

# **West Sussex Pension Fund**

## **Statement of Accounts**

**2020/21**



## Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2021.

Katharine Eberhart

Director of Finance and Support Services, West Sussex County Council

Note: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2021 year end. Further information relating to these liabilities and other benefits is contained in the [Valuation Report](#).

# The Local Government Pension Scheme

## Pension Fund Account

<b>Fund Account</b>	<b>Note</b>	<b>2019/2020 £000</b>	<b>2020/2021 £000</b>
<b>Dealings with members, employers and others directly involved in the scheme</b>			
Contributions received	<b>7</b>	138,083	143,089
Transfers in from other Pension Funds	<b>8</b>	17,562	8,861
<b>Amount received</b>		<b>155,645</b>	<b>151,950</b>
Benefits Paid	<b>9</b>	(114,575)	(118,365)
Payments to and on account of leavers	<b>10</b>	(15,861)	(10,123)
<b>Amount paid</b>		<b>(130,436)</b>	<b>(128,488)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>25,209</b>	<b>23,462</b>
Management Expenses	<b>11</b>	(17,075)	(38,138)
<b>Net additions/(withdrawals) including Fund management expenses</b>		<b>8,134</b>	<b>(14,676)</b>
<b>Returns on investments</b>			
Investment income	<b>12</b>	72,914	49,835
Taxes on income	<b>13A</b>	(638)	(700)
Other income		2	0
Profit and (losses) on disposal of investments and changes in the market value of investments	<b>14A</b>	(153,114)	1,147,315
<b>Net return on investments</b>		<b>(80,836)</b>	<b>1,196,450</b>
<b>Net increase in net assets available for benefits during the year</b>		<b>(72,702)</b>	<b>1,181,774</b>
<b>Add opening net assets of the scheme</b>		<b>4,374,121</b>	<b>4,301,419</b>
<b>Closing net assets of the scheme</b>		<b>4,301,419</b>	<b>5,483,193</b>

# Net Asset Statement

<b>Assets and Liabilities</b>	<b>Note</b>	<b>At 31 March 2020 £000</b>	<b>At 31 March 2021 £000</b>
Investment assets	<b>14</b>	4,195,984	5,398,318
Investment liabilities	<b>14</b>	(16,730)	(1,279)
<b>Net investment assets / (liabilities)</b>		<b>4,179,254</b>	<b>5,397,039</b>
Current assets	<b>21</b>	131,328	113,895
Current liabilities	<b>22</b>	(9,163)	(27,741)
<b>Net assets of the scheme available to fund benefits at the end of the reporting period</b>		<b>4,301,419</b>	<b>5,483,193</b>

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2021. The actuarial present value of promised retirement benefits is disclosed at Note 20.

# Notes

## Note 1: Description of the Fund

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

### General

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

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

The Fund provides pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other bodies described below.

Scheduled Bodies, Resolution Bodies and Academies	Regulations allow employees of certain specified bodies to join the Scheme including the County Council, District and Borough Councils, non-uniformed personnel employed by the Chief Constable, Sussex Police & Crime Commissioner, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies.
Admitted Bodies	Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

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



Membership

The membership details by employer and member category are set out below:

<b>Membership Type</b>	<b>31 March 2020</b>	<b>31 March 2021</b>
Number of Employers with Active Members	198	207
<b>Active members</b>		
West Sussex County Council	14,202	12,801
Other employers	14,649	13,773
<b>Total</b>	<b>28,851</b>	<b>26,574</b>
<b>Pensioner members</b>		
West Sussex County Council	10,904	11,255
Other employers	10,699	11,019
<b>Total</b>	<b>21,603</b>	<b>22,274</b>
<b>Deferred pensioner members</b>		
West Sussex County Council	16,831	18,291
Other employers	12,263	13,667
<b>Total</b>	<b>29,094</b>	<b>31,958</b>
<b>Total number of members in scheme</b>	<b>79,548</b>	<b>80,806</b>

Funding

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

- Active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021.
- Employers in accordance with the rate calculated by the Fund Actuary at the triennial valuation exercise, or on joining the Scheme between valuations. The employer contribution rates range from 0.0% to 60.8% of pensionable pay for the financial year ending 31 March 2021.

Benefits

The Local Government Pension Scheme (LGPS) changed to a Career Average Revaluation Earnings (CARE) scheme on 1 April 2014. From 1 April 2014 the benefits built up in the LGPS are worked out under the rules of the career average scheme at an accrual rate of 1/49<sup>th</sup>, updated annually in line with the Consumer Prices Index (CPI). Members in the Scheme before 1 April 2014 will also have benefits based on final pensionable pay and length of pensionable service (the final salary scheme).

A range of other benefits are also provided including early retirement, disability pensions and death benefits.

## Note 2: Basis of Preparation

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK Public Sector and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG). The accounts summarise the transactions and net assets of the Fund and have been prepared on a going concern basis.

Fund Management have considered the following in arriving at this assessment:

- The Fund remains a statutory open scheme with a strong covenant from the participating employers and is therefore able to take a long-term outlook when considering the general investment and funding implications of external events.
- The Fund remains a long-term investor and has reduced its allocation to equities with a preference to bond assets to reduce the volatility of its investment assets. The Fund will continue to monitor all risks on an ongoing basis and take appropriate actions where necessary.
- The Fund was 112% funded as at the last triennial valuation as at 31 March 2019. This estimated to have increased to 123% as at 31 March 2021. It therefore remains fully funded.
- The Fund takes a prudent approach when setting employer contributions and its contribution strategy is considered against detailed scenario testing by the Fund Actuary. There is no expectation that the contribution rates will need to be reviewed or revised outside the normal triennial valuation cycle but the position will be kept under review, particularly for any shorter-term employers.
- £32.1m of the Fund's investment income is currently re-invested rather than used to pay benefits with 90% of its assets in liquid form which could be realised within 3 months in a managed way if the need arose.

A cashflow forecast has also been produced to consider all significant receipts and payments up to March 2023. The Fund has based this assessment on:

- Contributions based on actual March 2021 payroll data and known contribution rates for 2021/22 and 2022/23.
- 2020/21 outturn values for property rental income, pension benefits, death benefits and lump sum payments.

Management is not aware of any significant planned changes to its main receipts and payments up to March 2023 and therefore considers the above assumptions to be reasonable. Appropriate stress testing has been applied to the above projections as follows:

- Contributions reduce by 10% annually.
- Pension benefits increase by 10% annually; and
- Death benefits and lump sum payments each increase by 5% annually.

After the application of these stress tests the forecasting shows that the Fund would still have positive annual cash flows. In the unlikely event that the stress tests applied are not sufficiently pessimistic as at 31 March 2021 the Fund holds in excess of £4.8 billion of assets in liquid form which could be realised within 3 months in a managed way if the need arose. Liquid fund assets could therefore be used to cover all benefits paid for a period of greater than 12 months from the reporting date.

## Note 3: Summary of Significant Accounting Policies

### Fund Account – Revenue Recognition

#### Contribution Income

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

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

#### Transfers in

Transfers in from other pension funds are accounted for when received, i.e. when the member liability is accepted.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase additional benefits are accounted for on a receipts basis and are included as part of the transfers in from other Pension Funds.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. No bulk transfers have taken place in 2020/21 or the prior year

#### Investment Income

- i. Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- ii. Stock lending income is recognised as it accrues.
- iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a Current Asset.
- iv. Private equity and private debt income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a Current Asset.
- v. Property rental income is accounted for on an accruals basis.
- vi. Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

#### Profit & Loss on Disposal

Changes in the value of investments are recognised as income or expense and comprise of all realised and unrealised profit or loss during the year.



## Fund Account Expenditure Recognition

### Benefits paid

Benefits paid include lump sums and all amounts known to be due at the end of the financial year. Any amounts approved and due are disclosed in the Net Asset Statement as a Current Liability.

### Payments to and on account of leavers

Transfers out are accounted for when paid i.e. when the member liability has been discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. No bulk transfers have taken place in 2020/21 or the prior year.

### Taxes on income

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

Income from overseas investments suffer withholding tax in the country of origin unless exemption is permitted.

Irrecoverable tax is accounted for as an expense as it arises Where tax is recoverable this is reflected on an accruals basis.

### Management Expenses

Management expenses are accounted for in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016) as set out below:

- i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, external audit, Fund Actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees from external managers and the Fund's custodian are agreed on appointment or commitment and are mainly based on the market value of the investments under management. Investment management expenses include the County Council's in-house treasury management team.

## Net Asset Statement

### Investment assets

Investment assets are shown at market value at the reporting date and are recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). See Note 16.

### Freehold and leasehold properties

Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value. See Note 16.

### Foreign currency transactions and balances

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

### Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

### Financial Liabilities

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

### Contingent assets and contingent liabilities

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

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

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

### Additional Voluntary Contributions

These are invested separately and therefore disclosed as a note and not included in the fund accounts. See Note 23.

## **Note 4:       Critical Judgements in Applying Accounting Policies**

### **Pension Fund liability**

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

### **Directly held property**

The Fund's property portfolio comprises directly owned properties which are leased commercially to various tenants with rental periods between one and 35 years. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 17 and the Code, therefore the properties are retained on the Net Asset Statement at fair value.

## Note 5: Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2021 would result in an approximate 11% increase to employer liability (£621m).</p> <p>A one-year increase in member life expectancy at year ended 31 March 2021 would result in an approximate increase in employer liability of between 3% and 5% (£169m and £282m).</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2021 would result in an approximate increase in employer liability of 1% (£48m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2021 would result in an approximate 10% increase in employer liability (£560m).</p> <p>However, the Statements do not take account of liabilities to pay pensions and other benefits after 31 March 2021.</p>

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager valuations as at the end of the reporting period.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. This takes into account observable and non-observable pricing inputs including public market developments (industry sector and peers), private market transactions, company specific considerations, public indices and cashflows</p>	<p>The total private equity investment in the financial statements is £85.4m (1.6% of net assets). There is a risk that this investment may be under or overstated in the accounts.</p>
Private Debt	<p>Private debt investments are valued at fair value in accordance with industry guidelines, based on the fund manager valuations as at the end of the reporting period.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private debt investment in the financial statements is £60.8m (1.1%). There is a risk that this investment could be under or overstated in the accounts.</p>
Freehold and leasehold property	<p>Independent valuation for freehold and leasehold investment property has been provided in accordance with Royal Institution of Chartered Surveyors Red Book.</p> <p>This takes into account observable and unobservable pricing inputs including existing lease terms, independent market research, the nature of tenancies and tenant covenant strength, void levels and estimated rental growth.</p>	<p>Changes in rental growth, void levels and general changes in property market prices could affect the valuation. The total property investment in the financial statements is £380m (7% of net assets). There is a risk that this investment may be under or overstated in the accounts.</p>

## Note 6: Events After the Balance Sheet Date

There have been no notable events occurring after the balance sheet date.

## Note 7: Contributions Received

<b>By Category</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Employers	108,941	111,955
Members	29,142	31,134
<b>Total</b>	<b>138,083</b>	<b>143,089</b>

<b>By Authority</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
West Sussex County Council	59,943	61,934
Scheduled bodies	70,531	73,379
Admitted bodies	7,609	7,776
<b>Total</b>	<b>138,083</b>	<b>143,089</b>

## Note 8: Transfers In From Other Pension Funds

<b>By Category</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Individual transfers	17,562	8,861
Bulk transfers	0	0
<b>Total</b>	<b>17,562</b>	<b>8,861</b>



**Note 9: Benefits Paid**

<b>By Category</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Pensions	98,099	101,312
Lump sum retirement benefit	13,888	14,033
Lump sum death benefit	2,588	3,020
<b>Total</b>	<b>114,575</b>	<b>118,365</b>

<b>By Authority</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
West Sussex County Council	51,901	53,105
Scheduled bodies	53,319	54,996
Admitted bodies	9,355	10,264
<b>Total</b>	<b>114,575</b>	<b>118,365</b>

**Note 10: Payments To And On Account Of Leavers**

<b>Payment Type</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Refunds of contributions	930	430
Individual transfers	14,931	9,693
Bulk transfers	0	0
<b>Total</b>	<b>15,861</b>	<b>10,123</b>

**Note 11: Management Expenses**

<b>Expense Type</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Administrative	1,136	1,069
Oversight and governance	1,325	1,105
Investment management	14,613	35,964
<b>Total</b>	<b>17,075</b>	<b>38,138</b>

Note: Performance fees form part of the Pension Fund's commercial arrangements with Baillie Gifford. These fees crystallised at the point of termination in December 2020 and fees of £24.3m were payable. In addition, the Fund made a provision of £4.2m in 2019/20 for performance fees payable to 31 March 2020. This has since been revised to £3.8m.

## Note 11a: Investment Management Expenses

### 2020/21

Expense Type	Management fees £000	Performance related fees £000	Transaction costs £000	Total £000
Bonds	138	0	0	138
Equities	3,159	13,816	1,661	18,636
Pooled Investments *	4,411	10,045	0	14,456
Private Equity	951	486	214	1,651
Property	905	0	0	905
Cash & FX contracts	41	0	0	41
Sub total	<b>9,605</b>	<b>24,347</b>	<b>1,875</b>	<b>35,826</b>
Custody Fees				138
Total				<b>35,964</b>

\*Includes £2.2m charged to the Pension Fund by ACCESS regional asset pool.

### 2019/20

Expense Type	Management fees £000	Performance related fees £000	Transaction costs £000	Total £000
Bonds	201	0	0	201
Equities	3,298	2,346	1,178	6,822
Pooled Investments	2,391	1,825	0	4,216
Private Equity	1,384	751	51	2,186
Property	935	0	0	935
Cash & FX contracts	92	0	0	92
Sub total	<b>8,302</b>	<b>4,922</b>	<b>1,229</b>	<b>14,452</b>
Custody Fees				160
Total				<b>14,613</b>

## Note 12: Investment Income

Type of Income	2019/20 £000	2020/21 £000
Dividends from equities	51,409	30,411
Interest on bonds	2,771	1,721
Private equity income	762	1,138
Private debt income	0	0
Property income	16,538	16,199
Interest on cash deposits	1,095	68
Stock lending income	339	298
Total	<b>72,914</b>	<b>49,835</b>

## Note 12a: Property Income

Type of Income	2019/20 £000	2020/21 £000
Rental income	17,474	17,600
Direct operating expenses	(936)	(1,401)
Total	<b>16,538</b>	<b>16,199</b>

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

**Note 13: Other Fund Account Disclosures**

<b>Type of Expense</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Pension Advisory Board	26	25
ACCESS pool	108	63
<b>Total</b>	<b>134</b>	<b>88</b>

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2020/21 reflect the Fund's contribution towards the pool's activities. These costs are included within oversight and governance costs in Note 11.

**Note 13a: Taxes On Income**

<b>Type of Expense</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Tax paid on dividend payments	2,789	2,804
Tax recoverable	(2,151)	(2,104)
<b>Total</b>	<b>637</b>	<b>700</b>

**Note 13b: External Audit Costs**

<b>Type of Expense</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Payable in respect of external audit	23	18
<b>Total</b>	<b>23</b>	<b>18</b>

The audit fees for 2020/21 are reduced by timing differences in the 2018/19 recharge from Ernst Young for District and Borough protocol work and recovery from employers.

## Note 14: Investments

<b>Investments</b>	<b>Market Value 2019/20 £000</b>	<b>Market Value 2020/21 £000</b>
<b>Investment assets</b>		
Equities	<b>1,984,456</b>	<b>1,174,095</b>
Bonds	<b>115,365</b>	<b>74,597</b>
<b>Pooled investments</b>		
Corporate Bond Fund	540,964	613,739
Currency Allocation Returns Strategy	27,062	38,040
Global Equity	0	1,722,277
Sterling Aggregate Bond	1,016,520	1,197,686
	<b>1,584,546</b>	<b>3,571,741</b>
<b>Other Investments</b>		
Private equity	91,117	85,376
Private debt	0	60,842
Property	366,125	380,490
	<b>457,242</b>	<b>526,708</b>
Cash deposits	43,551	43,745
Investment income due	7,446	6,056
Amounts receivable for sales	3,378	1,375
	<b>54,375</b>	<b>51,176</b>
<b>Total investment assets</b>	<b>4,195,984</b>	<b>5,398,318</b>
<b>Investment liabilities</b>		
Amounts payable for purchases	(16,365)	(1,171)
Property income received in advance	(365)	(108)
<b>Total investment liabilities</b>	<b>(16,730)</b>	<b>(1,279)</b>
<b>Net investment assets</b>	<b>4,179,254</b>	<b>5,397,039</b>

## Note 14a: Reconciliation Of Movements In Investments And Derivatives

2020/2021

<b>Investment Assets</b>	<b>Market Value at 1 April 2020 £000</b>	<b>Purchases during the year £000</b>	<b>Sales during the year £000</b>	<b>Change in market value during the year £000</b>	<b>Market Value at 31 March 2021 £000</b>
<b>Investments</b>					
Bonds	115,365	18,762	(54,647)	(4,883)	74,597
Equities	1,984,456	884,486	(1,029,190)	(665,657)	1,174,095
Pooled investments	1,584,546	195,478	(10,259)	1,801,976	3,571,741
Private equity	91,117	198	(32,776)	26,837	85,376
Private debt	0	66,982	(6,627)	487	60,842
Property	366,125	27,235	(1,577)	(11,293)	380,490
<b>Sub total</b>	<b>4,141,609</b>	<b>1,193,141</b>	<b>(1,135,076)</b>	<b>1,147,467</b>	<b>5,347,141</b>
Derivatives	0				0
<b>Sub total</b>	<b>4,141,609</b>	<b>1,193,141</b>	<b>(1,135,076)</b>	<b>1,147,467</b>	<b>5,347,141</b>
<b>Other investment balances</b>					
Cash deposits	43,551			(152)	43,745
Amount receivable for sales	3,378				1,375
Investment income due	7,446				6,056
Amount payable for purchases	(16,365)				(1,171)
Property income received in advance	(365)				(108)
<b>Total assets</b>	<b>4,179,254</b>			<b>1,147,315</b>	<b>5,397,039</b>



**2019/2020**

<b>Investment Assets</b>	<b>Market Value at 1 April 2019 £000</b>	<b>Purchases during the year £000</b>	<b>Sales during the year £000</b>	<b>Change in market value during the year £000</b>	<b>Market Value at 31 March 2020 £000</b>
<b>Investments</b>					
Bonds	118,002	11,129	(22,102)	8,336	115,365
Equities	2,164,653	662,791	(651,095)	(191,893)	1,984,456
Pooled investments	1,468,720	79,025	(25)	36,826	1,584,546
Private equity	110,727	1,379	(30,648)	9,659	91,117
Property	376,950	2,256		(13,081)	366,125
<b>Sub total</b>	<b>4,239,053</b>	<b>756,579</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<b>4,239,053</b>	<b>756,579</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
<b>Other investment balances</b>					
Cash deposits	69,405			(2,961)	43,551
Amount receivable for sales	7,806				3,378
Investment income due	6,733				7,446
Amount payable for purchases	(9,296)				(16,365)
Rental receipts in advance	(364)				(365)
<b>Total assets</b>	<b>4,313,337</b>			<b>(153,114)</b>	<b>4,179,254</b>

## Note 14b: Investments Analysed by Fund Manager

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

The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

### Share of market value held by fund managers

<b>Fund Manager</b>	<b>31 March 2020 £000</b>	<b>% of Fund Value</b>	<b>31 March 2021 £000</b>	<b>% of Fund Value</b>
<b>Investments Managed By ACCESS Asset Pool</b>				
LF Access Global Alpha Equity Fund			1,722,277	31.9
LF Access Sterling Aggregate Bond Fund			1,197,686	22.2
	<b>0</b>	<b>0</b>	<b>2,919,963</b>	<b>54.1</b>
<b>Investments Managed Outside ACCESS Asset Pool</b>				
UBS Global Asset Management	1,487,321	35.6	1,942,566	36.0
Baillie Gifford & Co	2,233,290	53.4	5,950	0.1
Pantheon Ventures	48,385	1.2	50,992	0.9
Partners Group	42,732	1.0	34,384	0.6
Aberdeen Standard Investments	366,125	8.8	380,490	7.0
Goldman Sachs	0	0.0	37,916	0.7
ICG	0	0.0	22,926	0.4
Other investments	1,401	0.0	1,852	0.0
	<b>4,179,254</b>	<b>100.0</b>	<b>2,477,076</b>	<b>45.9</b>
<b>Total</b>	<b>4,179,254</b>	<b>100.0</b>	<b>5,397,039</b>	<b>100.0</b>

The following investments represent more than 5% of the investment assets of the scheme.

<b>Fund Information</b>	<b>31 March 2020 £000</b>	<b>% of Fund Value</b>	<b>31 March 2021 £000</b>	<b>% of Fund Value</b>
<b>Investments Managed By ACCESS Asset Pool</b>				
Sterling Aggregate Bond Fund	0	0.0	1,197,686	21.8
Global Alpha Equity Fund	0	0.0	1,722,277	31.4
<b>Investments Managed Outside ACCESS Asset Pool</b>				
Baillie Gifford Sterling Aggregate Bond Fund	1,016,520	23.6	0	0.0
UBS Currency Allocation Return Fund	27,062	0.6	38,040	0.7
UBS UK Corporate Bond UK Plus Fund	540,964	12.6	613,739	11.2
<b>Total</b>	<b>1,584,546</b>	<b>36.8</b>	<b>3,571,741</b>	<b>65.1</b>

## Note 14c: Stock Lending

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2021, the value of quoted equities on loan was £87.2m (31 March 2020: £201.7m revised from previously reported £203.4m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £91.6m (31 March 2020: £217.7m revised from previously reported £263.6m).

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

There are no liabilities associated with the loaned assets.

## Note 14d Direct Property Holdings

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

<b>Property Transactions</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Opening balance	376,950	366,125
Additions	0	0
Purchase of existing property	0	25,389
New construction	0	0
Subsequent expenditure	2,256	1,846
Disposals	0	(1,577)
Net increase/(decrease) in market value	(13,081)	(11,293)
Closing balance	<b>366,125</b>	<b>380,490</b>

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

<b>Time Period</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Within one year	16,618	17,951
Between one and five years	58,147	61,563
Later than five years	93,654	100,151
Total future lease payments due under existing contracts	<b>168,419</b>	<b>179,665</b>

## Note 15: Analysis of Derivatives

The Fund does not invest directly in derivatives.

## **Note 16: Fair Value – Basis of Valuation**

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

### **Market Quoted Investments (Level 1)**

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

### **Quoted Bonds (Level 1)**

Bonds are recorded at net market value based on their current yield.

### **Pooled investment vehicles (Level 1)**

Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the fund, net of applicable withholding tax.

### **Freehold and leasehold properties (Level 2)**

Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards (January 2020) Global and UK Edition. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

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

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices (see Note 5).

### Private equity (Level 3)

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

- The valuation of Partners Group portfolio is taken from the unaudited 31 March 2021 fund-of-fund reports.
  1. Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group.
  2. Partners Group complies with the defined process and applies it as the basis for the year end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.
  3. The fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Partners Group have been given an unqualified opinion.
- The valuation of Pantheon's portfolio is taken from the unaudited 31 March 2021 fund-of-fund reports.
  1. Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).
  2. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.



### Private Debt (Level 3)

- The valuation for private debt investments with Goldman Sachs is taken from the unaudited 31 March 2021 fund manager reports.
  1. Goldman Sachs quarterly valuation is calculated in accordance with the fair value assessment described in Accounting Standards Codification 820 ( “Fair Value Measurements and Disclosures” ) and in accordance with GAAP.
  2. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Goldman Sachs have been given an unqualified opinion.
- The valuation for private debt investments with ICG is taken from the unaudited 31 March 2021 fund manager reports.
  1. The Financial Assets are designated as Financial Assets at Amortised Cost and are held at principal plus accrued interest which is deemed to represent fair value in accordance with IFRS.
  2. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for ICG have been given an unqualified opinion.

### Sensitivity of assets valued at Level 3

The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

<b>Assets</b>	<b>Assessed valuation range (+/-)</b>	<b>Value at 31 March 2021 £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Private equity	15%	85,376	98,182	72,569
Private debt	15%	60,842	69,968	51,716
<b>Total</b>		<b>146,218</b>	<b>168,150</b>	<b>124,285</b>

## Note 16a: Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted bonds, quoted index linked securities and unit trusts.

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

### Level 2

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

### Level 3

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

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

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

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

**Values at 31 March 2021**

<b>Financial assets</b>	<b>Quoted market price Level 1 £000</b>	<b>Using observable inputs Level 2 £000</b>	<b>With significant unobservable inputs Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets at fair value through profit and loss</b>				
Bonds	74,597			74,597
Equities	1,174,058		37	1,174,095
Pooled investments	3,571,741			3,571,741
Private equity			85,376	85,376
Private Debt			60,842	60,842
Cash deposits	43,745			43,745
Investment income due	6,056			6,056
Amounts receivable for sales	1,375			1,375
Net investment assets	<b>4,871,573</b>	<b>-</b>	<b>146,255</b>	<b>5,017,827</b>
<b>Non-financial assets at fair value through profit and loss</b>				
Property		380,490		380,490
<b>Financial liabilities at fair value through profit and loss</b>				
Property rental receipts in advance	(108)			(108)
Payable for investment purchases	(1,171)			(1,171)
<b>Total</b>	<b>4,870,295</b>	<b>380,490</b>	<b>146,255</b>	<b>5,397,039</b>

**Values at 31 March 2020**

<b>Financial assets</b>	<b>Quoted market price Level 1 £000</b>	<b>Using observable inputs Level 2 £000</b>	<b>With significant unobservable inputs Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets at fair value through profit and loss</b>				
Bonds	115,365			115,365
Equities	1,984,419		37	1,984,456
Pooled investments		1,584,546		1,584,546
Private equity			91,117	91,117
Private Debt			0	0
Cash deposits	43,551			43,551
Investment income due	7,446			7,446
Amounts receivable for sales	3,378			3,378
Net investment assets	<b>2,154,158</b>	<b>1,584,546</b>	<b>91,154</b>	<b>3,829,858</b>
<b>Non-financial assets at fair value through profit and loss</b>				
Property			366,125	366,125
<b>Financial liabilities at fair value through profit and loss</b>				
Property rental receipts in advance	(365)			(365)
Payable for investment purchases	(16,365)			(16,365)
<b>Total</b>	<b>2,137,429</b>	<b>1,584,546</b>	<b>457,279</b>	<b>4,179,254</b>

A delisted equity asset has been classified as level 3 in the above table.

## Note 16b: Transfer Between Levels 1 And 2

The Sterling Aggregate Bond Fund (£1.2bn), UBS Corporate Bond Fund (£0.6bn) and CARS Fund (£0.04bn) were reclassified from level 2 to level 1 due to a published exchange price being available at year end.

## Note 16c: Reconciliation Of Fair Value Measurements Within Level 3

<b>Assets</b>	<b>Private Equity £000</b>	<b>Property £000</b>	<b>Private Debt £000</b>	<b>Total £000</b>
Market Value 31 March 2020	91,117	366,125	0	457,242
Transfers into / (out of) Level 3	0	(366,125)	0	(366,125)
Net purchases / (sales) during the year	(32,578)		60,355	27,777
Unrealised gains / (losses)	3,318		487	3,805
Realised gains / (losses)	23,519		0	23,519
<b>Market Value 31 March 2021</b>	<b>85,376</b>	<b>0</b>	<b>60,842</b>	<b>146,218</b>

Note: Property has been reclassified from level 3 to level 2 in light of the reduced uncertainty post Covid.

## Note 17: Financial Instruments

### Note 17a: Classification of Financial Instruments

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

#### 31 March 2021

Classification	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	74,597		
Equities	1,174,095		
Pooled Investments	3,571,741		
Private Equity	85,376		
Private Debt	60,842		
Cash		146,042	
Investment balances		7,431	
Debtors		11,598	
<b>Sub Total</b>	<b>4,966,651</b>	<b>165,071</b>	
<b>Financial liabilities</b>			
Investment balances			(1,279)
Other current liabilities			(27,741)
<b>Total</b>	<b>4,966,651</b>	<b>165,071</b>	<b>(29,020)</b>

#### 31 March 2020

Classification	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial assets</b>			
Bonds	115,365		
Equities	1,984,456		
Bond & currency funds	1,584,546		
Private Equity	91,117		
Cash		162,639	
Investment balances		10,824	
Debtors		12,240	
<b>Sub Total</b>	<b>3,775,484</b>	<b>185,703</b>	
<b>Financial liabilities</b>			
Investment balances			(16,730)
Other current liabilities			(9,163)
<b>Total</b>	<b>3,775,484</b>	<b>185,703</b>	<b>(25,893)</b>



## Note 17b: Net Gains And Losses On Financial Instruments

Classification	31 March 2020 £000	31 March 2021 £000
<b>Financial assets</b>		
Fair value through profit and loss	(137,073)	1,159,609
Amortised cost - unrealised gains	(2,961)	(152)
<b>Financial liabilities</b>		
Fair value through profit and loss	0	0
<b>Total</b>	<b>(140,034)</b>	<b>1,159,457</b>

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

## Note 18: Nature And Extent Of Risks Arising From Financial Instruments And Other Assets

### Risk and risk management

The primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the Fund Actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Committee.

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

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

#### a) Market Risk

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

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

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

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

#### Other price risks

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

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

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

#### Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

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

**2020/2021**

<b>Asset type</b>	<b>Value at 31 March 2021 £000</b>	<b>Potential Market Movements (+/-)</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
UK equities	384,336	16.7%	448,521	320,152
Overseas equities	789,758	17.4%	927,176	652,340
Bonds	74,597	7.0%	79,819	69,375
Pooled Investments	3,571,741	12.2%	4,007,494	3,135,989
Cash	43,745	0.3%	43,876	43,614
Property	380,490	14.2%	434,520	326,460
Private equity	85,376	28.4%	109,623	61,129
Private debt	60,842	4.6%	63,641	58,043
<b>Total</b>	<b>5,390,885</b>		<b>6,114,670</b>	<b>4,667,102</b>

**2019/2020**

<b>Asset type</b>	<b>Value at 31 March 2020 £000</b>	<b>Potential Market Movements (+/-)</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
UK equities	294,079	27.5%	374,951	213,208
Overseas equities	1,690,377	28.0%	2,163,682	1,217,071
Bonds	115,365	9.1%	125,863	104,867
Bond Funds *	1,557,485	9.4%	1,704,044	1,410,925
Currency fund *	27,062	10.0%	29,768	24,356
Cash	43,551	0.3%	43,682	43,420
Property	366,125	14.2%	418,115	314,135
Private equity	91,117	28.4%	116,994	65,240
<b>Total</b>	<b>4,185,161</b>		<b>4,977,099</b>	<b>3,393,222</b>

\* Following transition into the ACCESS pool the bond funds and currency funds are amalgamated within the pooled investment category.

Interest rate risk - sensitivity analysis

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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

Assets exposed to interest rate risk

**2020/2021**

<b>Asset type</b>	<b>Value at 31 March 2021 £000</b>	<b>Change in year in net assets available to pay benefits +100 BPS £000</b>	<b>Change in year in net assets available to pay benefits -100 BPS £000</b>
Cash and cash equivalents	43,745	437	(437)
Cash balances	102,297	1,023	(1,023)
Bonds	74,597	746	(746)
<b>Total</b>	<b>220,639</b>	<b>2,206</b>	<b>(2,206)</b>

**2019/2020**

<b>Asset type</b>	<b>Value at 31 March 2020 £000</b>	<b>Change in year in net assets available to pay benefits +100 BPS £000</b>	<b>Change in year in net assets available to pay benefits -100 BPS £000</b>
Cash and cash equivalents	43,551	436	(436)
Cash balances	119,088	1,191	(1,191)
Bonds	115,365	1,154	(1,154)
<b>Total</b>	<b>278,004</b>	<b>2,781</b>	<b>(2,781)</b>

Currency risk

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

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

Currency risk – sensitivity analysis

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

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

Assets exposed to currency risk**2020/2021**

<b>Asset type</b>	<b>Value at 31 March 2021 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Overseas equities	2,370,824	10.0	2,607,907	2,133,742
Overseas bonds	512,782	10.0	564,060	461,504
Overseas private equity	85,376	10.0	93,913	76,838
Overseas private debt	60,842	10.0	66,926	54,758
<b>Total</b>	<b>3,029,824</b>		<b>3,332,806</b>	<b>2,726,842</b>

**2019/20**

<b>Asset type</b>	<b>Value at 31 March 2020 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Overseas equities	1,690,377	10.0	1,859,414	1,521,339
Overseas bonds	301,502	10.0	331,652	271,352
Overseas private equity	91,117	10.0	100,228	82,005
<b>Total</b>	<b>2,082,996</b>		<b>2,291,295</b>	<b>1,874,696</b>

b) Credit Risk

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

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

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

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £43.7m in cash (31 March 2020: £43.6m) and cash internally managed by WSCC at 31 March 2021 was £102.3m (31 March 2020: £119.1m). This was held by institutions with the following credit ratings:

<b>Rating</b>	<b>Nominal amount 31 March 2020 £000</b>	<b>Nominal amount 31 March 2021 £000</b>
AAA rated counterparties		
AA- rated counterparties		
A rated counterparties	162,639	146,042
<b>TOTAL</b>	<b>162,639</b>	<b>146,042</b>

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2021, there was no evidence that such risks were likely to materialise.

c) Liquidity Risk

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

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

The Fund is currently cash flow positive.

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

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

d) Refinancing Risk

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

e) Counterparty Risk

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

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

## **Note 19: Funding Arrangements - Actuarial Statement**

### **Description of funding policy**

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

The key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

### **Funding position as at the last formal funding valuation**

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

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



## Principal actuarial assumptions and method used to value the liabilities

### Method:

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

### Assumptions:

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

The key financial assumptions adopted for the 2019 valuation were as follows:

<b>Assumption</b>	<b>31 March 2019 %</b>
Discount rate	3.1
Salary increase assumption	2.8
Benefit increase assumption	2.3

### Demographic Assumptions

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 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

<b>Pensioner Type</b>	<b>Males</b>	<b>Females</b>
Current Pensioners	22.2 years	24.2 years
Future Pensioners	23.3 years	25.9 years

Copies of the 2019 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

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

## Note 20: Actuarial Present Value Of Promised Retirement Benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

<b>Liability</b>	<b>31 March 2020 £m</b>	<b>31 March 2021 £m</b>
Active members	(1,617)	(2,519)
Deferred pensioners	(1,084)	(1,498)
Pensioners	(1,670)	(1,799)
<b>Present value of promised retirement benefits</b>	<b>(4,371)</b>	<b>(5,816)</b>
Fair value of scheme assets (bid value)	4,301	5,484
<b>Net liability</b>	<b>(70)</b>	<b>(332)</b>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2019 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

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

No allowance has been made for unfunded benefits.

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

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

### IAS19 Assumptions Used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2020 and 31 March 2019.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £1,277m. The Fund actuary estimates the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £14m.

<b>Assumption</b>	<b>31 March 2020 % per annum</b>	<b>31 March 2021 % per annum</b>
Inflation / pensions increase rate	1.9	2.9
Salary increase rate	2.3	3.4
Discount rate	2.3	2.0

#### Longevity Assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

<b>Type of Pensioner</b>	<b>Males</b>	<b>Females</b>
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.1 years	26.1 years

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

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

#### Commutation Assumption

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

## Note 21: Current Assets

<b>Classification</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Debtors		
Contributions due - members	2,835	2,716
Contributions due - employers	5,969	5,347
Prepayments	1,404	772
Other debtors	1,573	2,664
Taxation	459	99
<b>Sub total</b>	<b>12,240</b>	<b>11,598</b>
Cash balances	119,088	102,297
<b>Total</b>	<b>131,328</b>	<b>113,895</b>

### Analysis of Debtors

<b>Classification</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Central government bodies	4,078	2,046
Other local authorities	3,844	3,978
Educational establishments	1,486	2,302
Other entities and individuals	2,832	3,272
<b>Total</b>	<b>12,240</b>	<b>11,598</b>

## Note 22: Current Liabilities

<b>Classification</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Contributions	0	0
Benefits payable	1,095	1,084
Other current liabilities	8,068	26,657
<b>Total</b>	<b>9,163</b>	<b>27,741</b>

### Analysis of Creditors

<b>Classification</b>	<b>31 March 2020 £000</b>	<b>31 March 2021 £000</b>
Central government bodies	1,032	2,345
Other local authorities	663	102
Educational establishments	0	0
Other entities and individuals	7,468	25,294
<b>Total</b>	<b>9,163</b>	<b>27,741</b>

## Note 23: Additional Voluntary Contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. Legal & General were appointed in place of Standard Life and Utmost as the AVC provider for members in the West Sussex Local Government Pension Scheme with effect from February 2021.

AVC Contributions of £1m were paid directly to Standard Life and Legal and General during the year (2019/20: £0.4m). AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

AVC Provider	Market Value	Market Value
	31 March 2020	31 March 2021
	£000	£000
Standard Life	2,108	359
Utmost (previously Equitable Life)	429	0
Legal and General	0	3,199
<b>Total</b>	<b>2,537</b>	<b>3,558</b>

## Note 24: Related Party Transactions

### West Sussex County Council

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

During the reporting period, the Council incurred costs of £0.7m (2019/20: £0.6m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £61.9m to the Fund in 2020/21 (2019/20: £59.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2021, the Fund had a daily average investment balance of £154.2m held in Sterling (31 March 2020: £107.7m) earning interest of £0.05m (2019/20: £0.68m) in these funds at a rate of return of 0.04% (2019/20: 0.63%). Additionally, the Fund has earned interest of £0.01m on investments held in foreign currency (2019/20: £0.02m).

### Governance

One member of the Pensions Committee is in receipt of pension benefits from the West Sussex Pension Fund.

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

## Note 24a: Key Management Personnel

The Director of Finance and Support Services and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. The total Pension Fund expense relating to apportioned remuneration for Key Management Personnel is £19k in 2020/21 (2019/20: £16k).

## **Note 25:      Contingent Liabilities and Contractual Commitments**

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

Estimates provided to members indicate that at year-end there are potential liabilities of £0.121m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

There are further outstanding commitments in investment assets as at 31 March as follows:

- Private equity of £22.9m (31 March 2020 £24.9m).
- Private Debt of £195m.

These commitments relate to outstanding call payments due on unquoted investments. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

The Fund has also made a commitment to an infrastructure fund as part of its investment strategy review, but as at 31 March 2021 no monies had been invested

## **Note 26:      Contingent Assets**

There were no contingent assets at the period end.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SUSSEX COUNTY COUNCIL**

### **Opinion**

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Pension Fund Account, the Net Asset Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Director of Finance and Support Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Support Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the West Sussex County Council Statement of Accounts 2020/21 other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information contained within the Statement of Accounts 2020/21.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Matters on which we report by exception**

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Responsibility of the Director of Finance and Support Services**

As explained more fully in the Statement of the Responsibilities set out on page 20 the Director of Finance and Support Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how West Sussex Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of minutes, review of Pension Fund policies and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations to be our fraud risk.



To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements. Where possible to do so we agreed investment asset valuation from publicly quoted market valuations to the financial statements. We also assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of West Sussex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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.

Helen Thompson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Southampton

4 November 2021