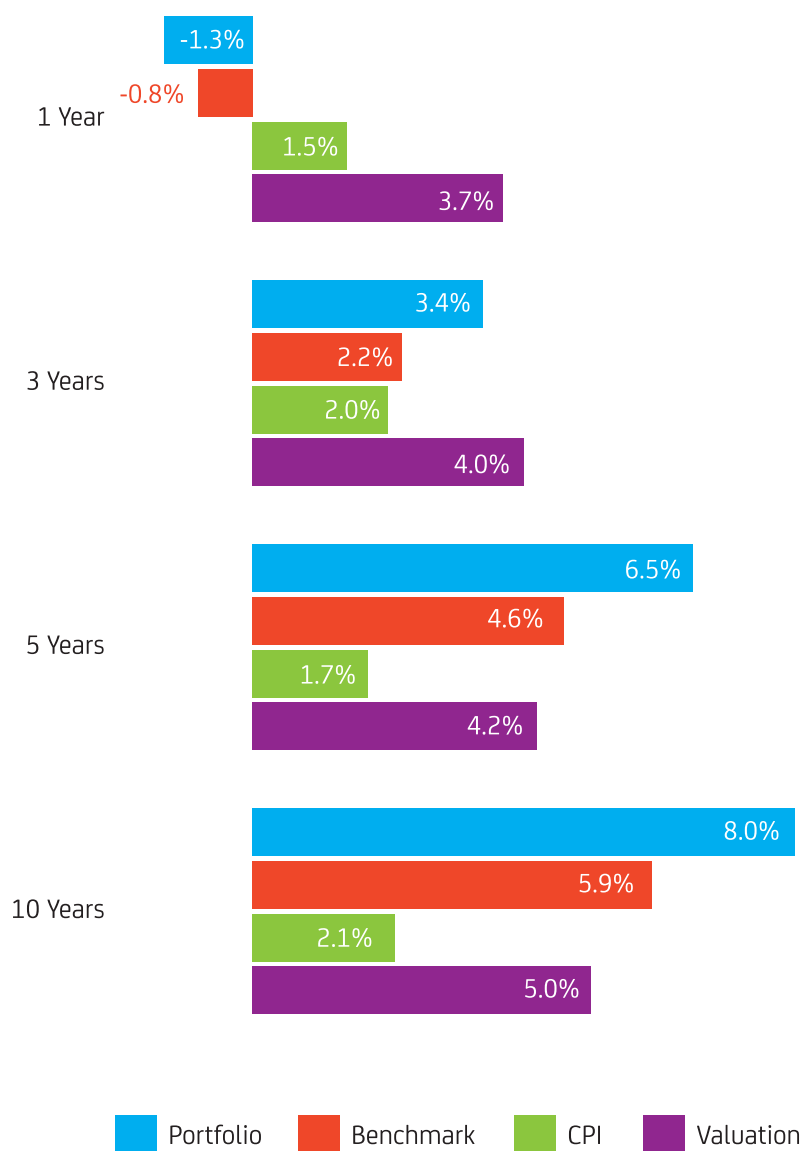


(Note 1) Investments which make up less than 1% of the funds total assets include:

Darwin Leisure Fund
 Darwin Property Development Fund
 Arrowgrass Capital Partners

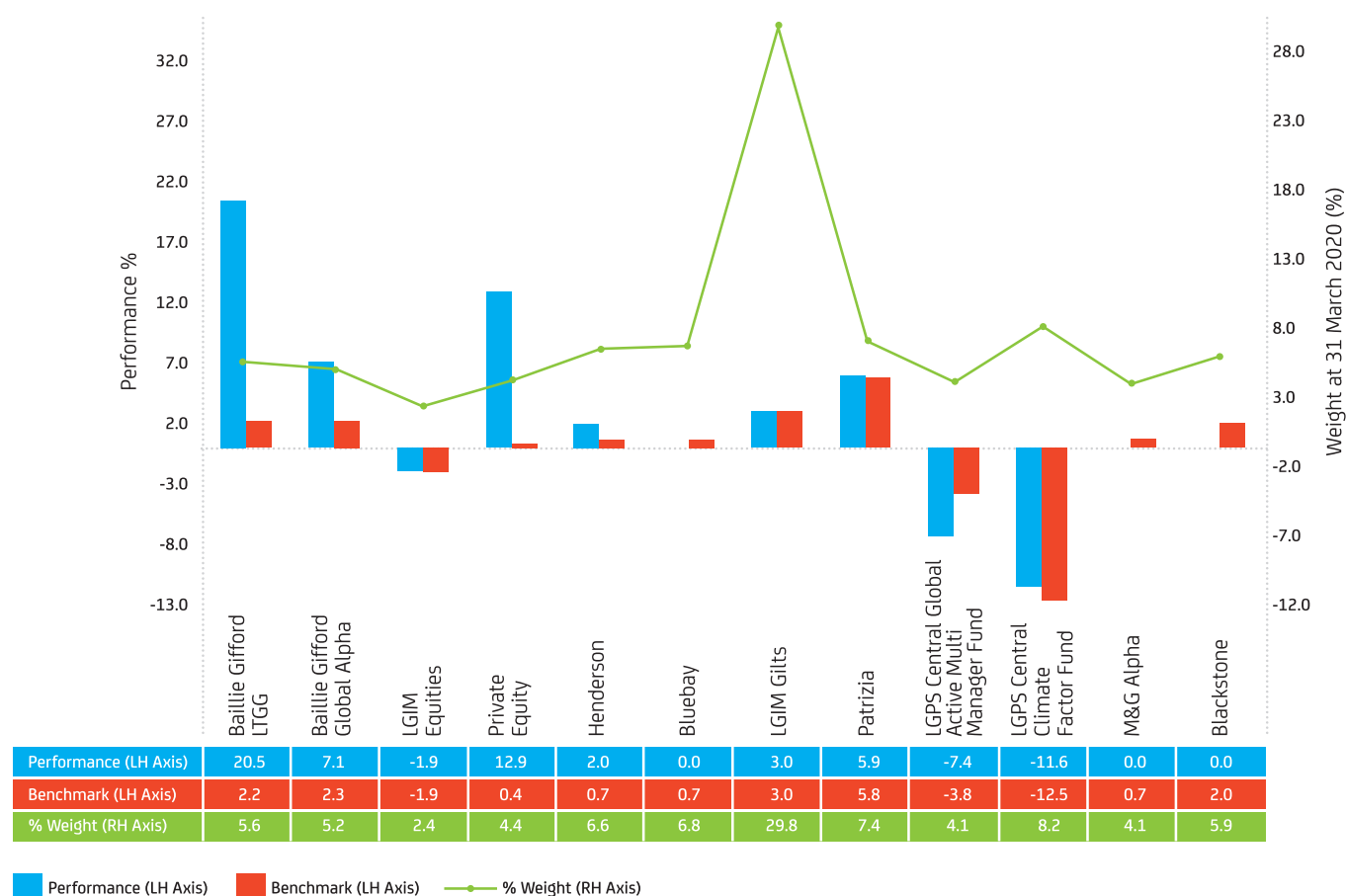
Investment Performance

The Fund uses a tailored benchmark that reflects its specific asset allocation. The following chart shows the performance of the Fund relative to its strategic benchmark, inflation (CPI) and the return assumption used by the Actuary as part of the triennial valuation. Returns for periods of greater than 1 year are annualised.



Appointed Investment Managers

The Fund utilises external investment managers to undertake the day to day management of the Fund's assets. Each manager has a specific benchmark and performance target against which their performance is regularly monitored. The aggregation of each underlying manager's performance provides the total fund return as shown on the previous page. Rolling 3 year performance for each investment manager is shown in the table below, alongside the relevant benchmark. The right hand axis and green line shows the % of assets held by each manager at 31 March 2020.



Notes: Excludes contributions from Managers who are no longer used or are in the process of disinvesting (at 31 March 2020). Where a manager/mandate has been in place for less than 3 years, annualised return since inception is used. All returns are annualised.

The following table provides further details in relation to each investment manager.

Manager/Mandate	Description	Benchmark	Performance Target per annum	Inception
Baillie Gifford Long Term Global Growth	Active global equities	FTSE ALL World Index	b/m +3%	2005
Baillie Gifford Global Alpha	Active global equities	MSCI All Countries World	b/m +2%	2011
LGIM Equities	Passive global equities	FTSE RAFI All World 3000 Index	Track index	1994
LGPS Central Ltd	Passive global equities	FTSE All World Climate Balanced Comprehensive Factor Index	Track index	2019
LGPS Central Ltd	Active global equities	FTSE ALL World Index	b/m +1.5%	2019
Private Equity	Private Equity fund of fund and direct	LIBID	10%	2003
Janus Henderson	Total return fixed income	LIBOR	4%	2012
Bluebay	Multi asset credit	LIBOR	5-10%	2015
M&G Alpha	Multi asset credit	LIBOR	b/m +3-5%	2018
LGIM Gilts	Passive index linked gilts and fixed gilts	FTSE A Index-Linked > 5 Years, FTSE A UK Gilts > 15 Years and 5 other single stock year gilts	Track indices	2013
Patrizia	UK direct property	BNY Property Median	Main portfolio 6.5%, Index linked portfolio CPI +1.5%	1988
Arrowgrass*	Multi strategy hedge fund	CPI	b/m +5%	2011
Winton*	Commodities trading advisor	CPI	b/m +5%	2011
Blackstone	Fund of hedge fund	CPI	b/m +5%	2016

The above tables provide information on those managers that manage fund assets >2%.

*The Fund fully divested from Winton in 2019/20 and is in the process of divesting from Arrowgrass. The Fund also has small allocations with two Darwin Leisure Investment Funds.

The private equity mandate is managed by Pantheon Ventures, Adams Street Partners and Lexington. The Fund also committed £22m to two LGPS Central Ltd private equity funds.

Investment Fees

The Fund is committed to transparency in relation to the fees it pays to investment managers. It believes that it is important to assess the value delivered by asset managers by evaluating fees in relation to investment performance. The table below shows the fees paid to managers in each asset class, including those underlying fees (which typically occur in fund of fund structures in private equity and hedge funds) that the Fund is not required to report in the Statement of Accounts.

	Management Fees	Performance and Other Fees	Underlying fees within Fund of Fund Structures	Total Fees inc. Underlying	Estimated 12 Month Performance	Net Impact on Asset Value of Investment Returns, minus all fees
Pooled Investments Vehicles	4,969	544	-	5,513	-0.3%	-74m
Equities	2,835	2,093	-	4,928	-1.4%	+28m
Absolute Return	6,167	0	-	6,167	-7.9%	-39m
Private Equity	3,198	879	4,782	8,860	+14.8%	+11m
Direct Property	1,167	-	-	1,167	-1.6%	-26m
Loans	-	-	-	-	+3.6%	0
Cash and Other	98	27	-	125	0	0
Total Fund	18,434	3,544	4,782	26,760	-1.3%	-100m

The table below shows the fees paid to managers alongside the combined returns of those managers and the net impact (i.e. taking into account both fees and performance) on the value of Fund assets.

Ongoing management fees

	Asset Pool				Non Asset Pool				Fund Total	
	Direct	Indirect	Total		Direct	Indirect	Total			
	£000s	£000s	£000s	bps	£000s	£000s	£000s	bps	£000s	bps
Management fees:										
Ad valorem	720		720	13.61	17,331		17,331		18,051	
Performance			-		2,532		2,532		2,532	
Transaction costs:			-				-		-	
Commissions	207		207	3.91	61		61		268	
Acquisition/issue costs			-				-		-	
Disposal costs			-				-		-	
Registration/filing fees			-				-		-	
Taxes and stamp duty	139		139	2.63	41		41		180	
Other					11		11			
Custody	51		51	0.96	98		98		149	
Other	16		16	0.31	940		940		956	
Total	1,133	-	1,133	21.42	21,014	-	21,014		22,147	

Note: bps are basis points with 100 bps = 1%. So, a manager who charged 100 bps in fees would levy a fee equivalent to 1% of assets under management.

The figures in this table will differ from those shown in the table on page 31 and the Statement of Accounts due to the timing of the information available and disclosure requirements.

In addition to the above ongoing management fees the Fund was also charged £0.927m for its share of the running costs of LGPS Central. These costs were in respect of product development, governance costs and operator costs. These costs have been included within the Fund's Statement of Accounts under the category of oversight and governance costs.

Asset Allocations and Performance

Asset Category	Opening value		Closing value		Performance 1 year **		Passive	Local
					Gross	Net	Index	Target
	£000s	%	£000s	%	%	%	%	%
Asset Pool Managed Investments								
Active Listed Equity	250,229		226,229	4.1%	-9.35%	-9.59%	N/A	N/A
Passive Fund			452,892		-11.55%	-11.56%	-11.65%	-11.56%
Unlisted Equity Fund			3,208		N/A	N/A	N/A	N/A
Other*	2,043	0.0%	2,036	0.0%	N/A	N/A	N/A	N/A
Total	252,272	4.7%	684,365	12.4%	N/A	N/A	N/A	N/A
Non Asset Pool Managed Investments								
Active Listed Equity:								
Global Fund 1	287,113	5.4%	283,700	5.2%	-1.09%	-1.43%	-6.20%	-4.20%
Global Fund 2	262,405	4.9%	309,030	5.6%	17.84%	16.23%	-6.20%	-3.2%
Global Fund 3	141	0.0%	49	0.0%	N/A	N/A	N/A	N/A
Passive Listed Equity:								
Passive Fund 1	315,885		133,868		N/A	-15.20%	-15.20%	-15.20%
Passive Fund 2	324,201		-		N/A	-6.01%	-5.90%	-5.90%
Passive Listed Fixed Income 1	1,605,661	30.1%	1,325,516	24.1%	N/A	2.43%	2.32%	2.32%
Passive Listed Fixed Income 2	-		191,674		N/A	17.58%	17.47%	17.47%
Passive Listed Fixed Income 3	-		25,331		N/A	19.92%	19.81%	19.81%
Passive Listed Fixed Income 4	-		25,330		N/A	22.75%	22.64%	22.64%
Passive Listed Fixed Income 5	-		25,054		N/A	N/A	N/A	N/A
Passive Listed Fixed Income 6	-		25,110		N/A	27.69%	27.60%	27.60%
Passive Listed Fixed Income 7	-		24,921		N/A	N/A	N/A	N/A
Private Debt	1,690	0.0%	1	0.0%	N/A	N/A	N/A	N/A
Property:								
Direct- Core and Index Linked	407,408	7.6%	407,797	7.4%	0.17%	0.07%	N/A	5.60%
Indirect Property Fund 1	31,243	0.6%	33,208	0.6%	8.10%	6.30%	N/A	8.00%
Indirect Property Fund 2	34,257		37,746		11.70%	10.20%	N/A	10.00%
Unlisted Equity Fund	194,995	3.7%	222,167	4.0%	N/A	N/A	N/A	N/A
Cash	104,049	1.9%	407,682	7.4%	N/A	N/A	N/A	N/A
Multi-asset funds/diversified growth funds:								
Diversified credit Fund	409,743	7.7%	375,008	6.8%	N/A	N/A	N/A	5.00%
Total Return Bond Fund	352,271	6.6%	362,923	6.6%	3.27	N/A	N/A	4.00%
Opportunities Fund	235,555	4.4%	227,338	4.1%	N/A	-3.49%	N/A	3.70%
Hedge Funds:								N/A
Multi- Strategy	260,424	4.9%	48,403	0.9%	N/A	N/A	N/A	6.50%
Hedge Fund of Funds	346,058	6.5%	325,504	5.9%	-2.90%	-5.96%	N/A	6.50%
Multi-Strategy/CTA	164,139	3.1%		0.0%	N/A	N/A		
Total	5,336,839	100.0%	4,817,358	78.7%	N/A	N/A		
Overall Total	5,589,111	100.0%	5,501,723	100.0%	N/A	N/A	-	N/A

*Relates to equity share of £1.315m in LGPS Central Ltd and Loan advanced to LGPS Central Ltd of £685,000 plus £36,000 interest

**Part year figures provided where investment is less than one year.

In response to the Scheme Advisory Board Transparency Code the Fund has contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2019/20 and future years to allow more transparent reporting. LGPS Central Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers they select are signed up to the Transparency Code. The table above includes information from all managers who returned the transparency code template in time for inclusion in the Annual Report.

In terms of cost savings as a result of transitioning assets to LGPS Central Limited, it is too early in the transfer period to reflect cost savings. The Fund will look to report on these in future years.

Investment Administration and Custody

Whilst the Fund's appointed investment managers make and implement investment decisions, particularly in respect of the purchase and sale of stock, the practical consequences of their decisions in terms of the Fund's rights to, and benefits of, ownership of investments and cash are handled by custodians who are independent of the investment managers.

The Pension Fund's custodian is Bank of New York Mellon who is responsible for custody and safekeeping of assets within the segregated equity mandates managed by Baillie Gifford. The Fund's custodian is also employed to undertake an independent review and validation of the assets held in unit trusts with other investment managers and their own custodians. A full list of the custodians used by the Fund and its investment managers is provided below:

Investment Manager / Sub Fund	Asset Class	Custodian
Baillie Gifford	Segregated Equity	Bank of New York Mellon
BlueBay Asset Management	Fixed Income	Brown Brothers Harriman
Janus Henderson	Fixed Income	BNP Paribas
M&G	Secured Loans	State Street
Arrowgrass	Absolute Return	CITCO Fund Services
Winton	Absolute Return	CITCO Fund Services
Blackstone	Absolute Return	CITCO Fund Services
Legal & General	Passive Equity / Gilts	HSBC
LGPS Central	Pooled Equity	Northern Trust

Statement of Responsible Investment

The Cheshire Pension Fund (“the Fund”) is a long term investor aiming to deliver a sustainable Pension Fund for all stakeholders.

Cheshire West and Chester Council (“the Council”) as the Administering Authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund’s employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund’s overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (“ESG”) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund’s approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund has recently revised its Responsible Investment policy and the new policy was published, following consultation, in April 2020. The new policy considerably strengthened the Fund’s approach to climate change, in that, in addition to recognising the wider impacts of climate change, there is also acknowledgement of specific climate related investment risk. This is because owning investment assets with a significant exposure to fossil fuels, poses a particular potential investment risk in that markets may re-price fossil fuel assets in response to growing public concerns over climate change and the response of policy makers to this concern. To effectively manage this risk, the policy sets out a systematic evidence based approach, which includes the commissioning of an independent assessment of the carbon metrics of the Fund’s existing investment portfolio. This in turn will inform the creation of a Climate Stewardship Plan, setting out the steps the Fund will take to manage any identified climate related financial risks.

Policies Adopted

The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.

Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund delegates responsibility for voting to its directly appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the fund, investment manager's quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. This is reported to the Investment Sub-Committee on a quarterly basis and any exceptions or examples of non-compliance are addressed directly with the Fund's managers.

The table below summarises the voting activity for the Fund over the 12 months to 31 March 2020:

	UK	Overseas	Total	%
Number of Companies	5	150	155	N/A
Votes Cast in Favour	88	1,286	1,374	93.2
Votes Cast Against	0	84	84	5.7
Votes Abstained / Withheld	0	16	16	1.1
Total number of Resolutions	88	1,386	1,474	100.0

The Fund also invests in a Global Active Equity Fund managed by its pooling fund company, LGPS Central Ltd ('LGPS'). LGPS have a 'Responsible Investment and Engagement Framework', available on the company's website at: <https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf>, which contains two key objectives:

- 1) To support the company's investment objectives;
- 2) To be an exemplar for Responsible Investment within the financial services industry and raise standards across the market.

Every three months, LGPS publish a 'Quarterly Stewardship Report' setting out in full their stewardship, engagement and voting activities. This is also available on the LGPS Central website at: <https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Quarterly-Stewardship-Report-Third-quarter.pdf>.

Statement of Compliance with the UK Stewardship Code for Institutional Investors

The Financial Reporting Council has published its new Stewardship Code which took effect from 1 January 2020. The new Code significantly strengthens the existing one and places a new requirement on all signatories to produce an annual report explaining their stewardship activities and outcomes.

The new Code sets out a number of principles and the Fund is committed to the UK Stewardship Code will submit a statement of compliance to the Financial Reporting Council by the required date.

Myners' Principles

The Myners' Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners' Principles are:

Principle 1: **Effective Decision-Making**

Principle 2: **Clear Objectives**

Principle 3: **Risk and Liabilities**

Principle 4: **Performance Assessment**

Principle 5: **Responsible Ownership**

Principle 6: **Transparency and Reporting**

The Pension Fund's compliance with the Myners' Principles is shown in the following table:

Principle	Evidence of Compliance
<p>Principle 1 Effective Decision Making:</p> <p>Administering authorities should ensure:</p> <ul style="list-style-type: none"> That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Compliant</p> <p>Decisions are taken by the Chief Operating Officer advised by the Pension Fund Committee.</p> <p>The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.</p>
<p>Principle 2 Clear objectives:</p> <ul style="list-style-type: none"> An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. 	<p>Compliant</p> <p>The Committee has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. The objectives are set based on advice from the Fund Actuary and Strategic Investment Advisor, which informs the overall risk budget for the Fund. The overarching objective is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p>
<p>Principle 3 Risk and liabilities:</p> <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<p>Compliant</p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p>

Principle	Evidence of Compliance
<p>Principle 4 Performance assessment:</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members. 	<p>Compliant</p> <p>The performance of the Fund and its individual managers are monitored on a regular basis.</p> <p>The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money.</p> <p>During 2018-19 Barnett Waddingham were commissioned to undertake an independent review of the Fund's governance arrangements. Their review concluded that the Fund's governance arrangements were working effectively, although a number of relatively minor improvement recommendations were made.</p> <p>In addition, the Fund has completed a self assessment against the CIPFA/SOLACE 'Delivering Good Governance framework 2016' and this is included in the Governance section of this AR (page 42).</p>
<p>Principle 5 Responsible Ownership:</p> <ul style="list-style-type: none"> • Adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Investment Strategy Statement. • Report periodically to scheme members on the discharge of such responsibilities. 	<p>Compliant</p> <p>The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles.</p> <p>This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership.</p> <p>The Fund's asset pooling company, LGPS Central has its own Responsible Investment and Engagement policy and is fully compliant with the FRC Stewardship Code.</p>
<p>Principle 6 Transparency and Reporting:</p> <p>Administering authorities should</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • should provide regular communication to scheme members in the form they consider most appropriate. 	<p>Compliant</p> <p>The Pension Fund Committee maintains minutes of meetings which are available on the Council website.</p> <p>The Council meet regularly with sponsoring employer bodies and a member representative attends committee meetings.</p> <p>The Investment Strategy Statement is published on the Fund's website and is available to members on request. Other information on the Scheme is available to members on the Fund's website.</p>

Investment performance – link to Funding Strategy Statement

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The Funding Strategy (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The strategic objectives include:

The FSS sets out the objectives of the Fund's funding strategy, such as:

- Ensuring the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- Ensuring that employer contribution rates are reasonably stable where appropriate;
- 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
- Reflecting 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
- Using reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

How does contribution rate vary for different employers?

- 1 The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
- 2 The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
- 3 The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed without directly impacting employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (e.g. due to outsourcing or redundancies), changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise, the stabilised details are as follows:

Type of employer	Stabilisation Mechanism
Tax Raising bodies excluding Cheshire East Council (including Police, Fire and Parish Councils)	+1.0%pa/-1.0%pa
Cheshire East Council	+1.5%pa/-1.5%pa

All other employers were set an appropriate individual employer rate based on their own individual characteristics. This contribution rate may be different to their theoretical contribution rate. Any deviation will be based on their own circumstances and a range of factors including (amongst other things) their perceived security or covenant, any budgetary constraints that they may be bound by, their likely time horizon as an LGPS employer etc.

The minimum contributions to be paid by each employer from 1 April 2020 to 31 March 2023 are shown in the Rates and Adjustment Certificate which is available on the Funds website as an appendix to the 2019 Actuarial Valuation Report.

During the year the Fund welcomed 21 new employers into the scheme, 15 schools converted to academies, 4 admitted bodies and 2 parish councils.

The LGPS regulations requires that admitted bodies carry out, to the satisfaction of the Administering Authority an assessment, taking account of actuarial advice, of the level of risk arising on the premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

Such a risk assessment was carried out for each of the 4 new admitted bodies, admission agreements and pension indemnity bonds are in place or in the process of being put in place for the new bodies. These are to be reviewed on an annual basis.

During the year the fund had 9 employers who ceased membership of the Cheshire Pension Fund. Of these; 7 were admitted bodies, one was a parish council and one ASDV which has moved back in house.

Governance

Local governance overview

Overall responsibility for managing the Fund lies with Cheshire West and Chester Council (the Council) as the Administering Authority for the Cheshire Pension Fund.

The Council is committed to delivering effective governance and to the core principles in the governance framework issued by the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in their 'Delivering Good Governance in Local Government (2016)' framework. The framework assists local authorities in developing arrangements that ensure:

- Resources are directed in accordance with agreed policy and according to priorities

- There is sound and effective decision making
- There is clear accountability for the use of resources to achieve desired outcomes for service users and communities

The Council has delegated responsibility for the management and administration of the Fund to the Chief Operating Officer, who is also the Council's Section 151 officer.

Pension Fund Committee

An advisory panel known as the Pension Fund Committee, which in turn is supported by an Investment Sub-Committee, the Pension Fund Committee advises the Chief Operating Officer. Members of the Committee as at 31 March 2020 were:



Cllr Myles Hogg (Chair)



Cllr Carol Bulman



Cllr Sam Corcoran



Cllr Paul Findlow



Cllr Gareth Gould



Cllr Gina Lewis



Paul Matthews GMB



Cllr Cathy Mitchell



Cllr Amanda Stott



Cllr Harry Tonge



Cllr Mike Wharton

External Advisers

The Council's appointed Actuary, Hymans Robertson, and Strategic Investment Advisor, Mercer, provide specialist advice. Specialist external legal advice is retained as required.

Pensions Consultative Forum

The Council has established a Pensions Consultative Forum made up of representatives from participating employers.

Local Pension Board

The Local Pension Board assists the Council in discharging its administering authority responsibilities effectively. The Board's role, as defined by the Public Service Pensions Act 2015, is to assist the Council in ensuring effective governance and administration of the Fund and compliance with all relevant legislation and guidance, and the requirements of the Pensions Regulator. The Board has a membership of five, an independent chair, two employer representatives and two member representatives

Terms of Reference

The terms of reference and membership of the Pension Fund Committee, Investment Sub-Committee, Pension Consultative Forum, and Local Pensions Board are set out in the Governance Policy Statement on page 59. The Governance Policy Statement also includes an assessment of the extent to which the Fund's governance arrangements comply with guidance issued by the Secretary of State.

Other Council input

Other Council officers, including the Head of Pension Fund, who manages the Fund on a day-to-day basis and the Council's Director of Governance, also advise the Chief Operating Officer.

The Council's Audit & Governance Committee reviews the discharge of the Council's responsibilities for the Fund and receives the minutes of the Pension Fund Committee.

Investment Pooling

In April 2018, in response to national LGPS regulations, the Council entered the LGPS Central Pool. This is a partnership agreement with the Administering Authorities of the Derbyshire, Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, and Worcestershire Pension Funds (the partner funds) to enter into collective arrangements for the investment of their LGPS fund assets.

The partner funds have established LGPS Central Ltd (the Company), an arms-length, regulated investment company that manages the partner funds' pooled investments. The Company is regulated by the Financial Conduct Authority and is controlled within the meaning of the Public Contract Regulations 2015.

Partner funds are joint and equal shareholders in the Company. They have entered into a Shareholder Agreement that governs how partner funds manage their collective relationship with, and ownership of, the Company. The Shareholder Agreement sets out eight strategic objectives for the Company, which are:

1. Meet the investment objectives of the Participating Funds
2. Establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
3. Develop internal investment management capabilities for the collective benefit of the Participating Funds, in order to provide wider investment choice and market competition
4. Create capacity to invest in asset classes which individual Funds may find difficult to access
5. Stimulate innovation, and provide an opportunity for Funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector)
6. Act as a responsible, long term investor, using its influence as a shareholder to promote the highest standards of corporate stewardship
7. Create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments
8. Following transitioning arrangements, to invest each Shareholder's pension assets either through the ACS operated by LGPS Central, as the primary and exclusive collective investment vehicle for all eligible pension assets, or by appointing LGPS Central to manage any non-eligible pension assets outside of such ACS.

The Shareholder Agreement also sets out areas of Company decision making which require shareholder approval, known as Reserved Matters. The Shareholder Agreement specifies which Reserved Matters require unanimous partner fund approval and which a majority may decide (and a majority must be 75% of shareholders).

A Shareholder Forum, comprising the shareholder representatives from all partner funds meets twice yearly in advance of company meetings. The Council has appointed the Cabinet Member for Finance & Legal as its shareholder representative, with discretion to exercise its voting rights at company meetings.

A Joint Committee oversees the operation of the LGPS Central pool, including oversight of pooling progress, delivery of pooling savings targets and scrutiny of the performance of the Company. The Joint Committee meets twice yearly and is made up of elected Councillors from the partner funds and a scheme member representative (nominated by the trades unions). The Pension Fund Committee Chair represents the Council at Joint Committee meetings. The Joint Committee is not a decision making body, but can make recommendations to the individual partner funds.

A Practitioners Advisory Forum, made up of s151 officers and senior pension officers from the partner funds, advises the Shareholder Forum and the Joint Committee.

Cheshire Pension Fund assets will transfer to the Company's management on a phased basis. Prior to transition, assets remain managed under legacy arrangements with appointed external managers.

The Pension Fund Committee, advised by the Investment Sub-Committee, oversees the investment performance of the Company and legacy external managers.

Governance in practice 2019-20

Pension Fund Committee

Following the local Council elections in May 2019, there were a number of changes to Committee membership and Councillors, Bulman, Gould, Williams and Stott joined the Committee.

During the year Councillors Bowden, Gahan and Williams stood down from the Committee due to other pressing commitments and Councillors Mitchell, Lewis and Tonge joined.

Committee Agendas and minutes are published on the Cheshire Pension Fund website in advance of each meeting.

The Committee met six times during the year, with one meeting cancelled. Meeting dates and attendance are below:

Name	07-Jun-19 Committee	19-Jul-19 Training	13-Sep-19 Committee	08-Nov-19 Training	13 Dec 2019 Committee	28-Feb-20 Training	13-Mar-20 Committee
Current members							
Cllr Hogg (Chair)	✓	✓	✓	✓	Cancelled due to General Election	✓	✓
Cllr Gould	✓	✓	✗	✓		✓	✓
Cllr Lewis	N/a	N/a	✓	✗		✓	✓
Cllr Tonge	N/a	N/a	N/a	N/a		✓	✓
Cllr Corcoran	✓	✓		✓		✓	✓
Cllr Findlow	✓	✓	✓	✓		✓	✓
Cllr Stott	✓	✓	✓	✓		✓	✓
Cllr Bulman	✓	✓	✓	✓		✓	✓
Cllr Wharton	✓	✓	✓	✓		✓	✓
Cllr Mitchell	✓	✗	✗	✗		✓	✗
Paul Matthews	✗	✗	✓	✗		✓	✓
Past Members							
Cllr Gahan	✓	N/a	N/a	N/a	N/a	N/a	N/a
Cllr Williams	✓	✓	✗	✗	N/a	N/a	N/a

At each meeting, the Committee reviewed the minutes and recommendations of the Investment Sub-Committee, Pensions Consultative Forum, and the Local Pension Board. The Committee also received regular updates on:

- Funding level changes
- Employer and membership changes (admissions/cessations)
- Compliance (Breaches Log)
- Regulatory developments
- Progress against Business Plan targets
- Risk Register

Topical issues in 2019-20 on which Committee made recommendations or received key updates included:

- Triennial Valuation – agreeing key assumptions to be used; monitoring progress in delivering the valuation, changes to employer funding strategies and signing off the final actuarial report
- Governance - updates on the Scheme Advisory Board Good Governance Review, review and approval following consultation of the updated Funding Strategy, Investment Strategy Statement and Responsible Investment Policy
- Benefits Administration -overseeing delivery of the Guaranteed Minimum Pension (GMP) reconciliation project
- Investment Pooling – presentations from LGPS Central Ltd – the jointly owned pooling company

Investment Sub –Committee

The Investment Sub-Committee strengthens governance and oversight by providing a more in-depth focus on investment strategy and investment performance.

The Sub-Committee met four times during the year. All members of the Pension Fund Committee were invited to attend, and attendance at Sub-Committee meetings in 2019-20 is shown below:

Name	17-May-19	06-Sep-19	15-Nov-19	14-Feb-20
Current Members				
Cllr Hogg (Chair)	✓	✗	✓	✗
Cllr Gould	N/a	✓	✓	✓
Cllr Lewis	N/a	✓	✓	✓
Cllr Tonge	N/a	N/a	N/a	✓
Cllr Corcoran	✓	✓	✓	✓
Cllr Findlow	✓	✓	✓	✓
Cllr Stott	N/a	✓	✓	✓
Cllr Bulman	N/a	✓	✓	✗
Cllr Wharton	✓	✓	✓	✗
Cllr Mitchell	✗	✗	✗	✗
Paul Matthews	✓	✗	✗	✗
Past Members				
Cllr Gahan	✓	N/a	N/a	N/a
Cllr Williams	✗	✗	✗	N/a

At each meeting, the Sub-Committee reviewed the performance of the Fund's investment and funding strategy and the performance contribution of each appointed investment manager. This regular report also included:

- Outputs from the Fund's most recent annual review meetings with investment managers
- A summary of Responsible Investment issues, equity voting activity and engagement
- An explanation of Mercer manager risk ratings and important notices regarding any changes at investment managers

In 2019-20, the Sub-Committee also received reports and advised on topical matters in relation to:

- Fund cash flow monitoring and forecasts
- Investment in new LGPS Central Climate Factor Fund
- Asset allocation moves to maintain alignment with the Fund's Investment Strategy
- Advising on revised Investment Strategy Statement and Responsible Investment Policy prior to approval by Pension Fund Committee

Pensions Consultative Forum

The Pensions Consultative Forum provides an opportunity to engage with participating employers and met three times during the year.

The Chair of the Local Pension Board, Peter Raynes, also chairs the Forum. Attendance at the Pensions Consultative Forum for 2019-20 is shown in the table below:

Name	10-Jun-19	20-Sep-19	24-Jan-20
Peter Raynes (Chair)	✓	✓	✓
Cheshire West and Chester Council	✓	✓	✓
Cheshire Constabulary	✓	✓	✓
Cheshire Fire and Rescue		✓	
Town & Parish Councils	✓		
Cheshire East Council	✓	✓	✓
Halton Borough Council	✓		✓
Warrington Borough Council	✓	✓	✓
Housing Trusts/Associations	✓		✓
Payroll providers	✓	✓	✓
Universities/FE Colleges			
Schools/Academies			
Council owned companies		✓	✓
Other employers	✓	✓	✓
Cheshire Association of Local Councils			✓

In addition to regular updates on scheme developments and administrative performance, the Forum has input into the design and development of changes to benefits administration processes and information flows from employers. In 2019-20 a key areas of discussion was implementing the Monthly Interfacing solution, which enables employers to submit membership and contribution data online. Employers also contributed to the update of the Fund's website, annual benefit statement production and other topical issues during the year.

Local Pension Board

The Local Pension Board prepares an Annual Report of its activity each year and this is on page 51.

Scheme Advisory Board - Good Governance Review

The Scheme Advisory Board (SAB) commissioned Hymans Robertson to undertake a Good Governance Review of the LGPS. Hymans Robertson presented their findings in July 2019 and published their Phase 2 report in November 2019.

The Phase 2 report included seventeen proposals, which are shown below:

Theme	Proposals	
Statutory Guidance	1.	MHCLG produce statutory guidance to establish new governance requirements for funds to implement the recommendations
Improved accountability	2.	Single named officer responsible for the delivery of all LGPS related activity. To be known as the "LGPS Senior Officer"
Improve transparency and auditability of governance	3.	Requirement to publish an annual governance compliance statement signed by the LGPS Senior officer and where different, co-signed by the s151 officer
Conflicts of Interest	4.	Requirement to publish conflict of interest policy evidencing how conflicts, perceived and actual, are identified, monitored and managed
	5.	Guidance should refer all involved in managing the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB
Representation	6.	Requirement to publish a policy on the representation of scheme members and non-administering authority employers on committees, explaining approach to representation and voting rights for each party
Skills and training	7.	Requirement for key individuals within the LGPS, including LGPS officers and pension committee members to have the appropriate level of knowledge and understanding to carry out their duties
	8.	Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding
	9.	Requirement to publish a policy setting out the approach to the delivery, assessment and recording of training plans to meet governance requirements
	10.	CIPFA and other relevant bodies to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their qualification syllabus
Service delivery of LGPS function	11.	Administering Authorities must document and publish key roles and responsibilities setting out how key decisions are reached
	12.	Requirement to publish an administration strategy
	13.	Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service. (Indicators to be established by SAB)
	14.	Each administering authority to ensure their committee is included in business planning process. Both the Committee and LGPS Senior Officer must be satisfied with the resources and budget allocated to deliver the LGPS service
	15.	Each administering authority must give proper consideration to the use pay and recruitment policies relevant to the needs of their pension function. Administering authorities should not simply apply general staffing policies, such as recruitment freezes, to their pension function
Independent review	16.	Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.
Peer Review	17.	LGA to consider establishing peer review processes for LGPS Funds.

The SAB's review is ongoing and it is expected that consultation on amending regulation and statutory guidance will take place in 2021.

Governance – review of effectiveness

In 2018/19, the Fund commissioned Barnett Waddingham to undertake an independent review of its governance arrangements. The overall conclusion of the review was that the current governance and decision-making arrangements, which remain in place, are 'effective, and considered to be among the most well informed'. A number of helpful recommendations were made, but no fundamental changes were proposed.

The recommendations from the Barnett Waddingham review will be implemented alongside the outcomes from SAB Good Governance review described above.

An assessment of current practice against the seven principles set out in the CIPFA/SOLACE 'Delivering Good Governance Framework 2016' is included in the table on page 72.

Committee and Board Training

In relation to training, the Council's objectives are to ensure that:

- Those charged with the financial management and decision-making with regard to the LGPS Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them;

- Those responsible for the day-to-day administration and running of the Fund are appropriately equipped with the knowledge and skills required to discharge their duties and responsibilities in relation to the Fund;

- Those responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based, and to manage any potential conflicts of interest.

To help meet these objectives the Council has published a Training Policy, which details the training strategy for members of the Pension Fund Committee, the Local Pension Board, and Senior Officers involved in the management of the Fund.

The Training Policy was reviewed during the year and adopted by the Pension Fund Committee and the Local Pension Board.

The Council has adopted the CIPFA Knowledge and Skills Framework, and The Pensions Regulator's Code of Practice as the basis for assessing training and development requirements and for on-going delivery planning. Training plans are based on the following key elements:-

	Training Plan	How delivered
Individual Training Needs	A training needs analysis, based on the CIPFA Knowledge and Skills Framework, will be developed for each member and officer. Training plans will be developed based on the priorities identified.	The Pensions Regulator – Trustee Toolkit (online learning) External courses e.g. LGA Fundamentals training (for new members). In-house training led by officers, external advisors or third party experts.
Corporate Training	Appropriate training will be provided at critical times to support specific decisions that the Committee need to make (i.e. valuation training, specific investment training)	In-house training days provided by officers and/or external providers Training as part of meetings External training events Attendance at seminars/conferences
Continued Awareness	Members and Officers will be required to maintain a general level of awareness of topical issues facing the wider pensions industry	Industry publications Member Briefing packs National press releases Attendance at conferences and seminars

Newly appointed members of the Pension Fund Committee received induction training to provide a clear understanding of the Fund's governance, policy, and performance frameworks.

In 2019-20 the following training sessions were held for members of the Pension Fund Committee and Local Pension Board:-

Date	Topic	Delivered by	Attendees
19 July 2019	Responsible Investment Triennial Valuation	LGPS Central Ltd Hymans Robertson	Cllr Hogg (Chair) Cllr Williams Cllr Gould Cllr Corcoran Cllr Findlow Cllr Stott Cllr Bulman Cllr Wharton Neil Harvey
8 November 2019	Good Governance Review Committee / Board Joint Training Plan Investment Strategy Review	Hymans Robertson Barnett Waddingham Mercer and Hymans Robertson	Cllr Williams Cllr Gould Cllr Corcoran Cllr Findlow Cllr Stott Cllr Bulman Cllr Wharton Peter Raynes
28 February 2020	Investing in Infrastructure 2019 Triennial Valuation – Final phase	Mercer and LGPS Central Ltd Officers	Cllr Hogg (Chair) Cllr Gould Cllr Lewis Cllr Tonge Cllr Corcoran Cllr Findlow Cllr Stott Cllr Bulman Cllr Wharton Cllr Mitchell Paul Matthews Peter Raynes Geoff Wright

The Council's Chief Operating Officer (and s151 officer) is responsible for ensuring that the policy in respect of training and education is implemented. In this capacity, he has issued the following statement of assurance:-

Statement of the Chief Operating Officer

I can confirm, as the officer responsible for ensuring the administering authority's training policies and strategies are implemented, that the officers and members charged with the financial management and decision-making of the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Mark Wynn

Chief Operating Officer, s151 Officer

Cheshire Pension Fund Local Pension Board

Annual Report 2019/20

Introduction

Welcome to the fifth annual report for the Local Pension Board (the Board) for the year ending 31 March 2020.

The Board assists Cheshire West and Chester Council, as Administering Authority, with the efficient governance and administration of the Cheshire Pension Fund, the name of the local government pension scheme in Cheshire.

In accordance with the Board's terms of reference, an annual report is required to provide an overview of the nature and effect of the Board for consideration by the Administering Authority.

Board members received regulator updates on actions taken to improve the quality of data and on the transformation project, known as Project Chrysalis, which is designed to make the best use of technology and other resources in order to deliver the best service to customers and employers.

Building upon the meetings held with other Funds within LGPS Central (the partnership with seven other local government pension funds) the Board had regular meetings to share ideas and best practice.

As part of these meetings the Scheme Advisory Board provided training for Board members in June 2019. This training covered a variety of topics including the national LGPS governance structure, the role of Board members and the Pensions Regulator's Code of Practice. Attendees found that it useful in keeping them up to date with important topics and strengthening networking links between Funds and the SAB itself. These joint training events will be repeated each year.

Performance on compliance with LGPS regulations and the Pensions Regulator's Code of Practice Number 14 has been regularly monitored and it is pleasing to note that there has been good compliance throughout the year.

The Board met five times in the year and Board members attended joint training sessions with the Pension Fund Committee to maintain and develop knowledge and understanding.

During the year, one employer representative's terms of office came to an end. The Board sought expressions of interest and Adrienne Laing was reappointed for a further three year term commencing 1 April 2020.

The Board places great importance on being open and transparent. A wealth of information relating to the Board, including minutes of meetings, can be found on the Pension Fund website using the link below. There is also a facility for members to contact the Board for any questions/issues relating to the Board's role :

<https://www.cheshirepensionfund.org/members/resources/forms/contact-the-pension-board/>

A summary of the work undertaken by the Board, along with information about the work plan for the year ahead can be found below.

Peter Raynes

Local Pension Board Chair

1. Board Membership

The Board consists of five members, two member representatives and two employer representatives and an Independent Chair. All members are unpaid volunteers.

Terms of office are staggered to ensure business continuity.

Further information, including biographies of each member is available on the website.

Role	Name	Organisation	Date Appointed	Term End Date
Employer representative	Adrienne Laing*	The Challenge Academy Trust	1/4/20	31/3/23
Employer representative	Cllr Robert Bisset	Cheshire West and Chester Council	27/6/18	26/6/21
Member representative	Geoff Wright	UNISON	27/6/18	26/6/21
Member representative	Neil Harvey**	GMB	27/6/18	26/6/20
Chair	Peter Raynes	Independent (non-voting)	27/6/18	26/6/21

*Reappointed following requests for Expressions of Interest

**The Fund will invite expressions of interest for this role in April 2020.

2. Review of 2019/20

Below is a summary of key areas of activity for the Board during the year and an outline of the plans for the year ahead.

Joint Chairs Meetings

As in previous years, the Chairs of the Board and the Pension Fund Committee (the Committee) continue to meet on a quarterly basis to discuss common issues. These meetings provide the Chairs with a regular opportunity to discuss important topics and to ensure that their work compliments each other, and avoids duplication of effort.

Changes to Council Policies

Following the completion of the 2019 triennial valuation the Fund issued two consultations to amend the Funding Strategy Statement and the Investment Strategy Statement, which also included the Responsible Investment Policy.

The changes to the policies, along with consultation responses, were reviewed jointly by the Committee and Board at joint training sessions and sub-committee meetings.

This allowed Board members to not only scrutinize the changes to the policies and the consultation responses, but also to observe the process that the Committee undertook to approve changes to the policies.

Pensions Consultative Forum

The Pensions Consultative Forum (PCF) is made up of representatives from the main employers and employer groups within the Fund. It works with the Fund to ensure an efficient service is delivered for all stakeholders, with particular emphasis on administration and communication.

The Board Chair, Peter Raynes is Chair of the PCF providing an important link between the Board and the Forum.

The Forum is key to assisting the Fund in developing new ways of working which will improve efficiency for both the Fund and Employers.

Knowledge and Skills

The Board and Committee attend joint training sessions on a variety of topics throughout the year to maintain their knowledge and skills.

Following the local council elections in May 2019, there were a number of new Committee members. The Fund facilitated induction training delivered by Barnett Waddingham and Fund Officers. As well as inducting new Committee members this provided refresher training for existing Board and Committee members.

During the year, Board members updated their CIPFA Knowledge and Skills self-assessment questionnaires. The questionnaire highlighted the areas where Board members felt that they required further training. A similar annual review is followed for Committee members.

Barnett Waddingham provided an independent review of the results which contributed to a revised Training Policy. The Committee endorsed the new training policy at its meeting on 13 March 2020 and the policy will be effective from 1 April 2020.

Governance Review

Last year the Pension Fund commissioned the services of Barnett Waddingham to conduct a review of the governance arrangements within the Fund, including the role of the Board. The review found that the governance arrangements worked well and there were no material issues to be addressed. The review did, however, make some minor recommendations in relation to the Board, including updating the Terms of Reference to reflect some changes working practices (e.g. the number of Board meetings held each year).

Board members considered the points raised but agreed to await the outcomes from the Scheme Advisory Board's Good Governance Review, expected in the summer of 2020, so that any changes needed flowing from the SAB's recommendations could be incorporated.

LGPS Central Board Chairs / Scheme Advisory Board Engagement

The Board Chair has continued to meet twice yearly with the chairs from the Boards of the LGPS Funds within the LGPS Central pool (these are Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire LGPS funds). These meetings allow the Boards to discuss important topics and to share ideas.

The introduction of this group has been welcomed by and has directly led to increased interaction with the Scheme Advisory Board. A SAB representative (Bob Holloway) attends these joint meetings. SAB are encouraging this same level of engagement across other pools going forward.

In addition to attending the joint meetings, SAB delivered a training session to all Board members within the LGPS Central pool in June 2019. The training covered an overview of the national governance structure for the LGPS, the role of Board members and a review of TPRs Code of Practice 14. There were also a number of breakout sessions throughout the day where Board members were able to discuss specific issues in groups allowing them to share ideas and best practice. The training was well received and it was agreed that similar events would be held each year thereafter.

Risk Register

In 2018, the Scheme Advisory Board had issued surveys to all Funds to assess how Boards were being run. Cheshire's response highlighted that the Board was compliant in all areas with the exception that it did not have a risk register specifically for the Board.

During 2019/20 the Board developed a dedicated risk register which identified six risks along with the mitigating actions taken which allow those risks to be managed effectively. The risk register is regularly reviewed by the Board to ensure all risks are considered and have the necessary mitigations in place.

The register also identifies additional mitigating actions which could be taken in future to further mitigate the risks. The Board will seek to implement these where possible.

Local Government Association – Fundamentals Training

The Board has been recognised as a best practice exemplar in the LGPS.

As a result officers presented as part of the national Local Government Association Fundamentals training programme 2019, explaining how the Board operates and the value that the Board has provided to help improve Fund efficiency and effectiveness.

Officers presented at three events in Leeds, Cardiff and London and received positive feedback from the attendees.

The Pensions Regulator – Code of Practice

The Board undertook a thorough review of the Fund's compliance with the Pensions Regulators (TPR) Code of Practice 14. All mandatory requirements were met in full and identified areas where further improvements could be made to meet best practice in all areas.

The Board received regular updates throughout the year on progress in meeting full compliance with all areas of the code.

TPR are combining their 15 codes of practice into one code and this new Combined Code is expected to be issued during 2020. Ongoing compliance will be tested against the new code with results presented to the Board along with an action plan to address any areas where further work is required.

Data Quality

The Fund has undertaken considerable work during the past year to improve the quality of data held. This is a significant and resource intensive activity and the data quality work in 2019/20 has centred around three work streams:

- a) **Annual data scores** reported to the Pensions Regulator each autumn.
- b) **Monthly Interfacing** – the project to move from annual to monthly employer submissions of membership and contributions information. This involves a specific data cleanse for each employer and creation of unique identifier numbers so individual contracts of employment can be identified.
- c) **Resolving historic data queries** – including liaison with employers to retrieve missing data.

The Board received regular detailed updates on progress for all three areas.

The Board was pleased to note that 85% of active members received their Annual Benefit Statements by the 31 August deadline in 2019, compared to 77% in 2018. This demonstrates that the Fund's data quality is improving.

Guaranteed Minimum Pension (GMP) Project

With the introduction of the single tier state pension in 2016 the LGPS was no longer contracted out of the state second pension. This meant that HMRC would no longer track contracted out rights and so all Funds in the LGPS were required to complete and exercise to compare GMP values held by Funds to those held by HMRC and resolve any discrepancies.

The Fund, therefore, conducted a project to firstly reconcile the GMP values for 126,000 records and then rectify c12,000 records where a discrepancy had been identified and was above the £2 tolerance recommended by HMRC.

An important part of the rectification process was to agree a policy for under and overpayments. The Fund followed guidance issued by HM Treasury and developed a policy for under/over payments as set out in the table below:

Rectification Type	Approach
Underpayment	The Fund will rectify all instances of underpaid pensions identified as part of the GMP reconciliation exercise. The underpayment shall be backdated to the date that the GMP payment commenced
Overpayment	The Fund will not seek to recover any overpayments which were made to the member in the past and the future pension will be amended to the correct figure as soon as possible.

The Board kept track of the Funds progress in completing the GMP project throughout the year and also considered the proposed approach to under and over payments.

The Board approved the approach to under and over payments and recommended that it be adopted by the Pension Fund Committee, who duly adopted the policy at their meeting in September 2019.

Breaches Policy/Log

The Board has a critical role in monitoring breaches and reviews the log for any new breaches on a monthly basis. The Board reviews any new breaches to monitor local actions to redress the breach and to determine if the breach meets the requirement for reporting to TPR.

In addition to reviewing the breaches log on a monthly basis the Board undertakes a quarterly review to identify any trends which require further investigation.

The Breaches policy and Breaches Log are available on the Fund's website.

Member Engagement

The Board has a dedicated facility on the Fund's website to allow members to contact the Board with any questions.

The Board received five questions from one pensioner member during the year and provided a response to each. The subjects covered included

- the Fund's investments and responsible investing,
- information available on the Fund's website and
- the possibility of holding a members' AGM.

3. Board Attendance at Meetings 2019-20

The terms of reference for the Board state that there should be a minimum of two meetings per year, however, the Board has chosen to meet a minimum of four times per year. There were 5 meetings held during 2019/20.

The table below summarises the meetings which have taken place including attendance by members of the Board. (A tick denotes the Board member was present)

Members	7 May 2019	4 Jun 2019	16 Jul 2019	29 Oct 2019	4 Feb 2020	%
Peter Raynes	✓	✓	✓	✓	✓	100
Cllr Robert Bisset	✓	✓	✓			60
Adrienne Laing			✓	✓	✓	60
Geoff Wright	✓		✓	✓	✓	80
Neil Harvey	✓	✓		✓	✓	80

The meeting on the 4 June was dedicated to the review of the Fund's draft Statement of Accounts and Annual Report for 2018/19 so that the Board could ensure these had been produced in accordance with statutory requirements and best practice. This is an important part of the Fund's governance process for the production of the Statement of Accounts and Annual Report.

The Board's review provided assurance to the Committee that they could recommend the draft accounts to be presented to the Council's Audit and Governance Committee.

Skills and Development Activities

The Board and Committee have attended several joint training sessions during the year which, as well as developing Board members knowledge, have helped the Board to gain assurance that the Committee decision making processes are robust and properly informed, and are in accordance with regulations and best practice.

A summary of the training provided for the Board, including attendance, during 2019/20 is shown below.

Date	Topic	Delivered by	Board Attendees
19 July 2019	Presentation of the Audited Annual Reports and Statement of Accounts and the Audit Findings Report	Officers / Grant Thornton	Neil Harvey
	Responsible Investing	LGPS Central Ltd	
	Valuation Training	Hymans Robertson	
8 November 2019	Good Governance Project Update	Hymans Robertson	Peter Raynes
	Committee/Board Joint Training Policy	Barnett Waddingham	
	Investment Strategy Review	Mercer Hymans Robertson	
28 February 2020	Investing in Infrastructure	Mercer	Peter Raynes Geoff Wright
	LGPS Central Ltd Infrastructure Sub Fund	LGPS Central Ltd	
	2019 Triennial Valuation and Funding Strategy Statement	Officers	
	Training Policy and Plan	Officers	

External training events

Board members attended a number of external conferences and seminars in order to maintain knowledge and also to keep up to date with current issues facing the LGPS. These were

Event Date	Organised by	Topic
26 June 2019	CIPFA/Barnett Waddingham	LPB Annual Seminar
27 June 2019	LGPS Central Pool	Scheme Advisory Board Training
12 July 2019	Barnett Waddingham/Cheshire Pension Fund	Induction/Refresher Training
9 July 2019	LGPS Central Ltd	Responsible Investing Event –
8 October 2019	CIPFA/Barnet Waddingham	LPB Autumn Seminar
8 October 2019	LGPS Central Pool	LPB Chairs Meetings
26 November 2019	LGPS Central Ltd	Infrastructure Event
20 February 2020	CIPFA/Barnet Waddingham	LPB Spring Seminar

Budget

The Board agreed a notional budget of £10,000 for 2019/20 to assist with its operation. This included costs for training, external advice, expenses and travel costs.

The Board incurred costs of £1,500 with £640 spent on training and £860 on travel and subsistence costs. Budgeted provisions for external advice were not required in 2019/20

4. 2020/21 Work Plan

The Board will review the final recommendations from the Scheme Advisory Board's Good Governance review, in particular any actions that the Fund will need to take as a result and ensure they are implemented as soon as possible. This will include the introduction of a Fund specific cyber security policy.

The Board will monitor progress in delivering the Fund's transformation project, Project Chrysalis, and the ongoing work to improve data quality, including the impact of the introduction of Monthly Interfacing.

The Board will keep a close eye on any changing guidance from TPR and SAB and ensure the Fund implements any recommendations as prescribed.

The Board will continue with its compliance role in ensuring Fund policies and publications are produced and updated in line with statutory requirements and best practice guidance.

The Board will undertake the annual review of its own policies, such as the Terms of Reference and Code of Conduct Policy, to ensure that they remain fit for purpose.

The Board's activity will allow the Pension Fund Committee to concentrate on making decisions safe in the knowledge that the fund is compliant with statutory and best practice and that any areas for development will be highlighted to them by the Board.

Board members will attend external conferences and seminars in order to maintain knowledge and also to keep up to date with current issues facing the LGPS.

5. Further information

If you would like to further information regarding the Cheshire Pension Fund Local Pension Board or have any questions please visit our website:

<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/>

Cheshire Pension Fund

Governance Policy Statement

Reviewed May 2020

1. Introduction

Cheshire West and Chester Council is the Administering Authority for the Cheshire Pension Fund. Local Government Pension Scheme (LGPS) regulations require that Administering Authorities publish a Governance Policy Statement. This statement has been prepared by Cheshire West and Chester Council in consultation with appropriate interested persons.

2. Purpose of Governance Policy Statement

The LGPS regulations on governance policy statements require an Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- if it does delegate;
 - the terms, structure and operational procedures of the delegation,
 - the frequency of any committee or sub-committee meetings
 - whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the terms, structure and operational procedures of the delegation,
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the frequency of any committee or sub-committee
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relating to the Local Pension Board

3. Governance of the Cheshire Pension Fund

Overall responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council (the Council). The Council has delegated management and administration of the Fund to the Chief Operating Officer, who is also the section 151 Officer.

The Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee.

Pension Fund Committee

The Chief Operating Officer is advised by the Pension Fund Committee and by the Council's Head of Governance, the Fund Actuary and the Strategic Investment Advisor.

The Pension Fund Committee is made of elected Councillors from the four local councils within the Cheshire Pension Fund (Cheshire West and Chester, Cheshire East, Halton, and Warrington) and a scheme member representative nominated by the trades unions.

The Pension Fund Committee has established an Investment Sub-Committee to provide greater focus and oversight on the delivery of the strategic investment outcomes set out in the Investment Strategy Statement. The Investment Sub-Committee is not decision making but may make recommendations to the Pension Fund Committee.

The Pension Fund Committee may also receive recommendations from the Pensions Consultative Forum to enable it to advise on effective discharge of Administering Authority responsibilities.

Local Pension Board

The Local Pension Board assists the Council to deliver efficient governance and administration of its Pension Fund responsibilities through the Pension Fund Committee.

The Board is made up of an independent, non-voting, chair plus two employer and two scheme member representatives.

Investment Pooling

With effect from 1 April 2018, all LGPS administering authorities were required to enter into pooled arrangements for the management of their investment assets.

The Council has entered into a joint agreement with Administering Authorities of the Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire, and West Midlands Pension Funds (the partner funds) to establish the LGPS Central pool.

The objectives of the pool are to:-

- Meet the investment objectives of the Participating Funds
- Establish a collaborative platform through which administering authorities of the Participating Funds can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
- Develop internal investment management capabilities for the collective benefit of the Participating Funds, in order to provide wider investment choice and market competition
- Create capacity to invest in asset classes which individual Funds may find difficult to access
- Stimulate innovation, and provide an opportunity for Funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector)
- Act as a responsible, long term investor, using its influence as a shareholder to promote the highest standards of corporate stewardship
- Create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments
- Following transitioning arrangements, to invest each Shareholder's pension assets either through the ACS operated by LGPS Central, as the primary and exclusive collective investment vehicle for all eligible pension assets, or by appointing LGPS Central to manage any non-eligible pension assets outside of such ACS.

The partner funds have established a wholly owned, arms-length investment management company (LGPS Central Ltd) to manage pooled assets through a range of collective investment funds.

LGPS Central Ltd is regulated by the Financial Conduct Authority (FCA) and is a controlled entity within the meaning of the Public Contract Regulations 2015. LGPS Central Ltd is responsible for in-house investment management; the appointment, monitoring, and dismissal of third party fund managers, custody, and safekeeping of assets and the discharge of voting rights on behalf of the partner funds.

A Joint Committee has been appointed to oversee the performance of the pool. It also makes recommendations to the partner Funds with regard to the development of common investment policies and approaches, consistent with the objectives set out above. The Chair of the Cheshire Pension Fund Committee acts as the Council's representative on the Joint Committee, which meets twice yearly.

As equal shareholders in LGPS Central Ltd, the partner funds exercise ownership rights over the company, holding twice-yearly Shareholder Forum meetings to review company performance, and to decide reserved matters in accordance with the Companies Act, and the LGPS Central Ltd Shareholder Agreement.

The Council's Cabinet Member for Finance & Legal acts as the Council's representative on the Shareholder Forum, to avoid any potential conflict between the Council's investment and ownership interests.

A joint officer group – the Practitioners Advisory Forum, which includes the s151 officers and senior pensions and investment officers from each of the partner funds, supports the Joint Committee and Shareholder Forum.

The Terms of Reference for the LGPS Central Joint Committee, Shareholder Forum, and Practitioner Advisory Group are in Appendix 2.

Individual partner funds retain responsibility for determining investment strategy and overall asset allocation, and for benefits administration, scheme member communication, and local accountability.

The transition of Cheshire Pension Fund assets will take place on a phased basis, expected to be over a period of 3-5 years. In the interim, the Pension Fund Committee will continue to discharge their historical responsibilities in respect of non-transitioned legacy assets (see Appendix 1).

4. Governance Compliance Statement

LGPS Regulations require pension funds to issue a statement confirming the extent to which their governance arrangements comply with guidance issued by the Secretary of State. The statement below confirms the mechanisms in place in relation to the Cheshire Pension Fund to satisfy each requirement.

Principle	Compliance	Evidence of Compliance
Delegation		
The Management of the administration of benefits and strategic management of the Fund assets clearly rests with the main committee established by the appointing Council.	Partial	<p>The Council has delegated responsibility for the administration of benefits and strategic management of the Fund to the Section 151 Officer, who is supported by the Pension Fund Committee. The Committee's key responsibilities are to advise the Section 151 Officer on the Management of the Fund.</p> <p>These arrangements ensure that Administering Authority and Non-Administering Authority representatives have equal status (and voting rights) on the main committee.</p> <p>Whilst these arrangements differ from that expected by the guidance, they have been independently assessed as sound and effective.</p> <p>Council Constitution, Pension Fund Committee (PFC) Terms of Reference</p>
Where a secondary Committee or Board has been established, the structure ensures effective communication across both levels.	Compliant	An Investment Sub-Committee, reporting to the Pension Fund Committee has been established to provide greater focus and oversight on delivery of the investment outcomes set out in the Investment Strategy Statement.
Representation		
<p>That all key stakeholders are afforded the opportunity to be represented within the governance structure. These include:</p> <ul style="list-style-type: none"> i) Scheme employers (including non-local government employers e.g. admitted bodies) ii) Scheme members (including deferred and pensioner scheme members) iii) Independent professional observers, and iv) Expert advisors (on an ad hoc basis) 	Partial	<p>The key stakeholders are represented within the governance structure as outlined in the relevant terms of reference, as follows:</p> <ul style="list-style-type: none"> i) Major scheme employers (local Councils) are represented on the PFC and PCF. Non-local government employers are represented on the PCF. ii) Scheme members are represented on the PFC, LPB and PCF by nominated Trade Union representatives. iii) There is no formal representation for independent professional observers, but current governance arrangements have been independently assessed as effective, as they stand. iv) Expert actuarial and investment advisors regularly attend meetings of the PFC and ISC, other advisors attend on specific issues as and when required.
Voting		
The policy on voting rights is clear and transparent.	Compliant	Voting rights are clearly set out in the terms of reference for each of the governance bodies.

Principle	Compliance	Evidence of Compliance
Training / Facility Time / Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority there is a clear policy on training, facility time and re-imbursement of expenses in respect of members involved in the decision making process.	Compliant	There is a clear published policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.
Where such a policy exists, it applies equally to all members of the main and sub committees and Board.	Compliant	The policy applies equally to all members of PFC, ISC and LPB
Meetings (Frequency / Quorum)		
Meetings are held regularly	Compliant	The Pension Fund Committee meets quarterly with additional meetings when required. Investment Sub-Committee meetings are quarterly and are synchronised with the Pension Fund Committee. The Consultative Forum will also meet up to a maximum of four times per year. The Local Pension Board meets four times per year. Minutes are reviewed by the Pension Fund Committee and vice versa.
Access		
Subject to any rules in the council's constitution, all members of main and secondary committees, Boards, or forums have equal access to committee papers, documents, and advice that is considered at meetings of the main committee.	Compliant	All members of Pension Fund Committee and Investment Sub-Committee have equal access to meeting papers, documents, and advice. Pension Fund Committee papers and minutes are published on the Fund's website. Local Pension Board papers and minutes are equally available to all Board members
Scope		
Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Council has included benefits administration, investments, and wider governance issues under the remit of the Pension Fund Committee. All aspects of fund management and performance are reported to pension Fund Committee
Publicity		
The Administering Authority has published details of their governance arrangements in such a way, that those stakeholders with an interest in the way the scheme is governed can express an interest to be part of those arrangements.	Compliant	The Council publishes its policy and other documents of interest, including the Annual Report on the Fund's website. Information on consultations about changes to policy or strategy are advertised

The Terms of Reference for the Pension Fund Committee, Investment Sub-Committee, Local Pension Board, and Pension Consultative Forum referenced in this compliance statement are in Appendix 1, along with details of membership and voting rights.

5. Contacts and Further Information

Pension Fund Website

Contains information about the Fund and includes all published documents and contact forms

www.cheshirepensionfund.org

You can also e-mail us at

pensions@cheshirewestandchester.gov.uk

Alternatively, write to us at:

Cheshire Pension Fund,
Cheshire West and Chester Council,
4 Civic Way,
Ellesmere Port,
CH65 0BE

Pensions Management team contact details

Head of Pension Fund

Maggie Sheppard

maggie.sheppard@cheshirewestandchester.gov.uk

Stakeholder Relations Manager

Nick Jones

nick.jones@cheshirewestandchester.gov.uk

Finance and Investments Manager

Steve Wilcock

steven.wilcock@cheshirewestandchester.gov.uk

Operations Manager

Heidi Catherall

heidi.catherall@cheshirewestandchester.gov.uk

Cheshire West and Chester Council Website

Contains information about the Council's constitution, scheme of delegation, committee terms of reference and agenda papers and minutes, including those of the Audit & Governance Committee

www.chesterwestandchester.gov.uk

Terms of Reference

Pension Fund Committee

- 1 The Pension Fund Committee's key responsibilities are to advise the s151 Officer on the management of the Cheshire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets, taking advice from an actuarial and strategic investment advisor. The Committee principally fulfil this responsibility by:
 - Meeting quarterly, or otherwise as necessary, to effectively monitor the management and administration of the Fund;
 - Monitoring investment policy and overall investment performance;
 - Selection, appointment, and dismissal of an investment pooling operator to manage the assets of the Fund.
 - Determining what the Administering Authority requires the pool to provide to enable it to execute its local investment strategy effectively.
 - Receiving and considering reports and recommendations from the Joint Committee, Shareholders Forum and Practitioners Advisory Forum, established to oversee the pool, and ensuring the Fund's investor rights and views are represented effectively.
 - Identifying and managing risks associated with asset pooling
 - Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling.
 - Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively
 - Reviewing the Funds governance arrangements and the effective use of its advisors to ensure good decision-making;
 - Overseeing the Pensions Consultative Forum (PCF) arrangement and compliance with best practice;
 - Receiving recommendation from the (PCF) on ways to improve the administration and communication between the scheme, its employers and members ; and
 - Reviewing and advising on the development of an Investment Strategy Statement, Funding Strategy Statement, Communication Policy, Administration Policy, Governance Compliance Statement and publishing a Pension Fund Annual Report

- 2 On an interim basis, in respect of non-pooled, legacy assets; the Pension Fund Committee is also responsible for-

- Overseeing the appointment and termination of investment managers
- Reviewing the performance benchmarks and targets for investment managers

- 3 The Committee receive recommendations from the Investment Sub-Committee, the Local Pension Board, and Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively.

	Representation	Voting Rights
Cheshire West and Chester Council	Four Councillors	Yes
Cheshire East Council	Four Councillors	Yes
Halton Borough Council	One Councillor	Yes
Warrington Borough Council	One Councillor	Yes
Employee representative	Union Representative	No

- 4 Cheshire West and Chester Council as the Administering Authority ensure that the correct political balance is maintained where applicable.
- 5 Decisions are usually made by consensus, should a vote be required then decisions are made by a clear majority and the Chair of the Committee has a casting vote should there be equality in the voting.

Investment Sub-Committee

- 1 The Sub-Committee is open to all members of the Full Committee and ensures that the Pension Fund Committee limited governance time is utilised in the most efficient manner, with this Sub-Committee focussing on more complex investment issues.
- 2 The Sub-Committee fulfils this responsibility by:-
 - On a quarterly basis, reviewing the performance of the Pension Fund and the pool operator against the objectives, benchmarks and targets set
 - After taking appropriate advice, identifying and implementing any tactical asset switches (within ranges prescribed by the Pension Fund Committee).
 - Receiving reports from the Fund's investment managers and other service providers on issues that may affect the Fund's investment strategy and objectives and considering if, and to what extent, any recommendations to the Pension Fund Committee may be necessary to ensure the efficient and effective performance of the Pension Fund.
- 3 On an interim basis, in respect of non-pooled, legacy assets the Investment Sub-Committee is also responsible for :
 - On a quarterly basis, reviewing the performance of Fund managers against the objectives, benchmarks and targets set
 - Receiving and considering any investment manager or service provider issues escalated to the Sub-Committee by key officers

Sub-Committee Representation

	Representation	Voting Rights
Cheshire West and Chester Council	Four Councillors	Yes
Cheshire East Council	Four Councillors	Yes
Halton Borough Council	One Councillor	Yes
Warrington Borough Council	One Councillor	Yes
Member Representative	One person	No

- 4 Cheshire West and Chester Council as Administering Authority ensure that the correct political balance is maintained.
- 5 The ISC are not a decision making body but may make recommendations to the main Pension Fund Committee.

Local Pension Board

- 1 The role of an LGPS Board is defined by Public Service Pensions legislation and LGPS Regulations.
- 2 The Board's aim is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS, including:
 - Securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
 - Securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
 - Such other matters as the LGPS regulations may specify.
- 3 The Board will ensure it effectively and efficiently complies with the Guidance issued by the LGPS Scheme Advisory Board and may determine the areas it wishes to consider including:
 - Meeting for a minimum of two occasions during a twelve-month period
 - Reviewing regular compliance monitoring reports which shall include reports to, and recommendations of, the Committee and delegated decisions made under the Regulations
 - Monitoring complaints and performance on the administration and governance of the scheme
 - Reviewing the implementation of revised policies and procedures following changes to the Scheme
 - Reviewing the arrangements for the development of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
 - Reviewing the exercise of employer and Administering Authority discretions
 - Reviewing the outcome of internal and external audit reports, review the draft accounts and the scheme Annual Report.
 - Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

Membership & Representation

	Representation	Voting Rights
Independent Chair	One	No
Employer Representative	Two	Yes
Scheme member representative	Two	Yes

Pension Consultative Forum

- 1 The Council is keen for all employers to participate in the efficient and effective administration of the Fund and achieves this through the Pension Consultative Forum, which consists of employer representatives from Local Authorities, Council Owned Companies, Cheshire Police, Fire and Rescue Authorities, Parish and Town Councils, Housing Associations, Admitted Bodies, Academies, Colleges and the Trades Unions.
- 2 The Forum allows these stakeholders to bring their own perspective to the management of the Fund. The Forum's key responsibilities are set out below.
- 3 The Forum determine the frequency of meetings, subject to a minimum of four meeting per year, or otherwise as necessary to:
 - Consult on and review performance against the Fund's administration strategy to ensure it clearly outlines all responsibilities of both the Fund and employers including any applicable charges/penalties for non-compliance;
 - Consult on and review performance against the Fund's communication policy and suggest improvements for the efficient and effective flow of information between the Fund and employers
 - Make and implement recommendations on the administration strategy and communication policy of the Fund
 - Assist the Fund and employers to comply with all requirements of the Pensions Regulator's Code of Practice No 14 Governance and Administration in Public Sector Pension Schemes, in particular reporting breaches of the law and record keeping.

Membership & Representation

Membership	Representation
Chair	One
Employer Representative	One
Scheme member representative	Two
Cheshire West and Chester Council	Two
Cheshire East Council	Two
Warrington Borough Council	One
Halton Borough Council	One
Cheshire Police, Cheshire Fire & Rescue	One
Academies, Colleges, Admitted Bodies, and the Housing Trusts	One

LGPS Central Joint Committee

- 1 The Joint Committee is a public forum for the eight Councils within the LGPS Central Pool (the Pool) to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues.
- 2 The Joint Committee shall provide assistance, guidance and recommendations to the individual Councils in connection with the functions set out below taking into consideration the conflicting demands and interests of the participants within the Pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating Councils.

Membership

- 3 The Joint Committee shall consist of one elected member from each Council.
- 4 Each Council may nominate one or more elected member (s) to attend any meeting of the Joint Committee or its sub-committees in place of an appointed member from a Council, subject to prior notification being given to the Clerk to the Joint Committee or his or her nominee.
- 5 Each Council may remove its appointed members or substitute members and appoint different members and substitutes by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- 6 Each appointed member or substitute shall be entitled to remain on the Joint Committee for so long as the Council appointing them so wishes, but shall cease to be a member or substitute if he or she ceases to be a member of the appointing Council or if that Council removes the appointed member.
- 7 Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- 8 Each member of the Joint Committee shall comply with any relevant codes of conduct of their Council when acting as a member of the Joint Committee.
- 9 A Trade Union representative shall be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

Role and function

10 The Joint Committee's function is to

- To provide oversight of the objectives of the Pool as listed below:
 - i. to meet the investment objectives of the participating LGPS funds;
 - ii. to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
 - iii. to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;
 - iv. to create capacity to invest in asset classes which individual funds may find difficult to access;
 - v. to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
 - vi. to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
 - vii. to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
 - viii. Following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central Ltd, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central Ltd to manage any non-eligible pension assets outside of such vehicle(s).
- To provide oversight of the delivery of client service
- To provide oversight of delivery against the LGPS Central business case
- To deal with common investor issues, with a particular focus on Responsible Investment

- 11 **The Practitioners' Advisory Forum (PAF)** shall provide a central resource for advice, assistance, guidance, and support for the Joint Committee and shall support the functions of the Joint Committee. PAF shall provide technical support at meetings of the Joint Committee and shall act as a conduit for the Joint Committee to communicate back to the respective Councils and/or direct to LGPS Central Ltd as appropriate.

Meetings

- 12 The Clerk to the Joint Committee will be the Head of Paid Service or nominee of Cheshire West and Chester Council who will work within a budget set by the Councils.
- 13 The Joint Committee will meet twice a year in June and December with the location to be rotated around the Shareholding Councils.
- 14 The Clerk to the Joint Committee or his or her nominee will give notice to the public of the time and place of the meeting in accordance with Part VA¹ of the Local Government Act 1972. At least five clear working days before a meeting, the clerk to the Joint Committee or his or her nominee will send a summons signed by the Clerk to the Joint Committee or his or her nominee electronically to every Member. The summons will give the date, time and place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.
- 15 Each Council within the LGPS Central Pool will publish a link on its own website to the relevant page on Cheshire West and Chester Council's website providing access to the Joint Committee's agendas and minutes.
- 16 The Chair and Vice Chair of the Joint Committee will be elected by the Joint Committee from amongst its members and shall initially hold those offices until December 2019. Thereafter, the Chair and the Vice Chair of the Joint Committee will hold those offices until the first meeting held after 30 November in the following year. Both the initial and subsequent Chairs and Vice Chairs may be re-appointed to serve a further term or terms.
- 17 If there is a quorum of members present but neither the Chair nor the Vice Chair is present at the meeting of the Joint Committee, the other members of the Joint Committee shall elect one of the members of the Joint Committee as Chair of the Joint Committee for that meeting only.
- 18 The quorum of a meeting will be at least five members who are entitled to attend and vote.
- 19 Each elected member shall have one vote on any recommendations. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question was put. In the case of an equality

¹ Meetings of councils and their committees are expected to be open to the public, except in the circumstances set out in Part VA of the Local Government Act 1972.

of votes, the Chair shall have a second or casting vote but before exercising this, the Chair shall consider whether it is appropriate to defer the matter to the next meeting of the Joint Committee. The Chair shall take account of the governing principles to the LGPS Central pooling agreement when exercising the casting vote.

- 20 The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting and who does not attend. Where the appointed member attends the substitute member shall not have any right to vote after the conclusion of the item of business being discussed when the appointed member arrives, but may remain at the meeting as an observer.
- 21 The Chair will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.
- 22 The Clerk to the Joint Committee or his or her nominee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall send them to the members of the Joint Committee for on-line approval within three weeks of the meeting. At the next meeting of the Joint Committee, the Chair shall move that the minutes of the previous meeting be ratified as a correct record. If this is agreed, the Chair of the Joint Committee shall sign the minutes.
- 23 Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chair of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.
- 24 Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to take action because of a disturbance. Copies of the agenda for meetings of the Joint Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of all of the Councils unless the Clerk to the Joint Committee determines that any report relates to items in which his or her opinion are likely not to be open to the public.

- 25 In accordance with Part VA of the Local Government Act 1972, the Joint Committee shall exclude the public from its meetings whenever it is likely, in view of the nature of the business to be discussed or the nature of the proceedings that, if members of the public were present, confidential information would be disclosed to them in breach of the obligation of confidence.
- 26 If any member of the public interrupts proceedings, the Chair will warn the person concerned. If they continue to interrupt, the Chair will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.
- 27 If there is a general disturbance in any part of the meeting room open to the public, the Chair may call for that part to be cleared.
- 28 Each Council will undertake the overview and scrutiny function on its own behalf in accordance with their constitutions.
- 29 Items for inclusion in the meetings:
 - Update on delivery against the objectives of the Pool
 - Investment Performance & Cost Reporting
 - Benchmark Reporting
 - Service Level Agreement Reporting
 - Update on delivery against the LGPS Central Business Case
 - MHCLG & SAB Reporting
 - Responsible Investment
 - Investment Outlook
 - Training/LGPS Central Events Programme
 - Other Relevant Common Investor Issues

Terms of Reference Review

- 30 These terms of reference will be reviewed annually

LGPS Central Shareholders' Forum

- 1 The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPS Central Ltd (the Company) and to represent the ownership rights and interests of the Shareholding Councils (the Councils) within the LGPS Central Pool (the Pool). The Shareholders' Forum is independent of the Company and its meetings are distinct from Company meetings, however members of the Shareholders' Forum will also represent the Councils at Company meetings.
- 2 The Councils are individual investors in the Company and each Council will have in place local arrangements to enable its Shareholder representative to vote at Company meetings. The Shareholders' Agreement ensures that the Councils act in a unified way, having agreed to a common set of principles and collective Shareholder discussions will take place in the Shareholders' Forum.
- 3 Decisive Shareholder influence over the Company, which is required to ensure that the Company's compliance with Public Contract Regulations (known as Teckal compliance), is demonstrated via the reserved matters which are contained in the Shareholders' Agreement.

Membership

- 4 Membership of the Shareholders' Forum will consist of one representative from each Council, to be determined locally by the individual Council. Representatives are likely to be elected members.
- 5 Each Council may nominate one or more representative (s) to attend any meeting of the Shareholders' Forum in place of an appointed representative from a Council.
- 6 Directors or representatives of the Company may be invited to attend Shareholder Forum meetings, in particular to present on any reserved matters, which require authorisation, by the Shareholders.

Role and function

- 7 To debate, discuss and seek to agree common responses to Company matters requiring authorization by the Shareholders. Matters requiring authorisation include:
 - a Strategic Plan for each Financial Year
 - an Annual Budget including:
 - an estimate of the working capital requirements of LGPS Central Ltd incorporated within a cash flow forecast;
 - a projected profit and loss account;
 - an operating budget (including estimated capital expenditure requirements and balance sheet forecast);
 - a summary of business objectives; and

- A financial report, which includes an analysis of the results of LGPS Central Ltd and the established collective vehicles for the previous Financial Year, compared with the Strategic Plan for that Financial Year, identifying variations in revenues, costs and other material matters.
 - Reserved Matters; and
 - Changes to the governance arrangements of the Company
- 8 To procure the Board to formally review and report (the Structural Review) on the corporate structure of LGPS Central and any of its Group Companies and the operation of their respective boards of directors and board committees every six months from the date of the original Shareholders' Agreement (11th August 2017) until the third anniversary of the Agreement and, thereafter, on each anniversary of the Agreement.
 - 9 To consider the resulting Structural Review and any recommendations regarding more efficient governance, any reductions of costs and/or improvements of performance and seek to agree a common response to the recommendations requiring authorization.
 - 10 To procure from LGPS Central Ltd and consider such financial information as is necessary to keep each Shareholder informed about how the business of LGPS Central Ltd is performing. This information will include:
 - quarterly management accounts and reports on operational effectiveness;
 - unaudited Annual Accounts;
 - audited Annual Accounts; a medium term Strategic Plan; and
 - a report on the company's progress against objectives/milestones set out in the Strategic Plan.
 - 11 To procure from LGPS Central Ltd and consider other information relating to the operations and management of LGPS Central Ltd, having regard to the Shared Objectives of the LGPS Central Pool and the duties and responsibilities of the Shareholders. Such information is likely to include:
 - staffing structures;
 - changes in key personnel;
 - internal controls;
 - compliance and regulatory matters;
 - customer feedback and complaints; and
 - staff surveys.

Practitioners' Advisory Forum

- 1 The Practitioners' Advisory Forum (PAF) is a working group of officers appointed by the Shareholding Councils (the Councils) within the LGPS Central Pool (the Pool) to support the delivery of the objectives of the Pool and to provide support for LGPS Central's Joint Committee and Shareholders' Forum. PAF will seek to manage the Pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the company, recognising that speaking with "one voice" will reduce the duplication of costs and resources and maximise the benefits of scale.

Membership

- 2 Membership of PAF will consist of at least one representative from each Shareholding Council, to be determined locally by the individual Council. Representatives are likely to include Section 151 and senior pension officers.

Role and function

- 3 PAF will support the delivery of the objectives of the Pool as listed below:
 - to meet the investment objectives of the participating LGPS funds;
 - to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
 - to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;
 - to create capacity to invest in asset classes which individual funds may find difficult to access;
 - to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
 - to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
 - to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
 - Following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central Ltd, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central Ltd to manage any non-eligible pension assets outside of such vehicle(s).

- 4 PAF will provide a central resource for advice, assistance, guidance, and support for the Joint Committee and the Shareholders' Forum and for the Councils as a collective group of investors in the Pool.
- 5 PAF shall work with the Shareholders' Forum to support the functions of the Shareholders' Forum as set out in the Shareholders' Forum Terms of Reference.
- 6 PAF shall work with the Joint Committee to support the functions of the Joint Committee as set out in the Joint Committee's Terms of Reference.
- 7 PAF shall provide technical support at meetings of the Shareholders' Forum and the Joint Committee, for example by providing and delivering performance management reports for the Shareholders' Forum and the Joint Committee on all aspects relating to the provision of services by LGPS Central Ltd (LGPSC).
- 8 PAF shall act as a conduit for the Joint Committee and the Shareholders' Forum to communicate back to the respective Councils and/or direct to LGPSC as appropriate.
- 9 PAF shall provide collective support for the responsibilities remaining with Partner Funds and shall explore opportunities for wider collaborative working between the Partner Funds.
- 10 PAF shall operate within any budget set by the Councils.

Host Authority

- 11 Derbyshire Pension Fund will act as a host fund for PAF within a budget set by the Councils with the arrangements to be reviewed in December 2019. Host fund duties will include:
 - Overseeing the coordination of the dates, agendas, backup papers, and attendance at meetings of the Shareholders' Forum, the Joint Committee and PAF with LGPSC & the clerk of the Joint Committee
 - Developing and maintaining the Partner Funds' Cost Savings Model
 - Liaising between the Partner Funds, and on their collective behalf, with LGPS Central Ltd and other agencies when authorised to do so by the Partner Funds

Working Groups

- 12 PAF shall set up working groups on either an interim or a permanent basis according to requirements. The working groups will include:
 - Client Oversight & Governance Group (COGG)
 - Investments Working Group (IWG)
 - Finance Working Group (FWG)
 - Responsible Investment Working Group (RIWG)

- 13 The working groups shall submit minutes of meetings to PAF, highlighting key points for PAF to consider.
- 14 A separate Audit Working Group (AWG), comprising representatives from the internal audit functions of each Partner Fund, shall coordinate oversight of the LGPS Central Pool and LGPS Central Ltd in order to provide assurance on the Pool's control environment. AWG will liaise with PAF and report to the LGPS Central Joint Committee.

Meetings

- 15 PAF shall meet on a monthly basis during the initial period of assets transitioning to LGPSC; the frequency of meetings will be reviewed by PAF as appropriate. The meetings will be held in Stafford, with the cost of holding the meetings shared amongst the Councils. The Chair of the meeting will be rotated amongst the members of PAF.
- 16 Meetings will be private and will be split into two parts: Part 1 will be solely for Partner Funds; Part 2 will include representatives from LGPSC. Items for inclusion in the meetings:

Part One

- Feedback from PAF Working Groups
- Feedback from the Audit Working Group
- Pool Governance Arrangements
- Consideration of the Pool's Risk Register
- LGPSC Shareholder Reports (including KPIs)
- Cost Sharing
- Legal Agreements
- LGPSC Policies
- LGPSC Product/Service Business Cases
- Transition Arrangements
- Consideration of Cross Pool Matters
- Communications
- Wider Partner Fund Issues

Part Two – Including LGPS Central Ltd

- Progress Updates
 - Risks and Issues
 - Strategic Developments
 - Finance and Budget Updates
 - Sub-fund Launch Programme/Transition Timetable
 - Feedback from Shareholder & Joint Committee Meetings
 - Cross Pool Working Updates
 - Reporting to MHCLG & SAB
 - Performance Reporting
 - Cost Transparency
 - Responsible Investment
- 17 The Host Authority shall arrange for written minutes to be taken at each meeting of PAF and they shall be presented to PAF at its next meeting for approval as a correct record. The section of the minutes covering Part Two of PAF shall be presented for joint approval by PAF and LGPSC as a correct record.

Decisions

- 18 Although PAF is not a decision making body, it will make joint recommendations to the Shareholders' Forum and to the Joint Committee and will present collective views to LGPS Central Ltd. On reserved matters requiring unanimous consent from the Shareholders, PAF will endeavour to agree consensus recommendations. Councils should endeavour to send at least one representative to each meeting of PAF. When it is not possible for a Council to be physically represented at a meeting of PAF, an email detailing its views on proposals should be sent to the Host Authority and the Chair of the meeting in advance of the meeting (catherine.bedford@derbyshire.gov.uk) and these views shall be presented by the Chair of the respective PAF meeting.

Terms of Reference Review

- 19 These Terms of Reference will be reviewed annually.

Delivering Good Governance (Cipfa/Solace Framework)

Supporting principles	How we demonstrate in practice
Principle 1 : Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • Codes of Conduct – establish clear standards of behaviour for Pension Fund Committee members and Fund officers • Declarations of interest – standing item on all meetings, and all disclosures recorded. • Conflicts of Interest Policy – ensures impartiality of Local Pension Board members • THRIVE values – (Teamwork, Honesty, Respect, Innovation, Value for Money, Empowerment) underpin staff performance management framework • Clear breach reporting and monitoring in place with regular quarterly updates to Local Pension Board and Pension Fund Committee. • Independent Dispute Resolution Process (IDRP) in place, ensures all complaints are dealt with impartially. • Investment Strategy Statement (ISS) and Responsible Investment (RI) policy set out approach to investment stewardship and how environmental, social and governance factors are taken into account in investment decision making and ongoing monitoring.
Principle 2 : Ensuring openness and comprehensive stakeholder engagement	
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> • Communication & Engagement Strategy identifies key stakeholders, priority themes for engagement and communication media. • Website – all key policy documents, committee agenda papers and investment holding details published on Fund website. 24 hour on-line access to key membership information and forms. • Pension Consultative Forum – regular engagement with representatives from main employer groups to consult on Fund developments and gather feedback. • Employer meetings – at least one meeting per year held to update employers on Fund performance. • Customer Relationship Management approach under development to improve Fund/employer interface • Benefit Roadshows and ‘drop-in’ sessions for scheme members held annually. • Staff Bulletin and team away-days to keep staff up to date and informed of key issues/developments and to provide an opportunity for feedback. • Customer Service training delivered for all staff to support customer care .

Supporting principles	How we demonstrate in practice
Principle 3: Delivering outcomes in terms of sustainable economic, social and environmental benefits	
<ul style="list-style-type: none"> Defining outcomes Defining sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> Pension Fund Business plan (approved annually) sets out long, medium and short term aims, objectives and target outcomes. Staff are set clear performance objectives and delivery targets (linked to the Pension Fund Business plan) against which they are appraised. Specific investment performance targets and benchmarks set for all investment portfolios, aligned to the Fund's long term funding strategy. ISS and RI policy set out the Fund's approach to long term, sustainable investment.
Principle 4: Determining the interventions necessary to optimise the achievement of intended outcomes	
<ul style="list-style-type: none"> Determining interventions Planning interventions Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> Investment Risk/Performance trigger monitoring in place to prompt review of investment mandates and overall asset allocation when agreed thresholds are hit. On-going review of employer covenants, indemnity bonds, guarantees etc to ensure exposure to employer default is managed proactively. Business Continuity Plan in place and subject to regular review. Fund Risk Register updated quarterly and control actions reviewed to mitigate potential threats to delivery of business plan objectives. Project Chrysalis – major transformational change programme underway to modernise and improve service operating model in response to changing demands and expectations. Systems development roadmap in place to ensure that the benefits of new technology are harnessed effectively in the delivery of planned outcomes. Monthly monitoring and reporting of funding levels to assess whether existing investment allocations can be safely de-risked.
Principle 5: Developing the Fund's capacity including the capability of its leadership and individuals within it	
<ul style="list-style-type: none"> Developing the Fund's capacity Developing the capability of the Fund's leadership and individuals within it 	<ul style="list-style-type: none"> CIPFA Knowledge & Skills Framework used to systematically identify training and development needs for Pension Fund Committee and Local Pension Board members and senior officers. Targetted induction training for new Pension Fund Committee and Local Pension Board Members. Skills audit undertaken across the team to identify individual training and development needs for all staff and as a basis for personal development plans. Career Grades introduced into the team structure, linked to professional training programme and the National Apprenticeship Scheme as a means of opening up structured learning opportunities and career 'pathways'. Co-ordinated programme of Management & Leadership training being rolled out to all junior and middle managers. Regular formal and informal collaboration and experience sharing with other LGPS Funds, to maximise capacity and resources.

Supporting principles	How we demonstrate in practice
Principle 6 :Managing risk and performance through robust internal control and strong public financial management	
<ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control • Managing data • Strong public financial management 	<ul style="list-style-type: none"> • Fund Risk Register in place and reviewed quarterly. • Quarterly reporting to Local Pension Board, Investment Sub-Committee and Pension Fund Committee on investment and budgetary performance, operational KPIs and progress against business plan delivery targets. • Staff have regular one to one supervisory meetings and formal six-monthly performance reviews • Independent internal and external audit review of internal control processes • Data quality management plan under development • Positive internal audit review/feedback on GDPR implementation
Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability	
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practice in reporting • Assurance and effective accountability 	<ul style="list-style-type: none"> • Fund website provides open, public access to all key policy documents, committee agenda papers/minutes, investment holdings. • Comprehensive Performance Management Framework developed to provide consistent reporting against key financial, non-financial and operational targets. • Plain English standards adopted for all Fund correspondence/communications • Annual Report reviewed and updated in the light of 2019 CIPFA Guidance • Full compliance with Freedom of Information disclosure requirements. • Independent review of Fund Governance arrangements to provide assurance regarding compliance and effectiveness. • Involvement at national level in development of guidance on Administrative Performance reporting.

Statement of Accounts for the year ended 31 March 2020

Cheshire Pension Fund - Fund Account for the year ended 31 March 2020			
	Notes	2019-20	2018-19
		£000	£000
Contributions and Benefits			
Contributions Receivable			
From Employers		129,193	123,153
From Employees		38,300	36,829
Total Contributions Receivable	6/6a	167,493	159,982
Transfers in from Other Schemes	7	12,411	15,638
Benefits Payable			
Pensions		-155,723	-148,638
Lump Sums		-30,230	-28,388
Death Benefits		-5,323	-4,065
Total Benefits Payable	8	-191,276	-181,091
Payments to and on account of Leavers			
Refund of Contributions		-618	-489
Transfers to Other Schemes		-17,394	-13,547
	9	-18,012	-14,036
Net Additions / (withdrawals) from dealing with members		-29,384	-19,507
Management Expenses	10/10a	-26,110	-27,825
Returns on Investments			
Investment Income	11	40,327	34,389
Taxes on Income	12	-271	-419
Profits and losses on disposal of investments and changes in the market value of investments	13f	-74,043	261,953
Net Returns On Investments		-33,987	295,923
Net Increase/ (Decrease) in the Fund During the Year		-89,481	248,591
Opening Net Assets of the Scheme		5,603,810	5,355,219
Closing Net Assets of the Scheme		5,514,329	5,603,810

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

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

Note 1 – Description of the Fund

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

The following description is a summary only. For more detail, reference should be made to the Cheshire Pension Fund Annual Report and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

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

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

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

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

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

The Cheshire Pension Fund operates four investment strategies each with different allocations to growth assets and diversifying and matching assets. At 1 April 2019 the four strategies were as follows:

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

To manage the Fund's assets in accordance with its investment strategy, the Council had 12 appointed external investment managers as at 31 March 2020 who each have specific responsibility for part of the Fund's investment portfolio.

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

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

Bank of New York Asset Servicing reported that for the year ending 31 March 2020 the Fund achieved a return from its investments of -1.3% (+5.5% in 2018-19) compared with the Fund's tailored benchmark return of -0.8% (+5.5% in 2018-19). For the three years ending 31 March 2020 the Fund achieved an annualised return of 3.4% per annum against the Fund's benchmark return of 2.2% per annum.

Membership

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

Organisations participating in the Fund include:

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

In the year to 31 March 2020 a total of 305 employer organisations including the Administering Authority itself, contributed into the Fund.

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

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. In addition to employee contributions, employers pay contributions into the Fund which are set through triennial actuarial valuations. The last such valuation was at 31 March 2019 which set employer contribution rates for the 3 year period commencing 1 April 2020 and ending 31 March 2023, details of employer rates can be found in the Fund valuation report available on the Funds website

Benefits

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For details, please refer to the scheme handbook which is available from the Fund or visit the website www.cheshirepensionfund.org

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

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

Note 2 – Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019-20 financial year and its position as at year ending 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector on an ongoing basis.

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

The Statement of Accounts include the following restatements:

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

Within Note 13 Investments, the 2018-19 figure has been restated to reclassify £250m of overseas listed equity as UK listed equity. The currency risk notes within Note 19 have also been restated to reflect this adjustment.

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

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

The accounts have been prepared on a going concern basis.

Note 3 – Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

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

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

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

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

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

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management Expenses

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

Investment Management Expenses

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

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

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

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

Performance related fees amounted to £2.5m in 2019-20 (£3.6m in 2018-19) for managers who outperformed the benchmark.

Where an investment manager's fee invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. The total of fees based on estimates in 2019-20 was £2.2m relating to fees due for the quarter ending 31 March 2020 (£1.7m in 2018-19).

Administration expenses

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

Oversight and governance costs

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

Net Assets Statement

g) Financial assets

Cheshire West and Chester Council jointly owns an asset pooling company, LGPS Central Ltd, along with seven other Partner Funds, the Council's shareholding in the asset pool company is valued at £1.315m which is the transaction price i.e. cost of the investment.

LGPS Central Ltd began to trade on 3 April 2018 and consequently there are only limited trading results available. The pension fund's view is that the market value of this investment at 31 March 2020 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

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

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

h) Stock Lending (Securities Lending)

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund allows its stock to be lent provided that the total value of the securities loaned out does not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon.

In accordance with the securities lending agreement the collateral parameters are restricted to non-cash collateral securities, This being Fixed income securities issued or guaranteed by a set of 21 OECD countries which have to have a minimum rating of AA by S&P or Aa2 by Moody's rating agency as well as Supranational securities rated AAA/ Aaa from 6 issuers.

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

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

i) Freehold and leasehold properties

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

(i) For investment property: that the property would be sold subject to any existing leases.

(ii) For property held for development: that the property would be sold with vacant possession in its existing condition.

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

j) Derivatives

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

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

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

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

k) Cash and cash equivalents

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

l) Loans and receivables

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

m) Financial liabilities

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

n) Actuarial present value of promised retirement benefits

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

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

o) Additional voluntary contributions

The Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. During 2019-20 Scottish Widows, Standard Life and Equitable Life (taken over by Utmost 1 January 2020) were the Fund's AVC providers.

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

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

p) Contingent assets and contingent liabilities

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

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

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

Note 4 – Critical judgements and key sources of estimation uncertainty

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

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

Note 4.1 – Critical Judgements in applying accounting policies

There were no material critical judgements in 2019-20.

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

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

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	<p>It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Private equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Due to the uncertainties in the financial markets caused by the current Coronavirus pandemic, there is a further risk that the valuation of these investments may have an increased level of uncertainty and the estimated valuations may be misstated. Estimations have been updated for 2019-20 to try and reflect the impact of COVID-19 based on information available at 31 March 2020. There is an extremely wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the pandemic and the path and time needed to a return to a “steady state.”</p>	<p>The total private equity investments in the financial statements are £225m (£195m 2018-19).</p> <p>Although Fund Managers have tried to incorporate the impact of COVID-19 on the valuations There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 5% would equate to £22.5 m increase or decrease to the market value of these investments.</p>
Absolute Return funds	<p>Absolute Return funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total value of absolute return funds in the financial statements is £374m (£771m in 2018-19). There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 10% would equate to £37.4m increase or decrease to the market value of these investments.</p>
Pension fund liability	<p>The pension fund liability is calculated every three years by the Fund's actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in the actuarial calculation which is included within the Annual Report. This estimate is subject to significant variances based on changes to the underlying assumptions.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance,</p> <ul style="list-style-type: none"> • A 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £646m. • A 0.5% increase in pensions increase rate would increase the value of the liabilities by approximately £572m. • A 0.5% increase in the salaries increase rate would increase the value of the liabilities by approximately £68m
Property valuations	<p>There are uncertainties in the financial markets caused by the current Coronavirus pandemic. Market activity is being impacted in all sectors and, as at the valuation date, it is not considered that valuers can rely upon previous comparable market evidence to fully inform opinions of value. Due to these uncertainties, there is a risk that the estimated values may be under or overstated.</p> <p>The current response to COVID-19 means that valuers are faced with an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.</p>	<p>The total value of direct property investments in the financial statements is £398m (£396m in 2018-19). There is a risk that this investment may be under or overstated in the accounts. A potential under or over statement of the value of these investments of 10% would equate to £39.8m increase or decrease to the market value of these investments.</p>

Note 5 – Events after the Balance Sheet date

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

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

COVID-19 - Non-adjusting event

The outbreak of COVID-19, declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in all sectors by the efforts and restrictions being made to reduce the spread of the virus.

There have been a number of material factors which make it difficult to quantify what the outcome could be on financial markets; How long will the pandemic last? Will there be a second flare-up? How deep will its economic impacts be? There has been unprecedented government support through stimulus policies including support via the furlough scheme, central banks have reacted by immediately reducing the base rate and have embarked on substantial asset purchase programs. Both the short and long-term implications of the shut-down and the affect it will have on companies remain uncertain and longer-term performance will ultimately be impacted by how long the recovery takes.

For a pension scheme, a non-adjusting event could be the significant decline in the value of investments. As a result of Covid-19, the future investment values may be more volatile, at least over the short to medium term, until a vaccine or other successful cure is found for Covid-19.

However, following the year end the total value of the Funds investment assets has increased significantly from 31 March to 30 June. The Fund has a well diversified portfolio of assets to help reduce the risk of the impact COVID-19.

Other- Non adjusting events

Following the 31 March 2020 the Fund has received a further £20.4m in proceeds from the liquidation of Arrowgrass, further proceeds are expected in 2020-21 as the winding up process continues.

As part of implementing the Funds new Investment Strategy which came into effect 1 April 2020, in June 2020 the Fund also made a £150m investment from cash balances into the FTSE Developed Core Infrastructure Index Fund managed by Legal and General.

In December 2020 as part of the Government’s asset pooling initiative, the Fund also disinvested £150m from Janus Henderson and transferred it to the LGPS Global Active Emerging Market Bond Fund.

Note 6 – Contributions Receivable

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

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

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

Note 6a – Analysis of Contributions Receivable

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

Note 7 – Transfers in from other Pension Funds

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

Note 8 – Benefits payable

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

Note 9 – Payment to and on account of leavers

	2019-20	2018-19
	£000	£000
Individual transfers out	17,394	13,547
Refunds to Members leaving service	618	489
Total	18,012	14,036

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

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

Note 10 – Management Expenses

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

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

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

Note 10a – Investment Management Expenses

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

Note 10b – External Audit Costs

	2019-20	2018-19
	£000	£000
Payable in respect of external audit	27	23
Payable in respect of other services	8	2
Total	35	25

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

Note 11 – Investment Income

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

Note 12 – Taxes on income

	2019-20	2018-19
	£000	£000
Withholding tax - Equities	271	412
Withholding tax - Private Equity	0	7
Total	271	419

The Fund is exempt from UK income tax on interest and from capital gains tax on the profits resulting from the sale of investments. The Fund is exempt from United States withholding tax on dividends and can recover all or part of the withholding tax deducted in some other countries. The amount of withholding tax deducted from overseas dividends which the Fund is unable to reclaim in 2019-20 amounts to £271k and is shown as a tax charge, compared to £419k in 2018-19.

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

Note 13 – Investments

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

The 2018-19 figure has been restated to reclassify £250m of overseas listed equity as UK listed equity.

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

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

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

Note 13a – Fixed Income Multi Strategy

The Fund has invested in three pooled fixed income investment vehicles managed separately by Janus Henderson Investors, BlueBay and M&G. The market value of investments with each manager as at the 31 March 2020 was:

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

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

Note 13b – Absolute Return Funds

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

Note 13c – Private Equity

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

Note 13d – Loans

The Fund has committed £32m to the M&G UK Financing Fund which is a limited partnership whose investment objective is to take advantage of difficulties in the UK banking sector and lend monies to UK FTSE350 companies through senior debt and equity linked instruments. As at the 31 March 2020, £32m of this commitment had been drawn down and the Fund had received £39m in distributions. The market value following any gains/losses on the investment as at 31 March 2020 was £1k (31 March 2019 £1.660m).

The Fund has committed £30m to the M&G Debt Opportunities Fund which aims to take advantage of discrete market opportunities that arise over time. As at the 31 March 2020 the full £30m of the commitment had been drawn down and the Fund has received £44m in distributions. The market value following any gains/losses on the investment as at 31 March 2020 was £Nil (31 March 2019 £29,768).

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

Note 13e – Cash

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

Note 13f – Reconciliation of movements in Investments

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

	Fair Value at 31 March 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	Fair Value at 31 March 2019
	£000	£000	£000	£000	£000
Pooled Investment Vehicles	3,131,979	540,451	-237,742	131,714	3,566,402
Equities	792,041	130,444	-467,645	86,934	541,774
Absolute Return Funds	696,685	1,254,910	-1,192,673	11,699	770,621
Investment Properties	352,701	39,455	0	4,214	396,370
Private Equity	183,905	29,389	-46,160	27,861	194,995
Loans	5,052	0	-2,665	-12	2,375
	5,162,363	1,994,649	-1,946,885	262,410	5,472,537
Derivative Contracts:	0	3	-2	-1	0
	5,162,363	1,994,652	-1,946,887	262,409	5,472,537
Cash and Cash Equivalents	169,882		-57,355	-456	112,070
	5,332,245	1,994,652	-2,004,242	261,953	5,584,607
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	4,284				4,504
	5,336,529	1,994,652	-2,004,242	261,953	5,589,111
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	-30				0
Net Investments	5,336,499	1,994,652	-2,004,242	261,953	5,589,111

Note 14 – Stock Lending

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

Note 15 Property Holdings

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

Note 15a – Property Income

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

Note 15b – Fair Value of Investment Properties

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

During the year the Fund purchased two properties; an airport car park and a hotel. Investment properties were independently valued by Savills as at 31 March 2020.

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

At the year-end there were no restrictions on the Fund's ability to realise investment property or the remittance of proceeds of disposals, however it should be noted that due to the impact of COVID-19 on the property market there will have been a reduction in potential purchasers as at 31 March 2020.

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

Note 16 – Operating Leases

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

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

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

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

Age profile of lease income	2019-20	2018-19
		Restated
	£000	£000
No later than one year	13,927	19,641
Between one and five years	60,820	59,479
Later than five years	100,547	57,732
Total	175,294	136,852

The above disclosure for 2019-20 has been reduced by a credit loss allowance of 33% for income due within one year, 10% for the second year and 3% for the following years reflecting the Fund's expected loss from late or non-recovery of rents from tenants. The credit loss allowance in 2019-20 has been increased for years one and two to reflect the expected impact on lease income receivable resulting from COVID-19. The 2018-19 figures have been restated to show the total amount of lease income due under non-cancellable leases as at 31 March 2019 adjusted for a 3% loss allowance. As a result of the restatement the 2018-19 figures have been increased by the following amounts: No later than one year by £18m, between one and five years by £55m and later than five years by £47m.

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

Note 17 – Investment by Fund Manager

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

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

At the December 2018 meeting, Pension Fund Committee endorsed the decision to commit £22m to the LGPS Central Private Equity Funds, during the year the Fund made £3.9m calls to these funds and received £0.189m in dividends, the fair value at end of March 2020 was £3.2m.

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

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

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

Note 17a – Concentration of Investments

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

Security Description	Market Value 31 Mar 2020	Total Fund	Market Value 31 Mar 2019	Total Fund
	£000	%	£000	%
Legal & General - Over 5 Yr Index Linked Gilts	1,325,516	24.09%	1,605,661	28.73%
LGPS Central Limited - All World Equity Climate Multi Factor Fund	453,892	8.23%	0	0.00%
Bluebay - Total Return Diversified Fund	375,008	6.82%	409,743	7.33%
Janus Henderson - Total Return Bond	362,923	6.60%	352,271	6.30%
Blackstone Partners - Class A1 Initial Series	325,503	5.92%	346,058	6.19%

Note 18 – Fair Value – Basis of Valuation

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

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

Sensitivity of Assets Valued at Level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio value as at 31 March 2020. Any subjectivity related to the investment value is incorporated into the valuation.

Note 18a – Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Estimated market values or cash flow adjustments are used to roll forward the valuations to 31 March as appropriate. For the year ended 31 March 2020 private equity managers have also tried to incorporate the impact of COVID-19 into the estimated market values by looking at movements within relevant market indexes to help reflect the potential change in value the Fund's private equity investments.

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

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

Note 18a – Assets carried at fair value

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

The following assets have been carried at cost:

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

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	Restated		Restated	
	£000	£000	£000	£000
Financial and Non-financial Assets				
Fair value through profit and loss	1,317,889	3,380,434	772,214	5,470,537
Total Assets	1,317,889	3,380,434	772,214	5,470,537
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	0	0	0
Total Financial Liabilities	0	0	0	0
Net Assets	1,317,889	3,380,434	772,214	5,470,537

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

The following assets have been carried at cost:

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

Note 18b – Transfers between levels 1 and 2

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

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

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

Note 18d – Classification of Financial Instruments

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

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

Note 18e – Net Gains and Losses on Financial Instruments

	2019-20	2018-19
	£000	£000
Financial Assets		
Fair value through profit and loss	-63,877	258,208
Amortised cost- unrealised gains	14,481	0
Financial Liabilities		
Fair value through profit and loss	0	-1
Amortised cost- unrealised losses	0	-468
Total	-49,396	257,739

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

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

Risk and risk management

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

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

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

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

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

Asset Type	Value at 31 March 2020	Percentage Change	Change in Value on increase	Change in Value on decrease
	£000	%	£000	£000
Government Bonds	2,017,944	8.8	177,579	-177,579
Global Equities - Developed	1,166,538	18.4	214,643	-214,643
Absolute Return Funds	373,906	7.3	27,295	-27,295
Corporate Bonds	433,878	3.3	14,318	-14,318
Global Equities - Emerging	192,205	28.7	55,163	-55,163
High Yield	225,819	9.6	21,678	-21,678
Private Equity	225,375	24.2	54,541	-54,541
Cash	417,094	3.3	13,764	-13,764
UK Equities	35,420	16.8	5,951	-5,951
Property Unit Trusts	7,962	14.1	1,123	-1,123
Investment Income Due	3,932	0.0	0	0
Equities - LGPS Central Ltd	1,315	0.0	0	0
Loans - LGPS Central Ltd	721	0.0	0	0
Total assets available to pay benefits	5,102,109		586,055	-586,055

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

Interest rate risk

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

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

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

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

Interest rate risk sensitivity analysis

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

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

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

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

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

Asset Type	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
		£000		
Cash and Cash Equivalents		33,254		
Cash Balances		78,816		
Fixed Income - M&G	4.24	235,555	9,988	-9,988
Fixed Income - Janus Henderson	5.84	352,271	20,573	-20,573
Fixed Income - BlueBay	4.33	409,743	17,742	-17,742
Fixed Income - Legal and General	24.7	1,605,661	396,598	-396,598
Total change in assets available		2,715,300	444,901	-444,901

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

Income Source	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
		£000		
Cash deposit / cash and cash equivalents	0.25	366	1	-1
Fixed Income Securities		3,732		
Total change in assets available		4,098	1	-1

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

Currency risk

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

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

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

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

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

Currency Exposure - Asset Type	Gross Exposure Restated	Hedging Exposure	Net Exposure Restated
2018-19	£000	£000	£000
Overseas Listed Equities	531,969		531,969
Overseas Unquoted Securities	194,995		194,995
Absolute Return Funds Overseas Fixed Interest	0	-4	-4
Overseas Unit Trusts	9,076		9,076
Total	736,040	-4	736,036

The 2018-19 figures have been restated for a reclassification of £250m of equities from overseas to UK.

Currency risk - sensitivity analysis

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

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

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

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

Net Currency Exposure - Asset Type	Asset Values	Change to net Assets available to pay benefits	
	2018-19	+13%	-13%
	Restated	Restated	Restated
	£000	£000	£000
Overseas Listed Equities:	531,969	69,155	-69,155
Of which from United States Dollar	363,007	47,191	-47,191
Of which from Japanese Yen	16,970	2,206	-2,206
Of which from Hong Kong Dollar	44,319	5,761	-5,761
Of which from Swedish Krona	3,567	464	-464
Of which from Swiss Franc	5,294	688	-688
Of which from Danish Krone	2,788	362	-362
Of which from South African Rand	11,430	1,486	-1,486
Of which from other currencies	84,594	10,997	-10,997
Overseas Unquoted Securities:	194,995	25,349	-25,349
Of which from United States Dollar	178,161	23,161	-23,161
Of which from Euro	16,834	2,188	-2,188
Absolute Return Funds Overseas:			
Of which from United States Dollar*	-4	0	0
Overseas Unit Trusts:			
Of which from Euro	9,076	1,180	-1,180
Total	736,036	95,684	-95,684

The 2018-19 figures have been restated for a reclassification of £250m of equities from overseas to UK.

b) Credit risk

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

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

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

Multi Asset

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

S&P Quality Rating	Fair Value 2019-20	% of Fair Value of Fixed Income Assets	S&P Quality Rating	Fair Value 2018-19	% of Fair Value of Fixed Income Assets
	£000	£000		£000	£000
AAA	143,827	6.0	AAA	135,147	5.0
AA	1,669,106	64.0	AA	1,639,968	64.0
A	79,930	3.0	A	86,634	3.0
BBB+	225,818	9.0	BBB+	0	0.0
BBB	126,831	5.0	BBB	341,092	13.0
Below BBB	239,451	9.0	Below BBB	308,004	12.0
Cash	89,191	3.0	Cash	61,632	0.0
NR	19,612	1.0	NR	2,959	2.0
Loans	12,920	0.0	Loans	27,794	1.0
Total	2,606,686	100.0	Total	2,603,230	100.0

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

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in the Fund's history. The Fund's cash holding under its treasury management arrangements as at 31 March 2020 was £384.1m (31 March 2019 £78.8m) and was held in the Deutsche Bank and Fidelity money market accounts. The remainder of the cash was held by the Fund's custodian, Bank of New York Mellon with a small amount of cash in transit which was held by the Fund's property investment manager.

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

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

c) Liquidity risk

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

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

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

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

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

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

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

Other risks

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

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

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

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

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

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

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

Stock Lending

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

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

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

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

Note 20 – Funding Arrangements

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

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

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

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

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

The principal assumptions were:

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

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

*Aged 45 at the valuation date

Note 21 – Actuarial value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2019-20 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 Accounting and Reporting by Retirement Benefit Plans refers to as the actuarial present value of promised retirement benefits. There are three options for disclosure.

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

Note 22 – Long Term Assets

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

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

Note 23 – Current Assets

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

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

Note 24 – Current Liabilities

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

Note 25 – Additional Voluntary Contributions (AVCs)

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

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

A summary of the information provided by Scottish Widows, Standard Life, Utmost and Equitable Life for the year to 31 March 2020 is shown below, along with a prior year comparator.

	Scottish Widows	Standard Life	Equitable Life	Utmost	Total
	£000	£000	£000	£000	£000
Contributions received in year 2020	189	929	-	2	1,120
Contributions received in year 2019	723	308	2	-	1,033
Fair value at 31 Mar 2020	2,146	3,406	-	507	6,059
Fair value at 31 Mar 2019	3,210	3,023	509	-	6,742

Note 26 – Related Party Transactions

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

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

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

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

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

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

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

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

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

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

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

The value of transactions with each of these related parties, namely routine monthly payments to the Fund of employer's and employee's contributions is determined by the Local Government

Pension Scheme Regulations, and as such no related party transactions have been declared.

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

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

Governance

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

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

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

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

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

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

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

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

Key Management Personnel

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

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

	31-Mar-20	31-Mar-19
		Restated
	£000	£000
Short term benefits	94	112
Long term/post-retirement benefits	902	1,128
Total	996	1,240

The long term/post-retirement benefits figure for 31 March 2019 figure has been restated to reflect the proportion of time that the key management personnel spend on work in relation to the Pension Fund, The result of this is a reduction in the 31 March 2019 long term benefits figure by £1.2m.

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

Note 27 – Contingent Liabilities and Contractual Commitments

The Fund has contractual commitments to the value of £764m (2018-19 £679m) in private equity funds.

During 2019-20 the Fund made new commitments to Pantheon private equity funds of \$65.5m. These commitments were split \$45.5m to the Global Select 2019 Fund, \$10m to the Global Co-Investments 2019 Fund and \$10m to the Global Secondary Fund VI. This additional investment will help the Fund address its existing underweight allocation to the vintage years 2009 to 2015, thereby further diversifying the private equity portfolio.

As at 31 March 2020 the Fund had actually invested £496m (2018-19 £409m) and therefore had an outstanding commitment of £224m (2018-19 £270m). As the Pantheon and Adam Street Partner funds are denominated in US Dollars and Euros the commitment in Sterling is subject to changes due to currency fluctuations.

Note 28 – Contingent Assets

There are 21 admitted bodies in the Cheshire Pension Fund who hold insurance bonds to guard against the possibility of being unable to meet their pension obligations, along with an additional 13 employers with Parent Company Guarantees or Deeds of Guarantee in place. The bonds or guarantees are drawn in favour of the Council as administering authority for the Fund and payment will only be triggered in the event of employer default.

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £7m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.1m. This issue is still progressing through the courts.

Note 29 – Impairment of Financial Assets

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

Note 30 – Investment Strategy Statement

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

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

Note 31 – Funding Strategy Statement

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

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

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

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Cheshire Pension Fund ("the Fund").

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

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

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

Present value of promised retirement benefits

Year ended	31 March 2020	31 March 2019
Active members (£m)	2,625	3,854
Deferred members (£m)	1,278	1,220
Pensioners (£m)	2,590	2,373
Total (£m)	6,493	7,447

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

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

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

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

Assumptions

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

Financial assumptions

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

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.2 years	23.6 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	21.9 years	25.0 years

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

Commutation assumptions

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

Sensitivity Analysis

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

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

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Peter MacRae

For and on behalf of Hymans Robertson LLP
16 April 2020

Cheshire Pension Fund (“the Fund”)

Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will 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 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. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

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 £5,583 million, were sufficient to meet 97% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

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:

Financial assumptions (% p.a.)	31 March 2019
Discount rate	3.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.2 years	23.6 years
Future Pensioners*	21.9 years	25.0 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 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 Funding Strategy Statement will also be reviewed at that time.



Peter MacRae

For and on behalf of Hymans Robertson LLP
7 May 2020

List of employers contributing into the Fund in 2019-20

Employer Name	Strategy	Employees	Employers	Total
Scheme Employer				
Cheshire Magistrates Courts	D		(41,900.00)	(41,900.00)
Cheshire West and Chester Council	B	(7,511,592.88)	(23,289,460.98)	(30,801,053.86)
Cheshire East Council	A	(6,597,970.02)	(17,687,825.69)	(24,285,795.71)
Cheshire Fire Authority	B	(260,842.33)	(734,065.56)	(994,907.89)
Halton Borough Council	B	(3,870,327.29)	(11,757,630.47)	(15,627,957.76)
Warrington Borough Transport	B	(3,120.38)	(12,619.19)	(15,739.57)
Warrington Borough Council	B	(4,959,120.11)	(15,939,276.51)	(20,898,396.62)
NW Fire Control Limited	B	(143,352.86)	(446,204.67)	(589,557.53)
Alderley Edge Parish Council	B	(2,957.12)	(11,205.41)	(14,162.53)
Northwich Town Council	B	(17,534.71)	(69,368.67)	(86,903.38)
Winsford Town Council	B	(10,295.91)	(37,554.13)	(47,850.04)
Nantwich Town Council	B	(28,124.34)	(93,838.97)	(121,963.31)
Knutsford Town Council	B	(8,047.49)	(27,964.61)	(36,012.10)
Penketh Parish Council	B	(8,795.42)	(31,501.31)	(40,296.73)
Bollington Town Council	B	(4,524.72)	(16,451.65)	(20,976.37)
Middlewich Town Council	B	(9,790.78)	(32,154.72)	(41,945.50)
Poynton Town Council	B	(14,678.36)	(51,721.52)	(66,399.88)
Disley Parish Council	B	(4,232.64)	(15,292.48)	(19,525.12)
Winwick Parish Council	B	(1,503.85)	(5,840.01)	(7,343.86)
Nether Alderley Parish Council	B	(523.42)	(1,923.70)	(2,447.12)
Birchwood Town Council	B	(9,194.96)	(32,710.74)	(41,905.70)
Grappenhall and Thelwall Parish Council	B	(5,063.88)	(16,941.60)	(22,005.48)
Odd Rode Parish Council	B	(2,039.15)	(6,454.21)	(8,493.36)
Congleton Town Council	B	(34,640.54)	(110,657.02)	(145,297.56)
Frodsham Town Council	B	(3,468.93)	(11,873.66)	(15,342.59)
Sandbach Town Council	B	(13,011.72)	(40,081.70)	(53,093.42)
Police and Crime Commissioner	B	(2,718,021.62)	(8,459,712.51)	(11,177,734.13)
Priestley Sixth Form College	B	(85,610.28)	(323,018.68)	(408,628.96)

Employer Name	Strategy	Employees	Employers	Total
Warrington Collegiate	B		(2,580.96)	(2,580.96)
Macclesfield College	B	(132,298.31)	(478,770.57)	(611,068.88)
West Cheshire College	B		(2,499.96)	(2,499.96)
Reaseheath College	B	(460,593.34)	(1,520,141.77)	(1,980,735.11)
Sir John Deanes College	B	(82,420.70)	(264,103.65)	(346,524.35)
Mid Cheshire College	B		(5,558.74)	(5,558.74)
The Catholic High School Chester	B	(45,605.55)	(182,130.10)	(227,735.65)
Wade Deacon High School	B	(106,505.99)	(349,093.03)	(455,599.02)
Rudheath Primary School	B	(17,951.26)	(74,278.02)	(92,229.28)
Birchwood High School	B	(50,361.38)	(181,080.17)	(231,441.55)
Penketh High School	B	(53,633.70)	(200,552.74)	(254,186.44)
Worth Primary School	A	(8,412.71)	(41,053.15)	(49,465.86)
St Thomas More Catholic High School	A	(30,468.78)	(149,698.37)	(180,167.15)
Stapeley Broad Lane	A	(13,937.62)	(121,628.62)	(135,566.24)
St Martins Academy	B	(8,602.75)	(27,427.84)	(36,030.59)
Leighton Academy	A	(32,074.31)	(168,914.84)	(200,989.15)
Grosvenor Park CoE Academy	B	(9,267.26)	(51,430.07)	(60,697.33)
Cloughwood School	B	(29,876.81)	(115,326.50)	(145,203.31)
Holmes Chapel Primary School	A	(21,933.49)	(101,618.03)	(123,551.52)
Whirley Primary School	A	(11,436.64)	(62,112.91)	(73,549.55)
Alsager School	A	(68,835.59)	(329,740.54)	(398,576.13)
Sir William Stanier Community School	A	(52,101.57)	(276,293.47)	(328,395.04)
Over Hall Community School	B	(20,185.17)	(77,961.28)	(98,146.45)
Ash Grove Academy	A	(33,530.34)	(136,374.02)	(169,904.36)
Cranberry Academy	A	(10,499.96)	(59,037.93)	(69,537.89)
St Michaels Community Academy	A	(29,103.81)	(131,580.00)	(160,683.81)
Crewe Town Council	B	(13,255.31)	(41,839.37)	(55,094.68)
Adelaide School	A	(34,844.77)	(189,176.01)	(224,020.78)
Parkroyal Community School	A	(31,082.27)	(142,982.13)	(174,064.40)

Employer Name	Strategy	Employees	Employers	Total
Vivo Care Services Limited	B	(477,392.45)	(1,813,264.32)	(2,290,656.77)
The Quinta Primary School	A	(18,361.48)	(88,224.69)	(106,586.17)
Weaverham Primary Academy	B	(9,649.66)	(41,500.41)	(51,150.07)
Cavendish High Academy	B	(38,153.83)	(138,584.92)	(176,738.75)
Wistaston Academy	A	(25,948.33)	(104,175.65)	(130,123.98)
Appleton Parish Council	B	(3,870.68)	(14,080.42)	(17,951.10)
Stockton Heath Parish Council	B	(2,158.09)	(8,327.02)	(10,485.11)
Orbitas Bereavement Services	A	(48,067.07)	(145,266.89)	(193,333.96)
The Hermitage Trust	A	(12,855.83)	(65,254.15)	(78,109.98)
Tytherington School	A	(53,702.85)	(281,070.89)	(334,773.74)
Pear Tree School	A	(15,375.88)	(84,927.09)	(100,302.97)
The Oak View Primary Academy	B	(23,917.79)	(84,001.61)	(107,919.40)
Bridgewater Park Primary School	B	(8,145.68)	(32,214.86)	(40,360.54)
Mersey Gateway Crossing Board	B	(13,871.36)	(44,480.24)	(58,351.60)
Marlfields Primary Academy	A	(11,846.37)	(60,312.31)	(72,158.68)
St Bernards RC Primary School	B	(13,677.48)	(55,610.48)	(69,287.96)
Black Firs Primary School	A	(21,363.71)	(96,752.97)	(118,116.68)
Smallwood CoE Primary	A	(8,340.96)	(45,553.83)	(53,894.79)
Nether Alderley Primary School	A	(3,396.51)	(19,208.07)	(22,604.58)
Broken Cross Primary Academy	A	(11,242.44)	(62,055.36)	(73,297.80)
Mossley CoE Primary School	A	(21,510.78)	(117,648.02)	(139,158.80)
Ormiston Chadwick Academy	B	(38,437.75)	(140,285.57)	(178,723.32)
Bridgewater High School	B	(89,734.52)	(334,042.97)	(423,777.49)
Transport Services Solutions Limited	A	(60,842.82)	(162,259.29)	(223,102.11)
Riverside College	B	(214,338.14)	(905,280.52)	(1,119,618.66)
Poulton with Fearnhead Parish Council	B	(2,190.36)	(8,232.72)	(10,423.08)
University CoE Academy	B	(44,104.98)	(307,307.10)	(351,412.08)
Neston Town Council	B	(6,186.78)	(19,384.01)	(25,570.79)
Fallibroome Academy	A	(93,260.41)	(373,014.77)	(466,275.18)

Employer Name	Strategy	Employees	Employers	Total
Brine Leas High School	A	(64,105.16)	(264,315.55)	(328,420.71)
Ormiston Bolingbroke Academy	B	(54,054.10)	(172,030.88)	(226,084.98)
Winsford E-Act Academy	B	(58,297.06)	(241,889.00)	(300,186.06)
Sandbach High School & Sixth Form	A	(46,972.43)	(225,139.93)	(272,112.36)
Christleton High School	B	(61,383.28)	(230,112.32)	(291,495.60)
Bishops Blue Coat CoE High School	B	(64,691.24)	(228,771.13)	(293,462.37)
Congleton High School	A	(56,389.61)	(253,995.03)	(310,384.64)
Delamere Academy	B	(8,577.53)	(36,128.65)	(44,706.18)
Mottram St Andrew Primary Academy	A	(12,496.93)	(63,364.00)	(75,860.93)
Brio Leisure (CWaC CIC)	B	(269,218.84)	(928,436.20)	(1,197,655.04)
The Heath Academy	B	(74,992.52)	(258,045.69)	(333,038.21)
Palacefields Academy	B	(11,904.63)	(80,840.70)	(92,745.33)
Macclesfield Academy	A	(33,139.72)	(201,631.15)	(234,770.87)
Lacey Green Primary School	A	(19,304.34)	(82,659.70)	(101,964.04)
Holmes Chapel Comprehensive School	A	(76,131.32)	(333,696.71)	(409,828.03)
Wilmslow Town Council	B	(5,177.52)	(14,599.77)	(19,777.29)
University Chester Academy Trust	B		(1,865,000.00)	(1,865,000.00)
Rudheath Senior Academy	B	(21,134.71)	(89,749.91)	(110,884.62)
Knutsford Academy	A	(43,776.52)	(229,013.64)	(272,790.16)
Alsager Town Council	B	(8,634.16)	(32,759.05)	(41,393.21)
Neston High School	B	(72,929.27)	(296,633.30)	(369,562.57)
Sandymoor School	B	(28,797.93)	(93,201.70)	(121,999.63)
Tarporley High School and Sixth Form College	B	(41,982.62)	(163,643.89)	(205,626.51)
Eaton Bank Academy	A	(35,755.11)	(185,954.74)	(221,709.85)
Lymm High School	B	(109,069.49)	(425,264.11)	(534,333.60)
County High School Leftwich	B	(40,391.07)	(173,715.18)	(214,106.25)
Kelsall Primary School	B	(16,780.00)	(64,282.72)	(81,062.72)
Handforth Parish Council	B	(1,688.04)	(5,661.36)	(7,349.40)
King's Leadership Academy	B	(46,029.43)	(142,107.76)	(188,137.19)

Employer Name	Strategy	Employees	Employers	Total
Holmes Chapel Parish Council	B	(2,397.63)	(8,416.19)	(10,813.82)
Lymm Parish Council	B	(2,988.67)	(10,468.53)	(13,457.20)
Padgate Academy	B	(31,985.35)	(126,814.52)	(158,799.87)
Great Sankey High School	B	(73,917.63)	(279,065.73)	(352,983.36)
All Hallows Catholic College	A	(44,980.77)	(193,350.19)	(238,330.96)
Beamont Collegiate Academy	B	(46,958.74)	(181,604.47)	(228,563.21)
Wistaston Parish Council	B	(933.60)	(3,509.28)	(4,442.88)
Wistaston Church Lane Academy	A	(18,214.83)	(90,702.83)	(108,917.66)
Boughton Heath Academy	B	(10,042.35)	(42,539.03)	(52,581.38)
Mill View Primary School	B	(10,795.65)	(46,078.16)	(56,873.81)
Widnes Academy	B	(11,805.96)	(46,208.78)	(58,014.74)
Hungerford Primary	A	(33,719.12)	(158,258.31)	(191,977.43)
St Paul's Catholic Primary School	A	(9,053.78)	(45,982.93)	(55,036.71)
St Alban's Catholic Primary School	A	(11,690.53)	(61,463.78)	(73,154.31)
Sandbach Primary Academy	A	(9,613.06)	(39,427.89)	(49,040.95)
Peover Superior Endowed Primary School	A	(4,216.10)	(23,036.80)	(27,252.90)
Ivy Bank Primary School	A	(39,671.12)	(192,032.29)	(231,703.41)
St Marys Catholic Primary School	A	(12,068.70)	(63,598.95)	(75,667.65)
St Augustines Catholic Primary School	B	(4,013.31)	(16,176.18)	(20,189.49)
Shavington Academy	A	(33,905.27)	(165,427.99)	(199,333.26)
The Berkeley Academy	A	(22,529.83)	(124,510.17)	(147,040.00)
Willaston Primary Academy	A	(13,403.85)	(71,819.55)	(85,223.40)
The Russett School	B	(42,845.06)	(179,761.20)	(222,606.26)
The Fermaine Academy	B	(17,316.51)	(50,075.43)	(67,391.94)
Macclesfield Town Council	B	(7,752.72)	(23,438.64)	(31,191.36)
Nantwich Academy	A	(9,960.39)	(55,315.33)	(65,275.72)
Shavington Primary School	A	(24,006.12)	(93,145.79)	(117,151.91)
Upton Priory School	A	(27,199.11)	(151,487.81)	(178,686.92)
The Oaks Academy	A	(23,986.47)	(130,072.85)	(154,059.32)

Employer Name	Strategy	Employees	Employers	Total
UTC - Warrington	B	(13,801.58)	(44,345.91)	(58,147.49)
Delamere and Oakmere Parish Council	A	(315.96)	(1,257.54)	(1,573.50)
Victoria Road Primary School	B	(15,310.80)	(70,395.17)	(85,705.97)
Wheelock Primary School	A	(15,500.38)	(72,887.76)	(88,388.14)
Monks Coppenhall Academy	A	(35,395.57)	(193,581.52)	(228,977.09)
Marlborough Primary School	A	(20,259.13)	(111,505.81)	(131,764.94)
Hartford Parish Council	B	(1,532.00)	(5,138.04)	(6,670.04)
Crewe Engineering UTC	A	(8,735.75)	(39,941.44)	(48,677.19)
Acton CE Primary Academy	A	(8,361.88)	(45,185.77)	(53,547.65)
Calveley Primary Academy	A	(5,394.26)	(29,441.07)	(34,835.33)
Highfields Community Primary	B	(11,722.60)	(64,331.65)	(76,054.25)
St Johns Wood Community School	A	(7,283.16)	(37,574.40)	(44,857.56)
Gorseybank Primary School	A	(11,968.62)	(64,496.11)	(76,464.73)
Wilmslow Academy	A	(17,889.18)	(101,080.37)	(118,969.55)
Daresbury Primary School	B	(8,195.33)	(33,536.99)	(41,732.32)
Underwood West Academy	A	(38,188.33)	(204,907.88)	(243,096.21)
Adlington Primary Academy	A	(4,189.04)	(23,843.14)	(28,032.18)
Bruche Primaryn School	B	(12,260.37)	(49,774.74)	(62,035.11)
Evelyn Street Primary School	B	(38,304.08)	(144,784.95)	(183,089.03)
Penketh Primary School	B	(10,983.71)	(44,834.85)	(55,818.56)
Bunbury Aldersey CoE Primary School	A	(9,454.46)	(55,218.51)	(64,672.97)
Queens Park High School	B	(23,702.43)	(98,436.74)	(122,139.17)
Great Sankey Primary School	B	(13,034.62)	(55,308.87)	(68,343.49)
St Oswalds Worleston Primary School	A	(7,860.50)	(38,825.27)	(46,685.77)
Warmingham CoE Primary School	A	(3,573.37)	(23,958.44)	(27,531.81)
Sir Thomas Boteler High School	B	(42,009.13)	(171,484.83)	(213,493.96)
Offley Primary Academy	A	(20,624.51)	(123,528.01)	(144,152.52)
Barnton Primary School	B	(28,220.85)	(126,156.05)	(154,376.90)
Cheshire College South and West	B	(411,633.35)	(1,537,977.28)	(1,949,610.63)

Employer Name	Strategy	Employees	Employers	Total
Kingsmead Parish Council	B	(1,009.76)	(3,795.35)	(4,805.11)
Wybunbury Delves Primary School	A	(18,780.24)	(95,695.53)	(114,475.77)
Gawsworth Primary School	A	(8,936.41)	(52,861.38)	(61,797.79)
Beamont Primary School*	B	(24,990.08)	(106,951.53)	(131,941.61)
Warrington and Vale Royal College	B	(226,997.66)	(1,221,785.20)	(1,448,782.86)
Barnton Parish Council	B	(2,139.00)	(7,173.84)	(9,312.84)
Puss Bank School	A	(27,453.63)	(150,097.46)	(177,551.09)
Burtonwood Community Primary School	B	(9,450.34)	(39,214.96)	(48,665.30)
Chapelford Village Primary School	B	(24,932.72)	(94,741.50)	(119,674.22)
Park Road Community Primary School	B	(9,007.61)	(37,251.36)	(46,258.97)
Westbrook Old Hall Primary School	B	(15,625.89)	(65,555.14)	(81,181.03)
The Grange School	B	(60,342.32)	(254,192.28)	(314,534.60)
New Horizons School*	B	(12,093.62)	(49,472.45)	(61,566.07)
Upton Heath CoE Primary School	B	(19,827.73)	(85,195.42)	(105,023.15)
Little Sutton CoE Primary School	B	(4,984.94)	(22,448.29)	(27,433.23)
Clutton CoE Primary School	B	(7,222.69)	(30,739.87)	(37,962.56)
Brereton CoE Primary School	A	(10,467.56)	(59,354.25)	(69,821.81)
Excalibur Primary School*	A	(12,584.28)	(74,574.39)	(87,158.67)
Pikemere School*	A	(11,118.33)	(67,047.05)	(78,165.38)
Weston Village Primary School*	A	(11,757.08)	(65,485.65)	(77,242.73)
Penketh South Primary School*	B	(11,924.48)	(49,508.84)	(61,433.32)
Parklands Community Primary School*	B	(18,157.28)	(81,685.46)	(99,842.74)
Wolverham Primary and Nursery School*	B	(33,217.47)	(144,476.97)	(177,694.44)
Childer Thornton Primary School*	B	(12,401.89)	(54,317.71)	(66,719.60)
Brookfields School*	B	(35,066.58)	(148,488.17)	(183,554.75)
Alderman Bolton Community Primary School*	B	(22,268.09)	(93,820.14)	(116,088.23)
Lostock Hall Primary School*	A	(8,146.39)	(45,067.59)	(53,213.98)
Glazebury Primary School*	B	(7,942.98)	(32,797.86)	(40,740.84)
Hollins Green St Helens CoE Primary School*	B	(5,952.05)	(24,826.16)	(30,778.21)

Employer Name	Strategy	Employees	Employers	Total
Poynton High School*	A	(60,928.51)	(302,144.26)	(363,072.77)
Egerton Primary School*	A	(10,784.19)	(62,333.15)	(73,117.34)
Cuddington Primary School	B	(7,157.11)	(31,077.26)	(38,234.37)
Little Leigh Primary School	B	(3,575.48)	(16,227.86)	(19,803.34)
Sandiway Primary School	B	(6,828.64)	(30,699.19)	(37,527.83)
Bexton Primary School	A	(19,770.27)	(114,053.96)	(133,824.23)
Grange Community Nursery and Primary School*	B	(12,127.73)	(53,478.95)	(65,606.68)
Astbury St Marys CoE Primary School*	A	(5,753.52)	(34,417.68)	(40,171.20)
Handforth Grange Community Primary School*	A	(17,774.34)	(103,368.52)	(121,142.86)
Hollinhey Primary School	A	(10,838.03)	(63,123.26)	(73,961.29)
Daven Primary School	A	(9,387.17)	(53,745.61)	(63,132.78)
Ditton Primary School	B	(20,005.92)	(80,645.62)	(100,651.54)
St Michael with St Thomas CoE Primary School	A	(6,044.14)	(24,217.75)	(30,261.89)
Croft Primary School	B	(10,736.65)	(44,403.67)	(55,140.32)
Gorse Covert Primary School	B	(5,512.96)	(23,404.55)	(28,917.51)
Oakwood Avenue Primary School	B	(35,039.02)	(138,674.92)	(173,713.94)
Woolston Community Primary School	B	(8,317.06)	(34,572.28)	(42,889.34)
Acresfield Primary School	B	(7,778.73)	(34,308.31)	(42,087.04)
Kingsley Parish Council	B	(119.81)	(474.80)	(594.61)
Broomfields Junior School	B	(4,288.58)	(18,037.13)	(22,325.71)
Meadowside Community Primary & Nursery School	B	(9,691.09)	(40,007.89)	(49,698.98)
Sub Total		(32,907,889.90)	(108,674,767.21)	(141,582,657.11)

Admitted Bodies				
ANSA Environmental Services	A	(530,656.52)	(1,607,971.78)	(2,138,628.30)
Everybody Sport and Recreation	A	(231,954.50)	(688,113.25)	(920,067.75)
Livewire	B	(281,440.61)	(296,681.69)	(578,122.30)
Warrington Cultural Trust	B	(43,403.97)	(58,968.71)	(102,372.68)

Employer Name	Strategy	Employees	Employers	Total
Canal and River Trust (Waterways Trust)	C	(1,150.89)	(8,631.73)	(9,782.62)
Cheshire Community Action	B	(2,335.68)	(39,086.08)	(41,421.76)
Adoption Matters	B	(156,554.67)	(502,794.88)	(659,349.55)
Warrington Voluntary Action	A	(2,439.24)	(13,561.60)	(16,000.84)
Vision Support	C		(29,000.04)	(29,000.04)
David Lewis Centre	C	(550.08)	(755,620.20)	(756,170.28)
Warrington Housing Association	B	(79,198.87)	(268,329.67)	(347,528.54)
Cheshire and Warrington Sports Partnership	B	(8,792.48)	(21,820.20)	(30,612.68)
Care Quality Commission	C	(2,813.02)	(50,692.61)	(53,505.63)
Norton Priory Museum Trust	B	(13,748.79)	(41,571.72)	(55,320.51)
Youth Federation	C		(6,999.96)	(6,999.96)
The King's School Chester	B	(6,941.66)	(94,639.66)	(101,581.32)
University Of Chester	B	(1,281,277.15)	(4,415,999.58)	(5,697,276.73)
Silk Museum Trust	A	(2,347.65)	(21,428.66)	(23,776.31)
Deafness Support Network	C	(5,458.84)	(160,190.12)	(165,648.96)
Warrington Community Living	B		(143,541.71)	(143,541.71)
Belong Limited	C	(2,967.60)	(610,997.52)	(613,965.12)
Cheshire CC Sports Club	C	(850.65)	(6,380.00)	(7,230.65)
PlusDane (Cheshire) Housing Association	B	(96,642.11)	(414,094.44)	(510,736.55)
Sandbach School	B	(63,808.04)	(222,281.99)	(286,090.03)
Weaver Vale Housing Trust	B	(443,860.73)	(2,087,517.66)	(2,531,378.39)
Hochtief	B	(542.19)	(1,626.53)	(2,168.72)
Tarmac Trading Limited	B	(9,445.56)	(48,813.71)	(58,259.27)
ISS Facility Services Ltd	B	(1,344.12)	-	(1,344.12)
Cheshire and Warrington Enterprise Commission	C		(46,000.00)	(46,000.00)
Halton Housing Trust	C	(342,503.40)	(1,115,955.07)	(1,458,458.47)
Cheshire Peaks and Plains	B	(107,442.59)	(420,561.24)	(528,003.83)
School Food Company Ltd	B	(356.76)	-	(356.76)
Innovate Ltd Tytherington	B	(558.53)	(69.43)	(627.96)

Employer Name	Strategy	Employees	Employers	Total
Hall Cleaning Services	B	(1,002.67)	-	(1,002.67)
Compass (Chartwells Ltd)	B	(870.22)	-	(870.22)
Aspens Services Ltd - Brine Leas	B	(644.71)	(555.15)	(1,199.86)
Ringway Jacobs	B	(63,655.30)	-	(63,655.30)
RM Estates Ltd	B	(1,867.50)	(8,542.92)	(10,410.42)
Kier	B	(50,003.67)	(202,897.26)	(252,900.93)
Dataspire	B	(988.02)	(1,448.04)	(2,436.06)
Ringway Infrastructure	B	(44,716.16)	-	(44,716.16)
HQ Theatres	B	(3,955.84)	(15,083.89)	(19,039.73)
Bulloughs Collegiate	B	(1,391.68)	-	(1,391.68)
Catering Academy - Warrington	B	(1,074.72)	(6,355.44)	(7,430.16)
Catering Academy - CoE Academy	B	(3,006.63)	(6,258.64)	(9,265.27)
Catering Academy - Weaverham	B	(263.85)	(1,137.05)	(1,400.90)
Catalyst Choices	B	(196,859.84)	-	(196,859.84)
Sanctuary Housing Association	C	(239,745.06)	(1,824,550.11)	(2,064,295.17)
Liverpool Mutual Homes (Torus 62 LMH)	B	(4,427.76)	(18,256.08)	(22,683.84)
Civica Ltd	A	(67,048.60)	(181,304.64)	(248,353.24)
Bulloughs - Lymm	B	(1,041.80)	-	(1,041.80)
QWest Services Limited	B	(49,490.59)	(214,501.39)	(263,991.98)
Riverside Truck Rental Ltd	B	(2,296.83)	(10,529.96)	(12,826.79)
Your Housing Group	B	(3,832.77)	(6,073.50)	(9,906.27)
Edsential	B	(286,815.99)	(1,024,120.25)	(1,310,936.24)
Skills and Growth Company	A	(21,070.67)	(48,339.71)	(69,410.38)
Churchill Services Ltd	B	(806.80)	(2,681.59)	(3,488.39)
Bridgewater High School Trading	B	(381.45)	(1,588.37)	(1,969.82)
PAM East	A	(1,856.73)	(7,822.89)	(9,679.62)
PAM West	B	(1,819.70)	(6,621.00)	(8,440.70)
The Guinness Partnership	B	(100,132.47)	(323,025.15)	(423,157.62)
Avenue Services (NW) Ltd	B	(11,237.42)	(39,464.24)	(50,701.66)

Employer Name	Strategy	Employees	Employers	Total
West Cheshire Facilities Management	B	(581.27)	(3,308.12)	(3,889.39)
Midshire Catering Ltd	A	(489.94)	(2,984.31)	(3,474.25)
ENGIE	B	(1,321.56)	(5,787.41)	(7,108.97)
Keys Care Limited	A	(14,714.63)	(44,896.47)	(59,611.10)
ForHousing	B	(89,981.46)	(410,273.02)	(500,254.48)
CG Cleaning - Great Sankey	B	(347.83)	(1,494.24)	(1,842.07)
CWP NHS Trust	B	(23,327.80)	(121,619.69)	(144,947.49)
A M Services	A	(1,015.37)	(5,501.49)	(6,516.86)
Caterlink (Witton)	B	(728.96)	(4,625.38)	(5,354.34)
Caterlink (Sandbach)*	A	(4,723.25)	(26,038.66)	(30,761.91)
Caterlink (Ruskin)*	A	(594.44)	(3,015.38)	(3,609.82)
Aspens Services - Upton by Chester	B	(2,318.62)	(10,195.92)	(12,514.54)
Chartwell - Leighton	B	(2,511.20)	(16,097.46)	(18,608.66)
Chartwell - Elworth	B	(1,429.36)	(9,634.72)	(11,064.08)
Midshire Catering Services Limited - Tarporey High School	B	(1,470.34)	(5,293.19)	(6,763.53)
Mellors Catering Services Limited - St Winefrides	B	(1,004.82)	(3,727.06)	(4,731.88)
Verve People*	B	(2,396.25)	(14,551.73)	(16,947.98)
Starcare	B	(6,352.80)	(22,185.78)	(28,538.58)
Torus 62*	C	(334,302.63)	(1,592,266.60)	(1,926,569.23)
Torus 62 (ComMutual)*	C	(18,779.48)	(63,141.59)	(81,921.07)
Sub Total		(5,392,084.36)	(20,517,736.93)	(25,909,821.29)
Overall Total		(38,299,974.26)	(129,192,504.14)	(167,492,478.40)

Scheme Advisory Board Disclosures Board Summary Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board.

- 1) The table below provides a summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are actively contributing (made contributions into the Fund in 2019-20) and ceased contributing (made no contributions into the Fund in 2019-20).

2019-20	Actively Contributing	Ceased Contributing	Total
Scheduled Body	227	33	260
Admitted Body	78	77	155
Totals	305	110	415

- 2) The table below provides an analysis of fund assets as at 31 March 2020

	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities	11,096		1,255,474	1,266,570
Bonds	362,923		2,151,812	2,514,735
Property (direct holdings)	468,904			468,904
Alternatives	236,646	509,049	92,334	838,029
Cash	385,433		28,052	413,485
Total	1,464,994	509,049	3,527,672	5,501,723

- 3) The table below provides an analysis of investment income accrued as at the 31 March 2020

	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities			11,154	11,154
Alternatives	6,499	422	692	7,613
Property (direct holdings)	20,681			20,681
Cash	825		54	879
Total	28,005	422	11,900	40,327

Cheshire Pension Fund Funding Strategy Statement

March 2020

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Cheshire Pension Fund ("the Fund"), which is administered by Cheshire West and Chester Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 13 March 2020.

1.2 What is the Cheshire Pension Fund?

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.

Cheshire West & Chester Council as the Administering Authority runs the Cheshire Pension Fund to make sure the Fund:

- 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 pensions and benefits due to the members and to their dependants as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer pension liabilities are measured, the pace at which these liabilities are funded, and how employers or groups of employers (known as pools) pay for their own liabilities.

This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions over time, and
- prudence in the funding basis

There are also regulatory requirements for an FSS, as given in Appendix A. The FSS forms part of a governance framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate issued by the Fund's appointed actuary Hymans Robertson (confirming employer contribution rates from 1 April 2020) which can be found in an appendix to the formal valuation report;
- the Fund's policy on admission or cessation of employers and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4) Funding strategy and links to investment strategy

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- **a member of the Fund**, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- **an employer in the Fund (or which is considering joining the Fund)**: you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more, and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- **an Elected Councillor whose council participates in the Fund**: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- **a Council Tax payer**: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members' and dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable and affordable 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 (NB 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. the detailed explanatory notes to accompany Table 3.3

- G. a glossary explaining the technical terms occasionally used in this FSS

If you have any other queries please email
pensions@cheshirewestandhester.gov.uk

2. Basic funding issues

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

Step 1: Set the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

Step 2: Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

Step 3: Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 How is each employer's contribution rate presented?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) The "Primary Rate": the estimated cost of benefits being built up each year, less members' own contributions and including an allowance for administration expenses. This is expressed as a percentage of members' pensionable pay; plus
- b) The "Secondary Rate": an adjustment, if needed, to fund the cost of benefits already accrued before the valuation date. The Secondary Rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The Primary and Secondary rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as the minimum payable, with employers able to pay contributions at a higher rate. Amount of any higher rate will be reflected as a credit by the Actuary when next calculating the employer's contributions.

2.3 What different types of employers participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

Whilst local authorities are still the largest participating employers, the LGPS also includes employers providing services in place of, or alongside, local authority services: academy schools, contractors, housing associations, charities, etc. There are currently more employers in the Fund than ever before, a significant part of this being due to the establishment of new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community.

The LGPS Regulations define various types of employer as follows:

- **Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS for their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are called Scheduled Bodies because they are specified in a schedule to the LGPS Regulations.
- It is possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established. **Academies (or Multi Academy Trusts)**, become separate employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund..
- **Designating employers** - employers such as Town and Parish councils are able to participate in the LGPS by passing a resolution that they wish to join. The Administering Authority cannot refuse them entry where the resolution is passed. These employers “designate” which of their employees are eligible to join the scheme.
- **Admission Bodies:** Other employers who are able to participate in the Fund via what’s called an Admission Agreement in which the employer nominates the employees who want to have access to the LGPS. The Administering Authority sets out its criteria for participation by these employers in the Fund’s Admissions Policy and can refuse entry if these requirements are not met. There are two types of admission bodies
 - Employers who have a “community of interest” with another Scheduled Body in the Fund, often called – **community admission bodies** (“CAB”). CABs will include housing associations and charities
 - Employers providing a service under contract with a Scheduled Body, often called **transferee admission bodies** (“TAB”)

2.4 How does the contribution rate vary for different employers?

All three steps in Section 2.2 are considered when setting contributions (more details are given in Section 3 and Appendix D).

The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

The **time horizon** is the period given to reach the funding target. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

The **likelihood of success** of achieving the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.5.

Any costs of non-ill-health early retirements must be paid by the employer, see 3.6. Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is an employer’s funding level calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets at the date of the valuation (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the pension liabilities built up to date for the employer’s employees and ex-employees The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If the ratio of assets to liabilities is less than 100% then it means the employer has a shortfall, which is the employer’s ‘deficit’; if it is more than 100% then the employer is said to be in ‘surplus’. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. For most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members’ benefits

2.6 How does the Fund recognise that employer contribution rates can affect council and employer budgets, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, higher contributions paid to the Fund may mean less cash available for the employer to spend on the provision of services.

It should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates. For example, if stability of rates means that solvency isn't achieved within the current generation (which the Fund views as around 20 years), then it may not be possible to keep rates stable;
- The Fund wishes to avoid the situation where an employer's contributions fall so far behind that any deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those other employers' services may in turn suffer as a result;

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution rate changes to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer.

The Administering Authority will make a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This assessment will include such information as the type of employer, its membership profile and funding position, financial standing, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has confidence that an employer will be able to meet its funding commitments then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that the employer will be able to meet its funding commitments or withstand a significant change in its funding commitments then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The courts have ruled that the 'transitional' protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination.

At the time of writing the Ministry for Housing, Communities and Local Government (MHCLG) has not provided details of any changes to LGPS benefits as a result of the case. However, it is expected that benefit changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019 on the treatment of the McCloud case in valuations in the event there was no finalised outcome by 31 August 2019. The Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in SAB's note, has considered how to allow for the "McCloud" risk in the setting of employer contribution rates and has taken the following approach:

- increase the prudence in the funding strategy via a higher likelihood of meeting funding target for the Councils who make up the majority of the Fund, and
- make no allowance for the smaller employers until the actual McCloud rectification is known except where there is a cessation valuation

As the majority of employers in the Fund are long term participants, the Fund will have time to make future adjustments as detail on the McCloud remedy emerges. The Fund should reserve the right to adjust employer contribution rates between formal valuations if deemed appropriate and necessary once the remedy to McCloud is known.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

At the time of writing, whilst the outcome of the consultation is unknown, MHCLG has confirmed that the next valuation will be carried out in three years in March 2022. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3. Calculating contributions for individual employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the ability to meet benefit payments when they fall due. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood of success is required to reach that funding target? This will always be less than 100% as pension funding is uncertain. Higher likelihood "hurdles" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of success of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate 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 pace of paying contributions;
- lower contributions in the short term may lead to higher contributions in the long term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (section 3.3) is a summary of how the main funding policies differ for different types of employer. More detailed notes where necessary are shown in Appendix F.

Section 3.4 onwards deals with various other funding issues which apply to all employers

3.3 The different approaches used for different employers (See also Notes in Appendix F)

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Local Authorities, Police, Fire, Parish and Town Councils	Further Education Establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Contractor exit basis, assumes fixed contract term
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 years	15 years	Outstanding contract term
Secondary rate – Note (d)	Monetary amount for 4 main Councils ,% of payroll for	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. However reductions may be permitted by the Administering Authority on a case by case basis	Preferred approach: contributions kept at primary rate. However reductions may be permitted by the Administering Authority on a case by case	Preferred approach: contributions kept at primary rate. However, reductions may be permitted by the Admin. Authority on a case-by-case basis		Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of Success of achieving target – Note (e)	66%	75% but may reduce in return for added security see note 3.6	66%	75% but may reduce in return for added security see note 3.6	75% but may reduce in return for added security see note 3.6	66%
Phasing of contribution changes	Covered by stabilization arrangement	May be permitted by the Administering Authority on a case by case basis	May be permitted by the Administering Authority on a case by case basis	May be permitted by the Administering Authority on a case by case basis	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)	Notes (h) & (i)	
Cessation of participation: cessation debt/surplus payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Exit debt/credit (if any) calculated on the contractor exit basis unless the admission agreement is terminated early by the contractor in which case the gilts exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.	

*Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the awarding authority with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i)

3.4 Draft overview of employer framework for 2019 valuation

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3.5 Pooled contributions

Each employer will generally only pay for its own employees and ex-employees (and their dependants) not for those of other employers in the Fund. However, from time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

The intention of such employer pools is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

The employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross- subsidy of pension cost amongst pooled employers

Community Admission Bodies and Transferee Admission Bodies are not permitted to participate in a pool.

With the advice of the Actuary the Administering Authority has allowed Parish and Town Councils to pool for the purposes of setting contributions. The underlying funding position of each Parish and Town Council continues to be tracked.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.6 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility may include setting a lower likelihood of success of achieving the funding target, a reduced rate of contributions or an extended time horizon.

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
- whether the admission agreement is likely to be open or closed to new entrants

3.7 Non ill health early retirement costs

Employers are required to pay additional contributions ('pension strain') wherever an employee retires before attaining the age at which they can take their benefits without incurring a reduction. The actuary's funding basis makes no allowance for early retirement except on grounds of ill-health.

Strain costs must be paid in full in the year in which the strain is incurred.

The Administering Authority at its sole discretion may allow the strain payment to be spread over a period not to exceed 3 years.

3.8 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

The Actuary makes provision, known as an 'ill health allowance' into the employer's contribution rate set at each actuarial valuation.

The Administering Authority is notified of the cash value of this "ill-health allowance" from the actuary for the period covered by the actuarial valuation. Where an employer does not take out ill- health insurance, they may be invoiced for any cumulative ill-health retirement costs over their allowance.

3.9 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total cost of is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or inform the Administering Authority if the policy is ceased.

3.10 Employers with no remaining active (employee) members

In general, an employer ceasing in the Fund due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund.

Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will indirectly contribute to pay all remaining benefits. This will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) 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 Fund's actuary to the benefit of other Fund employers.

In exceptional circumstances, the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period and may also require the provision of a suitable security or guarantee. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.11 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund.

A bulk transfer is a special arrangement whereby transfer terms apply to members transferring their pension benefits in bulk to a new employer's scheme and receive benefits of equivalent value.

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

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

Currently there are four investment strategies in the Fund, with a range of allocation to growth assets. More detail of these strategies are set out in the Investment Strategy Statement.

Employers are allocated by the Administering Authority and the Fund's Strategic Investment Advisor to the investment strategy which is most appropriate given the employer's funding objective and current funding position.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the 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.

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

In the opinion of the Fund actuary, the current funding strategy is consistent with the current investment strategy of the Fund. The actuary's assumption for future investment returns (described further in Appendix E) are based on the current benchmark investment strategies of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases included a margin for prudence, and are there 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 (see Appendix A1).

In the short term – such as the period between formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates (where appropriate) and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund 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, monthly. It reports this to the regular Pensions Committee meetings, and also to employers from time to time.

The estimated funding level of any employer in the Fund can be provided by the Administering Authority within 5 business days of request.

5. Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, employer contributions rates are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

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

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund 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
- (b) 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
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 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:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

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

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the rates and adjustment certificate; and
4. 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 Fund experience.

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 A – Regulatory framework

A1. Why does the Fund need an FSS?

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.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in 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 Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial 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 FSS applies to all employers participating in the Fund.

A2. Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is also covered in more detail by the most recent CIPFA (Chartered Institute of Public Finance & Accountancy) guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 20 December 2019 for comment;
- b) Comments were requested by 24 January 2020
- c) Following the end of the consultation period the FSS was updated where required, approved by the Pension Fund Committee and then published, on 13 March 2020

A3. How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.cheshirepensionfund.org;
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to the Pension Fund Committee and Local Pension Board;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4. How often is the FSS reviewed?

The FSS is reviewed in detail at least at every formal valuation (if not more frequently). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed between formal valuations. These would be needed to reflect any regulatory changes, or alterations to the way the Fund 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,
- other more significant amendments would be subject to full consultation.

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

A5. How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund’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 by the Fund 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.cheshirepensionfund.org



Appendix B – Responsibilities of key parties

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

B1. The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- 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 Statement (ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;

- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2. The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly 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.

B3. The Fund Actuary should:-

- prepare valuations, including the setting of employers' 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 data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, 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;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4. Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- 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 Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1. 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;
- demographic;
- regulatory; and
- governance.

C2. Financial risks

Financial Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning contribution rates and the valuation of liabilities over the long- term.	<p>Only anticipate long-term returns 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 formal valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> <p>Operation of multiple investment strategies to meet needs of a diverse employer group.</p>
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>
Active investment manager under- performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is 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>

Financial Risk	Summary of Control Mechanisms
Asset underperformance as a result of climate change	The Fund has a Responsible Investment policy which sets out its approach to environmental, social and governance risks.
Effect of possible increase in employer's 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.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation payment (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Asset underperformance as a result of climate change	The Fund has a Responsible Investment policy which sets out its approach to environmental, social and governance risks.

C3. Demographic risks

Demographic Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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.
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.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4. Regulatory risks

Regulatory Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
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.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5. Governance risks

Governance Risk	Summary of Control Mechanisms
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 between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
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>
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>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>

Governance Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	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>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p>
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).
	Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to participate resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3.3 and note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in section 3.3 and note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1. What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2. How is the Primary rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson; this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3. How is the Secondary rate calculated?

The Fund aims for each employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- at the end of the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required likelihood.

D4. What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;

4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5. How is each employer's asset share calculated?

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cash flows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6. How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cash flow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1. What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values.

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.

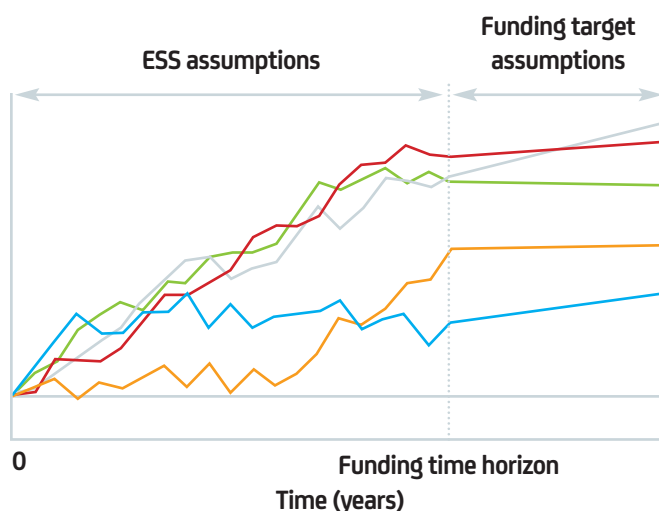
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cash flows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”). These assumptions vary in two ways: between each of the 5,000 scenarios and between each year. Some assumptions might be high in the first few years but then reduce later on (e.g. the blue line in the illustration overleaf) or vice versa (e.g. the yellow line).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases. These assumptions vary between each of the 5,000 scenarios but are fixed from year to year, e.g. one scenario might assume a fixed level of inflation of 5% per year (e.g. the grey or blue lines) whereas another might assume a fixed inflation level of near zero (e.g. the yellow line).

The difference between the two assumptions is represented graphically in the following diagram, where each line represents one of the 5,000 scenarios. Up to the end of the time horizon, the assumptions vary between scenarios and from year to year (these are the ESS assumptions). Beyond this point they vary between scenarios but are fixed from year to year (these are the funding target assumptions). The diagram is illustrative so the height of the vertical lines above the axis does not represent any particular variable, but it could be thought of as the cumulative total investment return or inflation, for example.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2. What assumptions are used in the ESS?

The actuary uses Hymans Robertson’s ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables.

With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables.

The table on the next page shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

Economic Scenario Service (ESS)											
		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th	-0	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th	-0	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
1-yr volatility (Dispersion)		1%	7%	10%	17%	17%	14%	11%	1%		

E3. What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and Career Average Revalued Earnings (CARE) revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and

so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Gilts exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4. What other assumptions apply?

The following assumptions are those of the most significant used in both the projection of the assets, benefits and cash flows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2.7% in 2019/20 and 2% p.a. until 31 March 2023, followed by
2. pay increases in line with retail prices index (RPI) inflation thereafter.

This gives a single assumption of RPI less 0.3% p.a., a change from the previous valuation where a blended assumption (constructed in a similar way) of RPI less 0.7% p.a. was used. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% p.a. lower than RPI.

c) 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 Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (except for the differences in funding basis mentioned in section E3), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), 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 F – Notes to Table 3.3

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

The Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields and extending the allowance for future improvements in longevity) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions with the objective of reducing, but not entirely eliminating, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

If an employer's contributions are set to target a higher funding target, the Administering Authority may move the employer's assets to a lower risk investment strategy.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that

However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (e.g. due to outsourcing or redundancies), changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2019 valuation (see Section 4), the contribution rates payable by stabilised employers are subject to maximum annual changes (in either direction) of 1 or 1.5% of pay depending on their circumstances.

All percentage of pay figures are based on the employer's actual payroll and contributions in payment as at 31 March 2019.

The stabilisation criteria and limits apply for the period 1st April 2020 to 31 March 2023 and will be reviewed at the next formal valuation.

The review will take into account the employer's membership profiles, actual payroll and contributions in payment at the time of the review and also any issues surrounding employer security, and other relevant factors. Any material changes to any of the above may result in a revision to the stabilisation criteria and limits

The Administering authority reserves the right to review the stabilisation criteria and limits at any point before 31 March 2022 if there are material events for example (but not limited to) significant reductions in active membership or changes in the nature of the employer (perhaps due to Government restructuring or policy changes).

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants. This expectation does not apply to contractors.

A maximum time horizon of 20 years is reserved only for employers with tax raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies.

For other employers who remain open to active membership the maximum time horizon is 15 years. The maximum time horizon for all contractors is the outstanding contract term

For employers who are closed to new entrants or with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 15 years. Note this period is likely to reduce at each subsequent valuation.

Note (d) (Secondary rate)

In general, the Secondary contribution rate for each employer covering the period until the next valuation will be set as a monetary amount as the default.

Note (e) (Likelihood of success of achieving funding target)

Each employer has its own funding target, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms:

- a 2 in 3 or 66% minimum likelihood is required for employers with tax raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies
- a 3 in 4 or 75% minimum likelihood is generally required if the employer does not have tax-raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies
- a 2 in 3 or 66% minimum likelihood may be applied for employers who can evidence a tax raising body as a guarantor or other sufficient security backing its funding position

The Fund reserves the right to change or set alternative minimum probabilities if the circumstances of the employer change, for example (but not limited to) the Fund believes the employer poses a greater risk of being unable to meet its long term funding commitment than other employers or the employer is likely to cease participation in the Fund in the short or medium term

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or 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 moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT. The underlying funding position of each academy within the MAT will continue to be tracked.
- b) The academy's past service liabilities on conversion will be calculated based on its active Fund members 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;
- c) The academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members, subject to a maximum initial academy funding level of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The academy's initial contribution rate for the first year ending 31 March from the conversion date will be as per the ceding council's rate. Following the actuarial assessment of the new academy's assets and liabilities, a new, standalone contribution rate will be set which will be payable from 1st April after the conversion date until the next formal valuation. This contribution rate will be assessed using the funding target, time horizon and likelihood of success set out in section 3.3 above;
- e) As an alternative to (d), a new academy joining a MAT in which all academies pay the same rate, may pay the MAT rate from the date of joining the MAT. This may not apply if the new academy would significantly alter the membership profile or funding position of the MAT.
- f) Ultimately, all academies remain responsible for their own allocated assets and liabilities.
- g) It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance or any changes to Government policy, for example if the current provision of a DfE guarantee that the Department will meet any outstanding LGPS liabilities on Academy Trust closure is removed, reduced or becomes insufficient to meet potential risks to the Fund. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, 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 security is required 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 greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or the current deficit.

Transferee Admission Bodies (TABs): For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be monitored and reassessed on an annual basis by the Administering Authority. However, it is the responsibility of the letting employer to ensure that the level of security provided remains adequate, as the letting employer is the guarantor of last resort should the TAB default. See also Note (i) below.

Community Admission Bodies (CABs): The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities or provide a form of security as above. The sponsoring Scheduled Body may also require the CAB to provide some form of security, such as a bond.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor.

Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit, and entitled to any surplus, at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks 'pass through' to the letting employer.

From [DATE OF ADOPTION], the Administering Authority requires that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum rate equal to the letting authority's primary rate when assessed on a probability of achieving funding target of 75% (the funding target and time horizon remain unchanged). Upon cessation the contractor's assets and liabilities will transfer back to the awarding authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place and as if they were any other employer within the Cheshire Pension Fund. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then it will then be up to the awarding authority and the contractor to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place.

Any risk-sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the lettering employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- Above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above, and
- Redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- 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 Fund;
- 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 Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body, where there is a surplus, an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body). If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the actuary may make an adjustment to the ceasing liability value depending on the employer's circumstances.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's exit credit or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a “gilts exit basis”, which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to a significant cessation payment being required.
- Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;
- Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due. This will be considered on a case by case basis subject to approval by the guarantor and is within the terms of the guarantee;

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund, at its absolute discretion may allow spreading the payment over a period acceptable to the Fund. This will be considered on case by case basis and the Fund may require some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt.

This approach would be monitored as part of each triennial formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the “gilts exit basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

Appendix G – Glossary

Term	Meaning
Active Member	A current employee paying into the Fund
Administering Authority	The council with statutory responsibility for running the Fund
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations and which employees are nominated to participate in the Fund. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability 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.
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.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, i.e. 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 are also used in funding as an objective measure of a risk-free rate of return.
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 100 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.

Term	Meaning
Major Employing Bodies	Tax raising and precepting bodies such as Councils, Police and Fire Authorities and Town & Parish Council
Major Employing Bodies	Tax raising and precepting bodies such as Councils, Police and Fire Authorities and Town & Parish Council
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 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 further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. 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 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 period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers 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 rate	The difference between the employer's actual and Primary rates . 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.
Valuation	A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a fund, and usually individual employers too. This is normally carried out in full every three years (although this may change in future), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Cheshire Pension Fund

Investment Strategy Statement

2020

1. Introduction

- 1.1 This is the Investment Strategy Statement (the “Statement” or “ISS”) of Cheshire Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).
- 1.2 Cheshire West and Chester Council is the administering authority of the Cheshire Pension Fund.
- 1.3 The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
- 1.4 The ISS is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high-level risk register, and has been designed to be informative for all stakeholders.
- 1.5 In preparing this Statement, the Fund has consulted with such persons as it considers appropriate and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.
- 1.6 The current regulations require this statement to be reviewed at least triennially but the Fund intends to carry out an annual review and update as appropriate.
- 1.7 Any feedback or comments on this document should be addressed to the Pension Fund Manager and emailed to: pensions@cheshirewestandchester.gov.uk

2. Investment Objectives and approach

- 2.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.
- 2.2 The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable and affordable contribution rates for employers.

2.3 The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

2.4 The Fund's investment approach which helps to inform the investment strategy is as follows:

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the selection and sustainability of investment returns over the long term.
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore improve Fund returns.
- High conviction active management adds value to returns over the long term.

2.5 A successful investment strategy, delivering strong investment returns over the long term while managing short-term volatility is essential for the ongoing stable operation of the Cheshire Pension Fund. Benefits are fixed and must be paid through a combination of employer contributions, employee contributions and investment returns. Employee contributions are fixed by law, so if investment returns are below expectations, the only source of income to fill the gap is employer contributions, invariably from public sector organisations that are operating under tight financial constraints.

3. Investment Strategy and the Process for Ensuring Suitability of Investments

3.1 Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long-term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equity values are also very volatile (i.e. can go up and down frequently), which conflicts with the objective to have stable contribution rates. Achieving greater stability of contributions may therefore be better achieved by a lower allocation to equities but the resulting contributions may be higher in the longer term.

3.2 Additionally, the number of employers in the Fund has increased significantly in recent years meaning that there are groups of employers with different underlying characteristics and with different long term funding objectives. For example, for employers approaching the point where they will leave the Fund, the most important objective may be to protect their funding position by minimising volatility in asset values and this may be delivered by an investment strategy with a lower allocation to equities.

3.3 In order that the Fund delivers on its key objectives (ensuring that it takes the appropriate level of investment risk, giving each employer the best opportunity possible to achieve its long term funding objective whilst keeping contributions affordable), the Fund has over the past six years divided employers into four separate groups and operated a distinct investment strategy for each group. This approach was taken to recognise the different characteristics, cash flows, maturity of liabilities and funding levels of different employers.

3.4 Following a review of the current groupings of employers, the Fund has re-organised the employers into the following groups:

- Open Employers
- Academies
- Exiting/Closed Employers
- Exited Employers

3.5 Each grouping will have its own investment strategy with its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long-term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

3.6 The strategic asset allocation at 1 April 2020 for each of the four groups is shown in table 1.

Table 1 – Strategic Asset Allocation

		Investment Strategy (%)			
Asset Class	Investment Objective	Open employers	Academies	Exiting/ Closed Employers	Exited Employers
Growth		50	50	50	-
Equity	- Exposure to global equity markets	24	24	24	-
	- Outperform global equity markets				
	- Contains allocation to active strategies with meaningful outperformance targets				
Absolute Return	- Provide significant real returns (currently CPI + 5%)	6	6	6	-
	- Lower volatility than equities				
	- Low correlation to equities (beta)				
	- Preserve capital at times of stress				
Illiquid Alternatives	- Long term returns in excess of public equity markets	20	20	20	-
	- Access to assets that provide link to inflation				
	- To provide a source of regular cash flow				
	- Includes new allocation to Infrastructure				
Diversifying & Matching		50	50	50	-
Diversifying Fixed Income	- Diversified exposure to global fixed income	20	20	20	-
	- Focus on return generation				
	- Flexible duration				
Low Risk Fixed Income	- Provides diversification and inflation protection	30	30	30	100

The Fund allows asset allocations to fluctuate around the target allocations subject to the tolerances set out in table 2

- 3.7 As at 1 April 2020, the Fund believes that the funding objectives of all open employers, academies and exiting/closed employers can be met by the same investment strategy as set out above. However, this will be reviewed annually and it is possible that different investment strategies may be implemented when it is considered appropriate to do so.
- 3.8 Over the past six years, the Fund has operated a dynamic Risk Management strategy for the major employers in the Fund. This gave the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan. This mechanism was used by the Fund to ensure that each group of employers continued to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long term funding objective whilst increasing certainty of cost. The Fund now considers this Risk Management strategy to have delivered its objectives and therefore the automatic de-risking and/or re-risking steps linked to changes in funding levels will cease. All employers formerly governed by the Risk Management strategy have now been allocated to the 'Open Fund' or 'Academies' investment strategies as set out in Table 1 above.
- 3.9 The performance of each investment strategy will however, continue to be regularly monitored and changes proposed as and when the Fund and its advisors believe changes will improve the chances of employers meeting their funding objectives.
- 3.10 The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund also monitors compliance with this statement and the progress of groups of employers towards their long-term funding objective at least quarterly.

Table 2 – Tolerance Ranges

Asset Class	Open Employers and Academies	Exiting/Closed Employers
Equities	+/-5%	+/-2.5%
Absolute Return	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Illiquid Alternatives	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Diversifying Fixed Income	+/-2.5%	+/-2.5%
Low Risk Fixed Income	+/-2.5%	+/-2.5%

- 3.11 The above tolerance ranges may be relaxed from time to time to allow the Fund to efficiently manage the transition of investment assets to LGPS Central.
- 3.12 The maximum percentage of assets to be held in each asset class is set out in table 3.

Table 3 – Maximum Allocations

Asset Class	Open, Academies and Exiting/Closed
Equities	29.0%
Absolute Return	8.5%
Illiquid Alternatives	22.5%
Diversifying Fixed Income	22.5%
Low Risk Fixed Income	32.5%

- 3.13 A fundamental review of the strategic asset allocation is undertaken every three years following the actuarial valuation to provide assurance that the investment strategy is aligned to the long-term funding plan. This review utilises both qualitative and quantitative analysis, and covers:
- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
 - The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit /surplus
 - An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
 - The desire for diversification across asset class, region, sector, and type of security
 - The level of cash flow and liquidity required by the Fund.

4. Risk measurement and management

- 4.1 The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review, which is undertaken as a minimum every three years. The Fund's approach to risk is informed by the Pension Fund Committee, its professional advisors and officers of the Fund.
- 4.2 The key risks that the Fund is exposed to can be grouped under the following headings:
- a) Investment
 - b) Funding
 - c) Operational
 - d) Governance
- 4.3 These risks are identified, measured, monitored and managed on an active basis with the Pension Fund Manager being responsible for the oversight of this process.
- 4.4 These risks are summarised as follows:

A. INVESTMENT RISK

- 4.5 There is a risk of funding levels deteriorating because of a fall in asset values or an unexpected increase in inflation increasing the value of future pensions and benefit payments. For open employers the funding level itself is not an immediate concern as the deficit or surplus will never be crystallised. However, a sustained weakening of the funding position and/or deterioration in the outlook for future returns may eventually feed through into higher employer contribution requirements.

- 4.6 To give an illustration of the potential scale of these risks, Table 4 below shows how a range of events could impact the funding position of the Fund:

Table 4 – Sensitivity Analysis

Event	Event movement (a)	Possible Impact on Deficit (b)
Fall in equity markets	25% fall in equities	c.£430m
Fall in property markets	20% fall in property values	c.£120m
Rise in Inflation	0.75% increase in long-term inflation expectations	c.£660m
Fall in interest rates	1% fall in interest rates	c.£740m
Active Manager underperformance	3% underperformance from all active managers	c.£80m

- (a) One off impact of market changes, broadly equating to a 5% chance of occurring in a one-year period
- (b) Figures estimated based on current strategic allocation and total Fund asset value as at 30 September 2019. Assumes index-linked gilts and liabilities are equally sensitive to changes in interest rates and inflation and makes no allowance for sensitivity of other assets, e.g. diversified fixed income, property or infrastructure. Figures assume no “rebound” or “unwinding” of the event movement, which may or may not subsequently occur.

Interest Rates

- 4.7 Long-term interest rates provide an indicator of future investment returns. Therefore, if interest rates fall, this can indicate that future investment returns are expected to be lower. Lower investment returns would lead to the investment strategy underperforming the funding target. To mitigate this risk, the Fund already has a significant allocation to fixed income assets, such as index-linked gilts and corporate bonds, which increase in value with falling interest rates. This higher asset value helps to protect against a possible reduction in future investment returns on the other assets in the portfolio. The Fund will review this allocation periodically in response to changing market conditions.

Equities

- 4.8 The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains viable. The Fund believes that the extra returns that are expected to be generated by equities over the long term compensates for the volatility involved in equity investing. The investment strategy is diversified which helps to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives

- 4.9 The risks associated with investing in alternative asset classes including absolute return, property, infrastructure and private equity are relevant considerations when assessing the overall level of risk within the investment strategy. The Fund believes that over the long term, alternative asset classes will provide a level of return that compensates for the inherent risk. The additional level of diversification provided by these assets helps to reduce the Fund's reliance on equity returns. At the aggregate Fund level, investing in alternative asset classes reduces the overall level of risk.

Active Manager Risk

- 4.10 The Fund undertakes extensive due diligence on its appointed investment managers and formally monitors their performance and operation on a quarterly basis. This process is overseen by the Investment Sub-Committee and is advised by Officers and the Fund's advisors.

Liquidity risk:

- 4.11 The Fund invests in both liquid and illiquid assets meaning that not all assets can be realised at short notice. Given the long term investment horizon, the Fund accepts some liquidity risk given the potential for higher returns. The Fund monitors its liquidity position carefully to ensure that it is not a forced seller of long term assets in order to make day to day payments of benefits. Around 80% of Fund assets are expected to be highly liquid. Investment in cash flow generative assets is undertaken to assist the Fund's cash flow needs.

Exchange rate risk:

- 4.12 The Fund as a long-term investor can tolerate some short term currency fluctuations, however this is managed carefully by its investment managers who are monitored against Sterling benchmarks and therefore use hedging techniques to contain this risk. The Fund does not at present directly hedge against the risk of foreign currency fluctuations but has the capacity and processes in place to do so if necessary.

B. FUNDING RISK

- 4.13 The Fund's investment strategy is a fundamental part of ensuring that affordable contributions can be set in the long term. Employer contribution strategies are aligned with the investment strategy; There are, however, a number of factors that could lead to a disconnect between the investment and contribution strategies. These risks are set out below:

Inflation

- 4.14 Future benefit payments to be made by the Fund are linked to inflation. Therefore, increases in the rate of inflation will increase the value of payments to pensioners. The Fund invests in assets such as index-linked gilts and property with inflation linked income streams to manage and mitigate this risk.

Demographic risks

- 4.15 The Fund is subject to a range of demographic risks. A more mature membership base would mean that there were a greater number of pensioner members receiving benefits than active members paying contributions. The projected maturity of the membership base is factored into the investment strategy in order to ensure that as the membership base matures, the fund is invested in the appropriate level of income generating investments or investments that are realisable at short notice and at low cost.

Climate Change Risk

- 4.16 In its revised Responsible Investment policy, the Fund acknowledges that there may be a significant risk from climate change which could impact on the ability of the Fund to meet its long term liabilities. It has therefore resolved to adopt an evidence based precautionary approach to climate change to monitor and actively manage any identified risks. Further information is included in the Fund's Responsible Investment policy which is attached in Appendix B.

C. OPERATIONAL RISK

- 4.17 Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

Transition risk

- 4.18 The Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

Custody risk

- 4.19 The Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or when being traded. It does this through the use of a global custodian for custody of assets, the use of formal contractual arrangements for all investments and maintaining independent investment accounting records.

Credit default risk

- 4.20 A counterparty related to a Fund investment could fail to meet its contractual obligations. The Fund monitors this through robust internal compliance arrangements where applicable, contractual requirement for investment managers to manage counterparty risk on the Fund's behalf and robust due diligence prior to making any investment.

D. GOVERNANCE RISK

- 4.21 Good governance is an essential part of the Fund's investment strategy and the Fund therefore identifies poor governance as a potential risk that can have a detrimental effect on the successful operation of the Fund. The Fund ensures that its decision making process is robust and transparent and this is documented in the Governance Compliance Statement which is published on the Fund's website.

Environmental, Social and Governance risks

- 4.22 The Fund's investment strategy contains its own policy on Responsible Investment. Non-compliance with this policy would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes. Further information on the Fund's approach to managing this risk is provided within the Responsible Investment Policy which is published on the Fund's website and as at Appendix B.

5. Securities Lending

- 5.1 Securities lending is undertaken in respect of the Fund's directly owned quoted equities holdings through an arrangement with the Fund's Custodian, BNY Mellon. The Fund receives a fee whenever it loans stock out via this arrangement and the income is used to help the Fund meet its liability payments. The Fund's securities lending programme was reviewed by the Investment Sub-Committee in 2018; they examined the potential risks and concluded that sufficient safeguards were in place and that the programme should continue.

6. Approach to asset pooling

- 6.1 LGPS Central Ltd (“LGPS Central”) has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England.
- 6.2 The Cheshire Pension Fund is one of the eight partner funds, all of whom hold equal shares in the company. The other partner LGPS pension funds are Derbyshire, Leicestershire, Nottinghamshire, Staffordshire, Shropshire, West Midlands and Worcestershire.
- 6.3 LGPS Central started trading on 3 April 2018 and partner funds have started to migrate assets over to the company as and when appropriate investment products become available. As at the end of December 2019 the Cheshire Pension Fund has migrated 15% of its total investment assets to LGPS Central and this percentage will increase as LGPS Central launch more investment products across different asset classes. In respect of migrated investment assets, LGPS Central will assume responsibility for the day to day monitoring of investment performance and the appointment and dismissal of external investment managers.
- 6.4 The Fund is committed to making a success of LGPS asset pooling in the belief that the Fund will benefit from lower investments costs achieved via economies of scale and greater bargaining power driven through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPS Central and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.
- 6.5 The Fund will retain full responsibility and control over its strategic investment allocation policy. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to eventually invest all its assets with LGPS Central but will maintain some cash balances locally. However, some existing assets held are illiquid and difficult to transfer (e.g. private equity limited partnership holdings and property assets) and these will be evaluated carefully to assess whether best value for money is delivered by the transfer of the assets to LGPS Central or continuing to be held directly by the Fund.

7. Responsible Investment (RI)

- 7.1 The Cheshire Pension Fund is a long-term investor aiming to deliver a sustainable Pension Fund for all stakeholders.
- 7.2 Cheshire West and Chester Council, as the administering authority of the Fund, has a fiduciary duty to act in the best,

long-term, interests of the Fund's employers and members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

- 7.3 Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in this Investment Strategy Statement – that is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (“ESG”) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.
- 7.4 The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.
- 7.5 The Fund's core principles of responsible investment are:
 - 1. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
 - 2. We will seek **sustainable returns** from **well-governed assets**.
 - 3. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- 7.6 The way in which the Fund ensures that these core principles are met, and how it monitors its own performance is provided within the Responsible Investment Policy presented in Appendix B.

8. Myners Principles

- 8.1 Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented in Appendix A.

9. Advice taken

- 9.1 In creating this statement, the Fund has taken advice from its Officers and external advisors.
- 9.2 In relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

Appendix A

Compliance with Myners Principles of Good Investment Governance

Principle	Evidence of Compliance
Principle 1 Effective Decision Making: Administering authorities should ensure: <ul style="list-style-type: none"> • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	Compliant <ul style="list-style-type: none"> - Decisions are taken by the Section 151 Officer of the Administering Authority, advised by the Pension Fund Committee. - The Section 151 Officer and the Committee has support from Council officers with sufficient experience to assist them. - The Fund is also advised by professional actuarial and investment advisers. - The Committee makes robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Compliant <ul style="list-style-type: none"> - The Fund has established investment objectives, which take account of the nature of Fund liabilities and the contribution strategy. The objectives are set based on advice from the Fund Actuary and Strategic Investment Advisor, which informs the overall risk budget for the Fund. The overarching objective is reflected in the investment mandates awarded to the asset managers. - There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	Compliant <ul style="list-style-type: none"> - The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity - The Pension Fund Committee and Council officers challenged the contribution strategy with the Actuary, in order that it takes into account of risk factors for the Fund including strength of covenant. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle	Evidence of Compliance
Principle 4 Performance assessment:	Partially compliant
<ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members. 	<ul style="list-style-type: none"> - The performance of the Fund and its individual managers are monitored on a regular basis. - The quality of advisers is assessed on a qualitative basis and is subject to periodic tender in order to ensure value for money. - The Pension Fund Committee does not yet have a formal process in place to measure its own effectiveness.
Principle 5 Responsible Ownership:	Compliant
<p>Administering authorities should</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents. • include a statement of their policy on responsible ownership in the Statement of Investment Principles. • report periodically to scheme members on the discharge of such responsibilities. 	<ul style="list-style-type: none"> - The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf and all relevant managers comply. - This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership. - The Fund will publish an annual summary of voting and engagement activity.
Principle 6 Transparency and Reporting:	Compliant
<p>Administering authorities should</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • should provide regular communication to scheme members in the form they consider most appropriate. 	<ul style="list-style-type: none"> - The Fund maintains minutes of all Pension Fund Committee meetings and documents all key decisions through the EDN and ODN process. Minutes are available on the Fund website. - The Council holds a formal annual meeting for employers and meets periodically with sponsoring employer bodies. - A member representative attends Committee meetings. - The Investment Strategy Statement is published on the Fund's website and is available to members on request. - Other information on the Scheme is available to members on the Fund's website.

Glossary of Terms

Term	Definition
Absolute return	A fund that aims to achieve a positive return irrespective of movements in the equity and bond markets.
Alternatives	Typically seen as an “unconventional” asset class – i.e. an asset class, other than traditional asset classes such as public equities, bonds, property and cash.
Bonds / Fixed Income	A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Seen as a good “matching” asset for a pension scheme.
De-risking	Moving from growth to matching assets to reduce risk.
Diversifying fixed income	A bond like investment that is return seeking and provides a different source of return other than equities.
Equities	A share in a company. Seen as a “risky” or “growth” asset from a pension scheme perspective.
ESG	Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.
Funding basis	The assumptions used by the Scheme Actuary to place a value on the Fund’s liabilities (the value of the benefits to be paid out of the Fund).
Funding level	The difference in the value of the Fund’s assets and liabilities. Assesses the financial health of the Fund.
Hedging	Currency hedging is an approach that is intended to manage the degree of risk that may be present when engaging in some type of foreign investment strategy. Essentially, the structure of a currency hedging process would attempt to compensate for any shifts in the relative value of the currency types utilized in the investment scheme or the transaction.
High Conviction	High conviction is a style of active management often associated with active equity investment funds. Such managers seek to deploy a high conviction approach over time with the aim of outperforming the benchmark or passive fund equivalent for their target sector.
Illiquid alternatives	An alternative asset which is not easily traded (i.e. cannot be converted into cash quickly or without an impact to the price received)
Liquid asset	An asset which is easily traded (i.e. can be converted into cash quickly and with minimal impact to the price received)

Cheshire Pension Fund

Responsible Investment Policy

2020

1. Introduction

- 1.1 The Cheshire Pension Fund ("the Fund") is the name of the Local Government Pension Scheme (LGPS) in Cheshire.
- 1.2 Cheshire West and Chester Council ("the Council") as the administering authority of the Fund, has a fiduciary duty to act in the best, long-term, interests of the Fund's scheme members and participating employers.
- 1.3 The Fund's primary investment objective to meet its fiduciary duty is to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers given the long term nature of the scheme.
- 1.4 The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner. Consideration of Environmental, Social and Governance ("ESG") issues are fundamental to responsible investment, particularly where they are likely to impact on the primary investment objective.
- 1.5 This Responsible Investment (RI) policy sets out the Fund's approach to embedding consideration of ESG issues in the investment process, utilising the various tools available to manage ESG risks and harness opportunities presented by ESG factors.

2. What is our policy on Responsible Investment?

- 2.1 The Fund's core principles guiding our approach to Responsible Investment are:
 - We will apply **long-term thinking** to deliver **long-term sustainable returns**.
 - We will seek **sustainable returns** from **well-governed assets**.
 - We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of Responsible Investment principles and consider the costs of Responsible Investment decisions consistent with our fiduciary duties.
- 2.2 The Fund will invest in sustainable assets to deliver long term financial returns to enable pension promises to be paid now and into the future. This approach places the full consideration of financially material ESG factors at the heart of the Fund's investment decision making and monitoring process. This approach is distinct from the commonly used definition of 'ethical' investing; an approach in which the values or moral beliefs of an organisation or its key decision makers takes primacy over its investment considerations. Such an approach is often typified by an exclusions policy whereby certain sectors or groups of companies are excluded at the initial stage of the investment analysis process.

3. What actions will the Fund take to meet these principles?

Core Principle	Associated Actions
We will apply long-term thinking to deliver long-term sustainable returns	<ul style="list-style-type: none"> - Investment objectives are clearly set out in the published Investment Strategy Statement. - Set longer-term performance objectives for investment managers. - Seek to ensure that long term interests are aligned with that of its investment managers on all issues including on ESG considerations. - Policies relating to ESG will be considered as part of the Fund's long term investment planning process, following a thorough and robust investment appraisal.
We will seek sustainable returns from well-governed assets	<ul style="list-style-type: none"> - Apply a robust approach to stewardship, linked to the Fund's approach that engagement can positively and effectively influence behaviours. - Engage with companies when engagement to improve ESG outcomes and add value to the Fund. - Comply with the UK Stewardship Code and work within the spirit of the United Nation backed Principles of Responsible Investment ("PRI"). - Hold investment managers to account to ensure compliance with this policy. - Collective engagement through membership of the Local Authority Pension Fund Forum (LAPFF), the LGPS Central pool and other opportunities that arise from time to time. - Exercise voting rights in all markets where practicable.
We will use an evidence-based long-term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.	<ul style="list-style-type: none"> - Consider the potential financial impact of ESG related issues (such as climate change or executive remuneration) on an ongoing basis. - Consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure). - Monitor the carbon footprint of its publically listed investment assets and actively manage any potential financial risks that this identifies through a Climate Change Stewardship Plan. - Consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy, green technology and social impact investments.

4. How will we monitor performance on Responsible Investment?

4.1 The Fund will be transparent and accountable in terms of its performance on Responsible Investment.

4.2 To achieve this the Fund will:-

- publish the Investment Strategy Statement on the Fund's website in line with the scheme regulations
- explain decisions relating to the setting of the investment policy
- publish the Responsible Investment Policy on its website, review the policy on an ongoing basis and formally consult on the policy at least every three years
- closely monitor its appointed investment managers whom the Fund rely on to partly implement its Responsible Investment Policy

- publish a Climate Change Report showing the carbon footprint of the Fund's publically listed investment assets and how the Fund will manage any related risks
- undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers
- publish an annual summary of voting and engagement activity
- ensure that its decision makers are properly trained and kept abreast of ESG issues
- include ESG as standing item on the Investment Sub Committee (or equivalent) agendas with a view to reporting on manager performance in relation to ESG investing, and noting any hot topics / issues arising
- undertake a fundamental review of any specific ESG issues that are considered by the Investment Sub Committee to be of potentially material financial impact
- consider and respond to feedback from stakeholders in relation to issues of concern

5. Responsible Investment and LGPS Central pool

- 5.1 The Fund has joined with seven other LGPS Funds (Derbyshire, Staffordshire, Shropshire, Leicestershire, Nottinghamshire, West Midlands and Worcestershire) to create the LGPS Central pool. This is one of eight pools across the LGPS.
- 5.2 The pool was set up to deliver the Government's requirement for all administering authorities in England and Wales to join together and pool the way they managed their investment assets to drive economies of scale and increase opportunities in asset classes which partner funds may not have had the capacity to invest in individually.
- 5.3 In April 2018, the partner funds created a jointly owned company called LGPS Central Ltd, a Financial Conduct Authority accredited investment company, to manage their pooled investment assets, collectively valued at some £40bn.
- 5.4 It will take a number of years to transition assets securely and economically from current management arrangements across to LGPS Central Ltd.
- 5.5 LGPS Central Ltd has now launched a number of investment products and the Fund will continue to work with LGPS Central Ltd and partner funds to help shape further investment products that meet the requirements of the Fund's Investment Strategy Statement.
- 5.6 All partner funds retain ownership and control of their Investment Strategy and asset allocation decisions. Day to day investment decisions such as to engage or dismiss investment managers, and monitoring of investment performance passes to LGPS Central as assets transfer.
- 5.7 To date the Cheshire Pension Fund has transitioned over £800m of assets across to LGPS Central (approx. 15% of the Cheshire Fund's total assets) and this figure will increase as LGPS Central launch new investment products.
- 5.8 It is expected that the Fund's ability invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that will result from the project.

6. Engagement versus Exclusion

- 6.1 The Fund believes that its influence as a shareholder is most effective by engaging with companies, in order to influence behaviour and enhance shareholder value.
- 6.2 Consequently, the Fund does not implement a divestment approach that excludes certain types of investments, companies or sectors except where barred by UK law.

- 6.3 The Fund actively engages with companies in which it is invested through LGPS Central Ltd, its investment managers and through membership of the Local Authority Pension Fund Forum (LAPFF).
- 6.4 Ultimately the Fund retains the right to divest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk.
- 6.5 Specifically, in respect of climate change, the Fund does not adopt an approach to divest from companies or sectors on a mechanistic basis. For example, calls to divest from fossil fuel companies by default take insufficient account of the relatively high carbon footprint of many companies outside of the energy sector. In addition, there is strong evidence that some companies within this sector are transitioning quickly and effectively to a net zero carbon emissions position and/or are engaging positively with the requirements of the Paris Climate Change agreement. The Fund therefore believes that it is not sensible to divest from such companies when pursuing a holistic and evidence based approach to managing and monitoring climate change risk.

7. Responsible Investment Engagement Themes

- 7.1 Working in partnership with LGPS Central the Fund has adopted the following key engagements themes for particular focus during the year:
- Climate Change
 - Single Use plastics
 - Technology and disruptive industries
 - Tax transparency and fair tax payment
- 7.2 LGPS Central Ltd has appointed a specialist engagement provider, Hermes EOS. Every quarter LGPS Central Ltd reports on their activities and progress in a Quarterly Stewardship report, which is publicly available at:
- https://www.lgpscentral.co.uk/wp-content/uploads/2019/11/2019-11_QSR_v8.pdf
- 7.3 In addition to the focus on the four themes outlined above, LGPS Central Ltd have a wealth of active engagement activity on numerous other themes including executive remuneration, board composition, diversity and workforce rights.

8. Exercise of Voting Rights

- 8.1 The Fund exercises its ownership rights by actively voting stock it holds.
- 8.2 The Fund delegates responsibility for voting to LGPS Central Ltd or the Fund's directly appointed investment managers who are required to vote wherever the Fund has a voting interest.
- 8.3 For Fund assets managed by LGPS Central Ltd, wherever practicable, votes must be cast in accordance with LGPS Central's Voting Principles (available on LGPS Central's website at:
<https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/Voting-Principles-March-2019.pdf>)
- 8.4 For Fund assets managed by appointed external investment managers, votes must be cast in line with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.
- 8.5 Investment managers' quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. The Investment Sub Committee receives these reports on a quarterly basis and any exceptions or examples of non-compliance are addressed directly with the Fund's managers.
- 8.6 The Fund is committed to becoming accepted as a signatory to the recently relaunched and revised UK Stewardship Code and will submit an annual stewardship report for assessment by the Financial Reporting Council by the required deadline.

9. Climate Change

- 9.1 The Fund recognises that, in addition to the wider impacts of climate change, owning investment assets with a significant exposure to fossil fuels, poses a particular potential investment risk in that markets may re-price fossil fuel assets in response to growing public concerns over climate change and the response of policy makers to this concern.

9.2 It is impossible to predict the timing or quantum of any market re-pricing. Given this, the Fund believes it is sensible to adopt a precautionary approach to climate change investment risk and pursue three different strands of activity to pro-actively manage the potential risk. These are:

- a) Commission an independent assessment of its publicly listed investment assets to determine the Fund's overall carbon footprint and assess potential climate change impacts and opportunities.
- b) Produce a climate change stewardship plan to set goals of engagement with companies, fund managers and policy makers and influencers. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change and will actively engage with companies, ideally in partnership with like-minded investors, to persuade companies to align their business plans with the 1.5C target.

Wherever feasible engagement objectives will be SMART (Specific, Measurable, Actionable, Relevant and Time-bound) to enable the Fund to adequately assess a company's progress towards their net zero carbon target" after influencers.

- c) Wherever possible, fully assess the impact of all new investment decisions on the carbon footprint of the investment portfolio. In particular, the Fund will explore investment opportunities that may present themselves as the world transitions to a lower carbon economy, where these opportunities align with our investment requirements and our overall investment strategy. This approach was reflected in the decision the Fund took in 2019 to transition over £500m of its equity portfolio to the LGPS Central Carbon Factor Fund, one of the aims of which was to boost investment in firms producing technological solutions to meet the climate challenge.

Communications and Engagement Strategy

March 2020

Introduction

This is the Communication and Engagement Strategy of the Cheshire Pension Fund ("The Fund"), administered by Cheshire West and Chester Council.

It has been reviewed and developed following consultation with employers, The Pensions Consultative Forum, the Local Pension Board, the Pension Fund Committee and other interested stakeholders.

The Statement sets out:

- who we communicate with
- what we communicate
- how we communicate
- when we communicate
- how the effectiveness of communications is monitored.

Regulatory Framework

This Statement has been produced in accordance with the Local Government Pension Scheme Regulations 2013. These require the Fund to prepare, publish and regularly review a communications strategy statement.

The Fund must also meet its communication obligations under the Occupational Pension Schemes (Disclosure of Information Regulations) 1996.

Objectives

We recognise that communicating and engaging with customers and stakeholders is a critical activity for the Fund. We have established communication practices that exceed the minimum standards required by the regulatory framework.

We have identified the following key objectives:

- Provide clear and timely communication to our customers and stakeholders to enable them to make informed decisions regarding pension matters.
- Promote the LGPS as an attractive benefit to scheme members and an important recruitment tool for employers.

- To support employers in fulfilling their roles and responsibilities, achieve value for money, improve data quality and provide excellent customer experience.
- Deliver the communication strategy in a cost effective way and encourage the use of technology and partnership working.
- Recognise the requirement for different methods of communication for different customers and stakeholders.
- Promote the effective stewardship, administration and governance of the Cheshire Pension Fund.
- Publicise our successes, and account openly and transparently for our performance and decisions.
- Evaluate the effectiveness of the communication objectives and seek continuous improvement in the way the fund communicates.
- Treat information security with importance and in line with the current data protection legislation.

Who we communicate with

Key Customers and Stakeholders

The Fund communicates with a diverse group of customers and stakeholders. For the purposes of this communications strategy statement, we have categorised these into the following key audience groups.

- Scheme Members and prospective Scheme Members;
- Scheme Employers and prospective Scheme Employers;
- Pension Fund Staff;
- Elected Members & Local Pension Board
- Local tax payers and the public;
- Other Bodies (e.g. Central Government, HMRC, LGPS Scheme Advisory Board).

The Communication Strategy recognises that the objectives and key messages to these groups will differ and also recognises that different styles and methods of communication will suit the different audience groups.

The Fund will use the most effective communication medium for each audience group and will adapt its communication where possible following feedback from its audience.

What we communicate

The Fund has identified a number of medium term objectives and messages for the key audience groups. This provides a framework and consistent 'theme' for all communication to each of the groups.

The objectives and key messages to the audience groups may change over time and may be reactive to events for example a change in the regulations or the benefits package. The Communications Strategy Statement and its objectives will be reviewed and updated at least annually or if there are material changes to the scheme.

The Fund will also seek advice and views from the Local Pension Board, the Pension Fund Committee and the Pensions Consultative Forum in keeping this document under review and agreeing and setting an annual communications plan or specific targeted communication campaigns.

Appendix 1 provides more details about the objectives and key messages for the main audience groups – members and scheme employers.

How and when we communicate

The Fund provides its customers and stakeholders with a comprehensive range of standard communication outputs and strives to use the most effective communication medium for each audience group and adapt its communication where possible following feedback.

Appendix 2 provides more details about the range of communications outputs that the Fund produces as a core offering for its various audience groups.

Delivery of Communications

Effective communication is the responsibility of each member of staff of the Cheshire Pension Fund. All staff are expected to complete the Council's Plain English ilearn training module and to take individual responsibility for ensuring that all the Fund's literature and communications are clear, concise and meet the principles of Plain English.

Communications are delivered through any combination of:

- In-house Pension Fund Resources
- Cheshire West and Chester Council resources
- External providers/suppliers
- Joint working with other LGPS funds.

Impact of Major Projects on the Communication Strategy

Appendices 1 and 2 provide details of the Fund's current core communication offering. The business plan for years 2019-2021 contain a number of specific projects and initiatives that either specifically target improving communication with stakeholders or alternatively will require a significant amount of communication support or resources.

Some of the key projects are detailed below:

Monthly Interfacing

The Fund is implementing a major change to the way it receives membership and contribution data from employers. By moving to electronic uploads of Monthly Interface files in a standardised format.

Monthly Interfacing will provide some significant benefits:

- Improved accuracy and quality of data
- Improved operational and process efficiency
- Improved and more regular contribution reconciliation
- Better member service
- More secure data transfer

Monthly Interfacing will be phased in from Q1 2019 with the aspiration that all employers will be up and running on the new system by 1 April 2020. There will be a significant communication challenge to engage with and support all employers to make the switchover as smooth as possible.

The introduction of monthly interfacing will have a significant impact on how the Fund interacts with employers. Particularly around identifying data issues on a more regular and consistent monthly basis compared to the current high volume of queries that fall out of the annual year end exercise.

Once monthly interfacing has become fully operational and embedded, the Communications strategy will be reviewed again in 2020 to reflect any necessary changes.

Administration Strategy Review and Relaunch

The Fund is currently consulting on revisions to the Pension Administration Strategy (PAS) with the target of a soft launch on 1 April 2019.

The PAS sets out the expected levels of performance of the Fund and scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where non-compliance occurs.

There is an expectation of a 6 month transitional period prior to imposing charges or penalties. The Fund and employers will use this transitional period to develop or improve processes and address the causes of any potential non-compliance.

In the short to medium term there could be increased demand for communication, training and support from employers to help them meet the expected performance targets set out in the PAS.

Once the performance management framework set out in the PAS becomes fully operational and embedded, the Communication Strategy will be reviewed and updated to reflect the revised operating model.

New Operating Model

The Fund has recently restructured and is transitioning to a new operational model emphasising the importance of being customer facing and a multifunctional approach to case work. One of the fundamental changes will be the introduction of an employer facing Client Relationship Manager (CRM) Model.

Each employer will have a dedicated CRM who will be their first point of call for all pension related matters. The CRM will also provide feedback and support the employer in meeting their performance targets under the new PAS.

The role of the CRM, the communications and regularity of performance reporting that they will provide employers will be developed out in 2019/20 in conjunction with the transition period towards full implementation of the PAS.

Again, once the performance management framework set out in the PAS and the new operation model becomes fully embedded, the Communication Strategy will be reviewed and updated to reflect the revised operating model.

Customer service and demand management

The Fund are also working on a number of projects to improve customer service and online availability and also help reduce demand on the volume of queries directed into the office.

Website Review

A major review and redesign of the Fund's website has been commissioned and will be implemented in 2019/20. This will include a fundamental review of the members journey and experience through the website. With the objective of improving the personalisation of the members journey and the Fund's communications to more closely reflect career and life events.

The primary objective being that the website will become the default channel and source of information for member and employer queries.

Plain English Review of all member/employer literature

Linked to the website review will be a structured review in line with Plain English principles of the information and literature relating to the key processes for members and employers.

Member Self-Serve

The Fund has agreed a roadmap with its pension administration software provider to introduce member self-serve. This will allow members to view their own personal data, and perform benefit estimates and access documents, such as their annual benefit statements in an efficient, flexible and secure way.

This should improve the access members have to their pension benefits and related information and reduce printing and postage costs.

Telephone call handling improvements

The Fund has commissioned a project to introduce a call handling solution that will direct customers to the most efficient solution to their query including redirecting them to use the website and online forms as the first point of contact if appropriate. But recognising that an online solution may not be suitable for all customers.

Appendix 1: Objectives and Key Messages – Members and Employers

Audience Group	Objective	Message
Active Members	<ul style="list-style-type: none"> Promote the LGPS as an attractive benefit to members Improve the understanding of how the LGPS works Improve business efficiency and customer experience 	<ul style="list-style-type: none"> Promote the full benefit package the LGPS offers What it costs the member Employer also pays in to the scheme on the members behalf Thinking of leaving? Consider the 50:50 option Understanding and planning for retirement Keep personal details up to date Encourage the use of technology
Prospective Members	<ul style="list-style-type: none"> Improve take up of the LGPS, but acknowledging and respecting that prospective scheme members have the right to choose whether they join or not Promote the LGPS as an attractive benefit to members Improve the understanding of how the LGPS works 	<ul style="list-style-type: none"> Promote the full benefit package the LGPS offers Opt outs can re-join the scheme What it costs the member Employer also pays in to the scheme on the members behalf Can join the 50:50 option Impact of auto-enrolment
Deferred Members (including opt outs)	<ul style="list-style-type: none"> Inform scheme members of their pension rights and benefits Promote the LGPS as an attractive benefit to members Improve the understanding of how the LGPS works Improve business efficiency and customer experience 	<ul style="list-style-type: none"> Promote the full benefit package the LGPS offers Opt outs can re-join the scheme What it costs the member Employer also pays in to the scheme on the members behalf Can join the 50:50 option Understanding and planning for retirement Impact of auto-enrolment Keep personal details up to date Encourage the use of technology
Pensioner Members	<ul style="list-style-type: none"> Improve business efficiency and customer experience 	<ul style="list-style-type: none"> Pensions Increase Pay Dates Keep personal details up to date Dependants pension and nomination process Encourage the use of technology Contact Tax Office/payroll provider with tax/payroll queries

Audience Group	Objective	Message
Employers	<ul style="list-style-type: none"> • Provide clear and timely communication to our customers and stakeholders to enable them to make informed decisions regarding pension matters. • Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers. • To support employers in fulfilling their roles and responsibilities, achieve value for money, improve data quality and provide an excellent customer experience • Deliver the communication strategy in a cost effective way and encourage the use of technology and partnership working • Promote the effective management, administration and governance of the Cheshire Pension Fund. • Treat information security with importance and in line with the current data protection legislation 	<ul style="list-style-type: none"> • Employers have a responsibility to provide employees with information about the LGPS. • Employers should promote the LGPS • Employers should understand how the Scheme works • Employers should understand the impact of any changes in legislation • Employers must deliver their LGPS responsibilities and comply with their statutory obligations as a scheme employer • Employers have a responsibility to provide accurate and timely data and meet their responsibilities in Administration Strategy • Employers should engage with the Pension Fund as earlier as possible if outsourcing any staff • The Pension Fund is managed and administered efficiently within a robust governance framework

Appendix 2: How and when we currently communicate

Description	Service
Active Members	
Scheme Booklet	A booklet describing scheme benefits with explanatory notes is available on the website. A link to this document is provided by employers to all new starters. The booklet is revised to reflect legislation changes and all new active members receive a copy from their employer.
Employee Factsheets	The booklet is supported by a range of Employee Factsheets that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from our website.
Annual Benefit Statements	Once a year we send all members a benefit statement direct to their home address. This summarises the basic information we hold about them such as date of birth, hours of work, pay for pension purposes and gives estimates of the current and future value of the member's benefits.
Newsletter – Your Pension	Each year to accompany the Annual Benefit Statement a newsletter is produced which keeps the members updated on the LGPS and gives information about their Annual Benefit Statement.
Website	The core information about the Scheme is held on our website. (www.cheshirepensionfund.org) There is a dedicated area for active members. We also publish news updates as soon as is practical. This enables members to gain information as it becomes available. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download. Plus links to other organisations e. g. AVC providers.

Description	Service
Pension Road shows	We run information sessions in members' places of work. These are run on request in conjunction with employers. These Road shows can be run on a surgery basis with appointments for members and prospective members. This is particularly useful for employers with small numbers of staff. We run more specialist sessions for members that may be affected by issues such as restructure and the effect this could have on their pension benefits.
Pre-Retirement Courses	Attendance at Face to face meetings, organised by a number of our employers that aim to explain the options available for members approaching retirement.
Ad Hoc Meetings	Ad hoc meetings will be held from time to time for various groups of members. These may be defined by type of member (contributor or retired) or location (for a specific employer or group of employers). The timing of these meetings will be dictated either by requests from employers or the need to consult and notify members of any changes that occur.
Customer Services	A dedicated Customer Services phone number for scheme members is operated by experienced staff of the Cheshire Pension Fund administration team. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
Requests for information	Respond to requests for information providing accurate, timely and informative details of the Local Government Pension Scheme in the most appropriate method.
Annual Reports and Accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31 March each year and are published on the website. A summary of the Funds Report and Accounts is issued to all active scheme members on an annual basis.
Deferred Members	
Annual Benefit Statement	A yearly summary of each member's details held including a current valuation of their deferred pension benefits. This is sent by post to their home address. This also acts as a prompt for members to notify us on any changes in circumstances including current nominations. Undelivered statements which are returned to the Fund allow us to trace missing members before their benefits are due for payment.
Newsletter	An annual newsletter is published on the website to accompany the Benefit Statement. This provides members with any relevant news or changes.
Website	A dedicated section on the Funds' website is available for deferred members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all members to contact the Fund using an electronic form.
Helpdesk	Deferred members can contact the Fund helpdesk to discuss any issues or specific points regarding their membership. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
E-mail and Post	The Fund readily accepts written correspondence received by E-mail and Post. It has a designated e-mail account with automatic acknowledgement and postal address.
Retirement Packs	A retirement pack consisting of an information factsheet, a statement of benefits and forms for completion and return is sent to members as part of the retirement process. This provides all relevant information to allow a smooth transition from Deferred Membership to Pensioner.

Description	Service
Pensioners	
Pay Advice and P60	Pay advices are issued at least three times per year in March, April and May. This coincides with the annual pensions increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £1. Returned pay advice alerts the Fund to a change in circumstances, allowing us to trace missing members. Each member will receive a P60 by post by the end of May each year.
Newsletter	An annual pensioners newsletter "Cheshire Chat" is published online. This provides pension members with details such as the annual rate of pensions' increase, relevant changes to legislation, National Fraud Initiative and other news including how to contact the Fund or pensioner payroll contacts.
Website	A dedicated section on the Funds' website is available for pension members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all pensioner members to contact the Fund using an electronic form.
Pension Helpdesk	Pensioners can contact the Fund helpdesk to discuss any issues or specific points regarding their pension. A dedicated payroll helpline is also available allowing pensioners to make tax and pay enquiries.
E-mail and Post	Pensioners can also send correspondence including changes of details such as address or bank details to both the Fund and the pension payroll by E-mail and Post.
Employers	
Pensions Consultative Forum	The Pension Consultative Forum is a body representative of the major employers in the Fund, the Councils, Police and Fire and Rescue, Colleges and Housing Trusts. Meetings are held at least four times a year with the primary focus on reviewing how the Administration Authority is delivering its administration and management responsibilities.
Website	A password protected section on the Funds website is available for our employers. This provides detailed and informative links allowing employers to be kept up to date with the latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documentation and tools. Plus links to other organisations e. g. Local Government Employers.
Employers guide	An administration manual is issued to all employers and provides all the information needed to take part effectively in the scheme. Regular updates to this manual are provided as the scheme rules change.
Employer Newsletter	A newsletter providing legislation, operational items, technical updates and support is issued to Employers on a regular basis (a minimum of four publications a year)
Employer Welcome Pack	Employer "Welcome" pack setting out details of the process for joining the Fund is issued to all new Employers.
Employer Training	Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer.
Employer Meeting	A forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters annually plus ad hoc meetings where business warrants.
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet and additional information leaflets.
Administration Forms	Standard forms with guidance notes to notify the Fund of key events affecting pension benefits.
Annual report and accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31 March each year and are published on the website.

Description	Service
Pension Fund Staff	
Induction	All new members of staff attend a Pensions induction course. Individual development plans are in place.
Training	Staff have individual Personal Development Plans and regular appraisals. They also attend internal, and where appropriate, external courses. Staff also hold a regular series of "Lunch and Learn" sessions covering topical issues
Performance Management	All Cheshire West and Chester Council employees are subject to the Council's performance management framework. Within this framework each employee is set an individual performance plan with objectives and competencies to be achieved, Measurement of performance/ratings, Development plan, Career Aspirations.
Pensions Qualifications	All staff are encouraged and supported to attain professional qualifications.
Service Plan	The Pensions Section has an Operational Plan which is actively managed and discussed in regular Management Team meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly.
Pensions Leadership Team	Regular (at minimum monthly meetings) to discuss strategic plans and operational issues.
Section and Team Meetings	All members of staff attend regular Section and Team Meetings.
Intranet	All Pensions staff have access to the intranet containing procedure instructions, regular briefings, newsletter etc. Thus ensuring that information is available to all staff at their work location in a timely and efficient way.
Internet	Staff have access to the internet where this is required as part of their job.
Email	All members of the Team have an individual email account, allowing us to communicate efficiently and effectively.
Staff bulletin	A monthly staff bulletin is produced and distributed to all staff. This covers issues relating to the management of the Fund and the Council, the wider LGPS and pension landscape and other topical issues.

Description	Service
Other organisations: The Fund regularly needs to communicate effectively with its partners and other organisations.	
Prospective Employers	The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information required to facilitate a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as contractors providing a service to a Scheme Employer.
Pension Fund Committee	<p>The Pension Fund Committee meet at least quarterly and the Fund supports the Committee's governance responsibilities by producing agendas, agenda Items, minutes, discussion papers and briefing notes. All Committee papers are distributed electronically one week before the Committee meeting.</p> <p>Topics regularly communicated to the Committee are Investment issues, Funding Level updates, Administration, Governance, Business Plan and Risk management and Audit.</p> <p>The Committee have a dedicated SharePoint site where key information about the Fund and topical pensions information are shared. Members also receive a monthly briefing back.</p> <p>The Fund publishes a Committee members training plan and members receive formal training at least 4 times a year, as well as attending a number of national conferences and seminars to ensure that they are fully informed to fully undertake their responsibilities.</p> <p>The Fund has developed an electronic decision making approval protocol to expedite decision making outside of the quarterly meeting cycle.</p> <p>The section 151 Officer and the Pension Fund Manager are in regular contact with the Chair of the Committee outside of the formal meetings, and ensure that the Committee are kept informed of issues that affect the Fund.</p>
Local Pension Board	<p>The Local Pension Board meet at least quarterly and the Fund supports the Boards governance and advisory responsibilities by producing agendas, agenda Items, minutes, discussion papers and briefing notes. All Board Committee papers are distributed electronically one week before the meeting.</p> <p>Topics typically focus on Administration, Governance, Communication, the Business Plan and Risk management and Audit reports.</p> <p>The Board have a dedicated SharePoint site where key information about the Fund and topical information pension information are shared. Members also receive a regular briefing back.</p> <p>The Board have a training plan and members receive formal training at least 4 times a year, as well as attending a number of national conferences and seminars to ensure that they are suitably informed to undertake their responsibilities.</p>
Administering Authority's Senior Management	<p>The Pension Fund Manager meets the section 151 Officer regularly to provide information to evaluate the administration, management and governance of the Pension Fund.</p> <p>The section 151 Officer receives the quarterly Committee minutes, agenda and agenda items as a matter of course.</p> <p>The Fund communicates and consults with senior management on changes to regulations, policies and procedures that affect the Pension Fund, employers and the Administering Authority.</p>

Description	Service
Other organisations: Continued	
LGPS Central Ltd	<p>Cheshire West and Chester Council is a shareholder of LGPS Central Limited, an FCA regulated company created to manage a pool of investment assets for 8 partner LGPS funds.</p> <p>The Council has a dual role as both a shareholder of the company and an investor in the pool. The Cabinet Member for Legal and Finance represents the Council at six monthly meetings of the Shareholder Forum, which is the supervisory body of the Company. The Chairman of the Cheshire Pension Fund Committee represents the Fund on the LGPS Central Joint Committee which meets twice yearly and deals with wider investor issues including investment performance issues.</p> <p>LGPS Central also has its own website that publishes information about the company and papers and minutes of the LGPS Central Joint Committee.</p>
Professional Advisors	The Fund's management team meets with and has regular dialogue with its advisers (such as actuarial and investment advisors) to secure information and advice over a wide range of issues relating to the Fund.
Ministry for Housing, Communities and Local Government (MHCLG)	The owners of the LGPS, responsible for drafting and laying the LGPS regulations before Parliament. Cheshire Pension Fund responds to consultations and draft legislation and shares its response with employers and scheme members via the website.
Department for Work and Pensions (DWP)	Communication in relation to the contracting out details of scheme members and combined pension benefit forecasts.
LGPS Scheme Advisory Board (SAB)	The SAB provides advice to MHCLG, LGPS Funds and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We liaise with the SAB as appropriate and respond to surveys/consultations on request.
Trade Unions (TU)	A TU representative attends both the Pension Fund Committee and the Pension Consultative Forum in a non-voting capacity to represent employees.
HM Revenue and Customs (HMRC)	Cheshire Pension Fund ensures it pays all benefits in compliance with both the Lifetime Allowance and Annual Allowance.
Regional Pension Officers Groups	The Fund is represented at various regional groups e.g. the Shrewsbury Pension Officers Group (SPOG) and the LGPS Central Pensions Group which meets regularly to discuss all aspects of the LGPS. Knowledge sharing and collaborative working are key features of this groups discussions.
Chartered Institute of Public Finance and Accountancy (CIPFA)	The Fund is a member of the CIPFA Pensions Administration Benchmarking Club. We provide information on membership numbers and administration costs to benchmark our costs and service with all members and specified members of the Club.
Government Actuary's Department (GAD)	As actuarial advisors to the Government, GAD issue guidance and publish valuations across the LGPS. We provide data on request to GAD to enable them to perform their functions. We also respond to any consultations/surveys on request

In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows:

Funding Strategy Statement (FSS)

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS statement sets out how we have balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis

Governance Policy Statement

The Governance Policy Statement sets out the Governance arrangements of Cheshire West and Chester Council in administering the Cheshire Pension Fund

It sets out how the Council delegates its responsibilities, the terms, structure and operational procedures of the delegation including duties and terms of reference and stakeholder representation.

Governance Compliance Statement

The Policy defines to what extent the Fund complies with the best practice governance arrangements laid down by central government, including voting rights, stakeholder representation, and frequency of meetings, access to papers and any areas of non-compliance.

Investment Strategy Statement (ISS)

The ISS sets out the current investment strategy of the Fund and provides transparency in relation to how the Fund's investments are managed.

It sets out the Fund's

- Investment Objectives and Beliefs
- Investment Strategy and the Process for Ensuring Suitability of Investments
- Strategic Asset Allocation
- Risk measurement and management framework
- Approach to asset pooling and
- Approach to Responsible Investment

The Fund also publishes its investment holdings on the website and updates this on a quarterly basis.

All of the documents are available on the Fund's website:
<http://www.cheshirepensionfund.org/>

GDPR

New standards of data protection regulations came into force on 25 May 2018 called the General Data Protection Regulations (GDPR), now supplemented in UK legislation under the Data Protection Act 2018. As an organisation in the UK who holds and processes personal data, Cheshire Pension Fund has put in place plans to ensure we are compliant.

We have prepared a Privacy Notice in our capacity as the Administering Authority and data controller of your pension benefits, which gives details of our responsibilities and obligations including what information is held, who it is shared with and what your rights are in relation to accessing this data

More details can be found on our website:

<http://www.cheshirepensionfund.org/information-governance/>

For queries relating to the Communication Strategy, or for more information regarding the Cheshire Pension Fund, please contact our helpdesk as follows:

Tel: **01244 976000**

Or Email: pensions@cheshirewestandchester.gov.uk

Or visit our website: www.cheshirepensionfund.org

Or write to us at: **Cheshire Pension Fund,
Cheshire West and Chester Council, Council Offices,
4 Civic Way, Ellesmere Port, CH65 0BE.**

To promote accessibility for all, this document can be made available in other formats upon request.

Independent auditor's report to the members of Cheshire West and Chester Council on the consistency of the pension fund financial statements of Cheshire Pension Fund included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of Cheshire Pension Fund (the 'pension fund') administered by Cheshire West & Chester Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 24 December 2020.

That report also includes an Emphasis of Matter - effects of Covid-19 on the valuation of property investments section that draws attention to Note 4.2 in the audited pension fund financial statements, which is replicated in Note 4.2 of the pension fund financial statements. As disclosed in Note 4.2 to the financial statements, there are uncertainties in the financial markets caused by the outbreak of Covid-19, with market activity being impacted in all sectors and, as at the valuation date, it is not considered that valuers can rely upon previous comparable market evidence to fully inform opinions of value. Valuations are therefore reported on the basis of material valuation uncertainty. As stated in our report dated 24 December 2020, our opinion is not modified in respect of this matter.

Chief Operating Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Operating Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Farrar

John Farrar, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

24 December 2020

Contacts and Further Information

For more information about the Cheshire Pension Fund, please contact our helpdesk as follows:

Email: pensions@cheshirewestandchester.gov.uk **Tel:** 01244 976000

Or use our Website: www.cheshirepensionfund.org

Alternatively, you can contact a member of the Pensions Management Team as follows:

Head of Pension Fund: Maggie Sheppard **Email:** Maggie.Sheppard@cheshirewestandchester.gov.uk **Tel:** 01244 972188

Chief Operating Officer: Mark Wynn **Email:** Mark.Wynn@cheshirewestandchester.gov.uk **Tel:** 01244 972537

To promote accessibility for all, this document can be made available in other formats upon request.