



Cheshire Pension Fund

# Annual Report

2013/2014

[www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

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HQ, 58 Nicholas Street, Chester CH1 2NP.

Pension Fund information is also available in audio, braille, large print and other formats.  
If you would like a copy in a different format or another language please contact us:

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Fax: **01244 972087** Website: [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

## Welcome to the annual report for the Cheshire Pension Fund for the year ending 31st of March 2014.

**It is very pleasing that as we review the last 12 months, the most striking observation is how the Fund and its partner employers and members have worked together to meet the requirements of the Local Government Pension Scheme (LGPS) and provide the right environment to allow our customers to make informed pension decisions.**

The 31st of March 2014 was notable for 2 reasons. Firstly it represented the final day of the 'old' LGPS scheme, with LGPS 2014 commencing on 1 April 2014. To get to this point whereby the Council as the administering authority, employers and members understand the key changes to the scheme and their 'new' roles and responsibilities has taken a significant amount of work from all concerned. Employers have been keen to engage with the Fund to develop their knowledge and feedback their views on how they feel the working relationship can be developed in order that the new scheme is implemented in the most effective way. Likewise we have undertaken an extensive communication exercise with all individual members to outline what the changes will mean for them and how they will be affected. Again we have been keen to use the feedback from members to inform and improve our overall communications offer.

As a result of this engagement we feel we are well placed to meet the requirements of the new scheme and this is a reflection of the strength of partnership that we have with both employers and members.

Secondly, the 31st of March 2014 represented the final day prior to the implementation of the 2013 triennial valuation results. The approach to the 2013 valuation provided further evidence of the strong relationship between employers and the Fund. I would like to take this opportunity to thank all employers who over the last 18 months have worked with the Fund to complete this exercise. As part of this process, the Fund has taken the opportunity to review the Fund's overall and employer specific risk profile, with a view to developing bespoke investment strategies that complement the contribution

strategies that set the amounts that employers pay into the Fund. The primary objective being to ensure that employers have affordable, fair and sustainable contribution strategies that reflect their own individual circumstances. Whilst at the same time only taking the required level of investment risk necessary to meet their funding objectives.

As you will be aware during the last year the LGPS has been the subject of much debate around the most appropriate governance structure to support an affordable and sustainable scheme that offers value for money to both employers and members alike. The Fund has worked tirelessly through this period to inform this debate both in its submission to the Minister and also as a member of a number of national working groups that have been established to provide guidance and develop examples of best practice. At the time of writing a formal consultation on the future of the scheme has been issued and the Fund will continue its work to feed both its own and its employers views in to this consultation process.

On the investment side the Fund has seen the value of its assets increase from £3.228bn to £3.550bn. This increase reflects both the general rise in markets over the last 12 months and also the pro-active management of Fund assets.

Whilst 2013/14 has been an extremely busy year, it has also been most rewarding and as I have noted earlier, has seen the relationship between the Fund and its employers and members flourish. I hope that in 2014/15 this relationship develops further as we work together to really bed down LGPS 2014, meet the requirements of the proposed new governance arrangements and understand and respond to the ever changing business requirements and demands of each of our employers.

Many thanks for your support during 2013/14 and I look forward to continuing our excellent working relationship in 2014/15.

**Mark Wynn** Head of Finance,  
Cheshire West and Chester Council.

# Management & Financial Performance

## Scheme Management and Advisors (as at 31 March 2014)

### Administering Authority

Cheshire West and Chester Council  
HQ, 58 Nicholas Street  
Chester, CH1 2NP

### Cheshire West and Chester Council Officers

**Julie Gill** Director of Resources

**Mark Wynn** Head of Finance

**Stephan Van Arendsen** Senior Manager, Corporate Finance

**Vanessa Whiting** Head of Legal and Democratic Services

### Pension Fund Committee

**Councillor Myles Hogg** Cheshire West and Chester Council (Chairman)

**Councillor Don Beckett** Cheshire West and Chester Council

**Councillor Mark Henesy** Cheshire West and Chester Council\*

**Councillor Hilarie McNae** Cheshire West and Chester Council

**Councillor Frank Keegan** Cheshire East Council

**Councillor Peter Mason** Cheshire East Council

**Councillor David Newton** Cheshire East Council

**Councillor Peter Raynes** Cheshire East Council

**Councillor John Joyce** Warrington Borough Council

**Councillor Mike Wharton** Halton Borough Council

**Ms Olga Kokkinis** Unison (Employee Representative)\*\*

\* Replaced 13th June 2014 by **Councillor Ben Powell** Cheshire West and Chester Council

\*\* Replaced 1st April 2014 by **Geoff Wright** Unison



**Investment Managers****Adams Street Partners UK LLP**

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London W1K 5JN

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Edinburgh EH1 3AN

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**Goldman Sachs International**

Peterborough Court, 133 Fleet Street,  
London EC4A 2BB

**Henderson Global Investors**

201 Bishopsgate, London EC2M 3AE

**Legal & General Investment Management**

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**M&G Investments**

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London SW1Y 4JR

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**AVC Providers****Clerical Medical**

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**Standard Life**

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**Actuary****Hymans Robertson LLP**

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**Investment Advisor****Mercer**

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**Legal Advisor****Cheshire West and Chester Council**

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HQ, Nicholas Street,  
Chester CH1 2NP

**Auditors****Grant Thornton**

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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

**HMRC References**

ECON number: **E3900002R**

SCON number: **S2700140Y**

Tax ID: **747/73095 51118**

PSTR number: **00328801RE**

Pension Scheme Registry Number:  
**10027832**



## Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them.

Cheshire West and Chester Council has a statutory responsibility under the Accounts and Audit Regulations (England) 2011 to have arrangements in place for the management of risk.

The Council is responsible for ensuring that its business is conducted in accordance with the law and corporate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, members and senior officers are responsible for putting in place effective arrangements for the governance of the Council's affairs and the stewardship of resources at its disposal.

The Council has a formal risk management strategy with the following objectives:

- To further embed and integrate risk management into the Council's culture and day-to-day operations at both strategic and operational levels, as part of a sound system of corporate governance.
- To adopt a systematic, structured framework to the identification, assessment, evaluation, prioritisation and management of risks to which the Council is exposed, at all levels, in accordance with best practice.
- To ensure risks are considered and recorded in decision-making processes at all levels within the Council via the maintenance of risk registers.

As part of the Corporate Finance service, the Pension Fund has a dedicated risk register which forms part of the Finance Service's Risk Register. The Finance Service sits within the Resources Directorate and each directorate

maintains a risk register that links to objectives as detailed in its business plan. The register is reviewed at directorate management team on a regular basis and any risks considered to be performing badly, difficult to control or whose impact might have an effect on the whole Council can be escalated to Corporate Management Team to consider their inclusion in the Corporate Risk Register.

As part of the annual business plan setting process, the Pensions Management Team identifies the main risks that might prevent the Fund delivering its key objectives. These risks are logged on the risk register across 6 workstreams - Governance and Compliance, Administration, Communication, Investment and Liability Management, Accounting and Major Projects.

The risk register is regularly reviewed in light of new information and updated when necessary with new risks added and old risks removed. The Pension Fund Committee receives an update on the key risks facing the Fund as a standing item at every quarterly Committee meeting.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and also the reputational, financial and resource impacts faced by the Fund if it were to occur. Risks are then 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 following table lists the top 10 risks that have been identified for the business plan year 2014-15. A full list of the risks identified can be found here:

**<http://www.cheshirepensionfund.org/wp-content/uploads/2014/07/Risk-management-incl-full-risk-tables.pdf>**

No	Risk	Gross Score	Controls	Current Score
A10	Growth in the number of employers in the Fund leads to less pensions knowledge within each employer. New employers fail to understand LGPS obligations. This causes a drain on Fund resources.	33	Training for new employers, development of Communications strategy, review of internal processes to ensure effectiveness.	20
I9	Poor performance of Investment Managers relative to that asset class peer groups.	40	Rigorous selection process in place to ensure that Fund appoints only "best of breed" investment managers. Expert professional advice provided by investment adviser supporting manager selection exercise. The Fund also employs the services of investment adviser to undertake "Manager Monitoring". The performance of all investment managers is also formally monitored and reported on a quarterly basis to Investment Sub-Committee.	18
L6	Transitional Provisions required to link old and new schemes together, only received 10 March 2014. There are still a number of outstanding issues to be resolved and guidance is required from the Government Actuary on key calculations.	24	Engage with LGA and DCLG to understand latest position and regulatory "intention".	18
SP2	The Fund is unable deliver its statutory obligations.	36	Project Plan and Board in place, resource allocated to the project and key milestones are being met.	18
G15	Public Service Pensions Bill governance requirements are insufficiently clear or timescales are too short to allow proper arrangements to be made.	24	Fund officers are engaging with advisors to understand the governance position post 2014. The Fund is also represented on 2 sub-committees of the shadow National Pension board.	16
L1	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	33	Access to LGA material, use of specialist advisors, membership on national and regional forums. Collaborative working with other Funds.	16
E7	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	27	Online Funding level update tool available to provide daily funding levels for individual employers to monitor their funding levels as they near exit from the LGPS.	16
E8	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	30	Formal risk management framework has been implemented enabling the Fund to ensure that employers are exposed to an appropriate investment strategy.	16
E12	Funding Strategy and Investment Strategies are static and not subject to continual and regular review.	30	Investment adviser regularly advises on appropriateness of investment strategy in light of current market conditions.	16
E13	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	30	Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities. Knowledge and skills framework and use of advisors ensure Committee and Officers are aware of and understand the drives of pension liabilities and identify when events change.	16

The nature and extent of risks arising from Financial Instruments are detailed in note 20 of the Pension Fund Accounts.

The Fund is exposed to both funding and investment related risk, of which the principal risks are:

#### Funding 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. 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 and reviewing Funding levels on a quarterly basis.

The Council keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation. The Council has also become a member of Club Vita, a longevity analytics service and therefore the longevity assumptions that have been adopted at the 2013 valuation are a bespoke set that are specifically tailored to fit the membership profile of the Fund.

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.

#### Asset risks

- **Concentration** The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- **Manager underperformance** The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Council's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Council has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. The performance of all individual managers and investment service providers is scrutinised quarterly by the Investment Sub-Committee with recommendations and escalations taken to the full Pension Fund Committee.

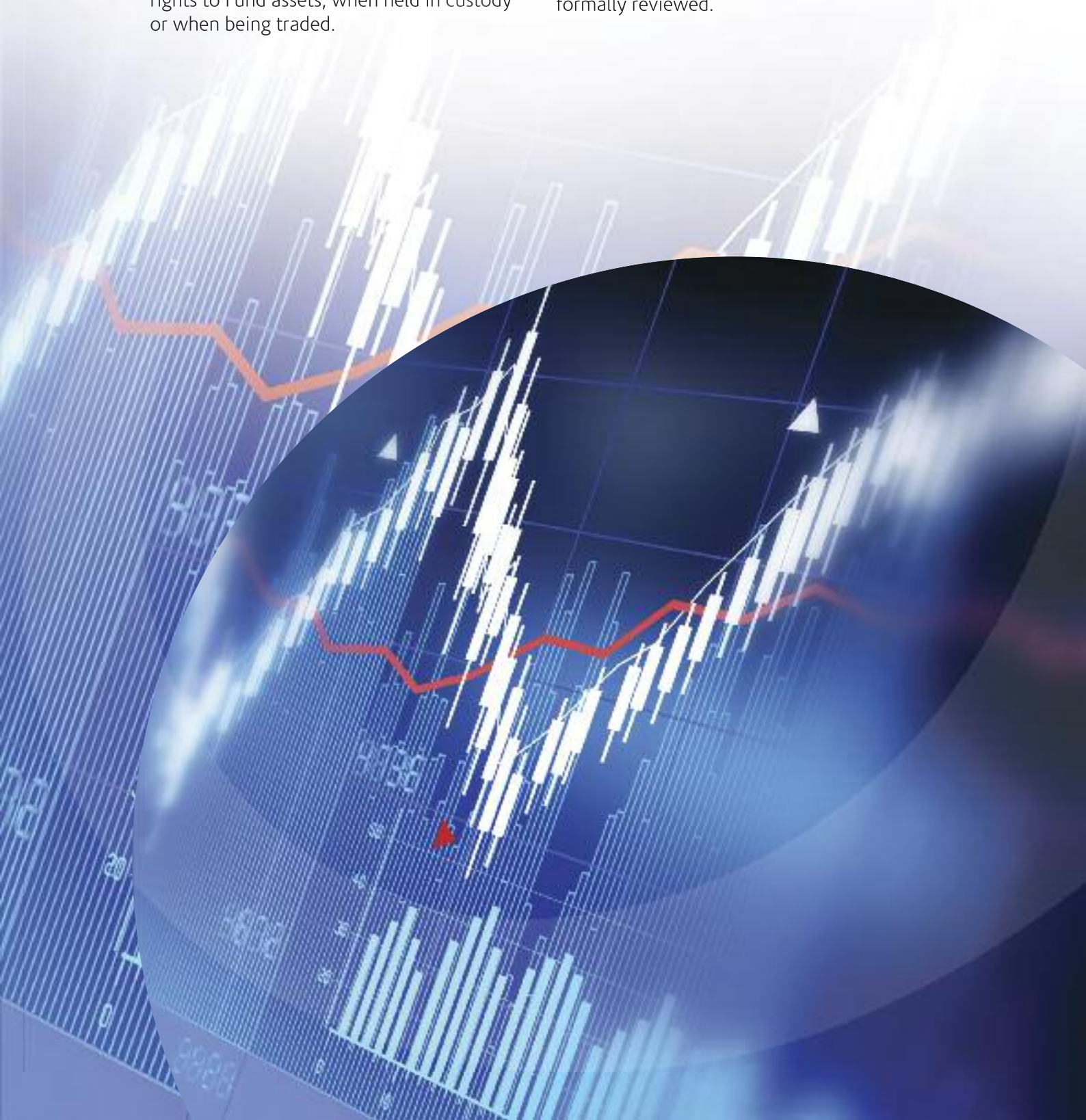


## Other provider risk

- **Transition risk** The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Council takes professional advice and considers the appointment of specialist transition managers.
- **Custody risk** The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default** The possibility of default of a counterparty in meeting its obligations.

The Council monitors and manages risks in these areas through a process of regular scrutiny of its providers. The Council request and reviews audited statement of accounts from each of their investment managers and where the provider is subject to a regulatory requirement to produce assurance reports on internal controls (or similar), these reports are formally reviewed.



## Financial Performance

### 2013 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 also sets the rate at which employers should contribute to the Fund for the following three years.

The table below summarises the financial position of the Fund at 31 March 2013 and the theoretical common contribution rate that would apply from this date onwards. The 2010 valuation results are also shown for reference.

### Summary Valuation Results

	31 March 2013	31 March 2010
Total past service liability (£m)	3,982	3,177
Fund assets (£m)	3,275	2,577
Deficit (£m)	(707)	(600)
Funding level	82.2%	81.1%
Future service rate (% pay)	19.3%	16.1%
Past service adjustment (% pay)	8.0%	6.7%
Total contribution rate (% pay)	27.3%	22.9%

### Funding Level and Deficit

Although the deficit increased in absolute terms to £707m from £600m, the pace of growth in asset value relative to the pace of growth in liabilities meant that the funding level increased slightly to 82.2% as at 31st March 2013.

### Assets

The performance of the Fund's investments has been greater than the expected return over the three year period to 31 March 2013. This has had a positive effect on the past service position of the Fund at this valuation.

The Fund's investment strategy remained largely unchanged since 2010, with around 80% of the Fund invested in growth assets (such as equities and property). The experience of the last three years serves to underline the fact that, whilst these riskier assets are expected to outperform more risk averse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

### Liabilities

The biggest single driver of the increase in the value of liabilities was the change in financial conditions between the previous valuation and a decrease in the expected future investment returns (the discount rate) between 2010 and 2013. This increase in liabilities has been partially offset by an increase in the actuary's assumption of the gap between RPI and CPI (resulting in a lower CPI assumption for future pension increases) and a reduction in the salary increase assumption to RPI only (previously RPI plus 1.5%).

## Analytical Review

The following table provides a brief overview of the major movements in the Fund Account and Net Assets Statement for the financial year. The full statement of accounts are included from page 60 of this report.

Fund Account	2013-14 £000	2012-13 £000	Notes
Net contributions	-1,474	5,619	Pension payments increased at a greater pace than the pace of growth of contribution payments into the Fund. Cash flow modelling indicates that the Fund is not expected to be consistently cash flow negative over the short to medium term.
Return on Investments	319,447	333,267	Returns on bonds and equities were lower in 2013-14 than the previous year.
Net increase in the Fund	317,973	338,886	

Net Assets Statement	2013-14 £000	2012-13 £000	Notes
Pooled Funds	1,408,953	1,306,341	Increase is attributable to strong investment performance of growth assets (most notably equities)
Equities	1,129,018	994,003	Increase is attributable to strong investment performance of equities plus outperformance generated by equity managers.
Absolute Return Funds	496,466	460,638	Increase is attributable to the performance of the Hedge Fund managers.
Investment Properties	230,965	188,249	Increase is attributable to net additional investment in the property portfolio and an increase in market value.
Private Equity	195,454	204,748	Decrease is due to net distributions back from the private equity portfolio exceeding new investments as the private equity portfolio matures.
Loans	57,632	38,618	Increase is attributable to the seeding of a debt mandate managed by M&G.
Cash	31,114	34,030	No material change year on year
Other	6,502	6,019	No material change year on year
	<b>3,556,104</b>	<b>3,232,646</b>	



## Analysis of Pension Contributions

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

	Total £000	On Time £000	On Time % (by value)	Late £000	Late % (by value)
Employee	33,124	32,896	99.31	228	0.69
Employer	116,792	115,905	99.24	887	0.76
	149,915	148,801	99.26	1,115	0.74

The Fund receives circa 2,000 individual monthly contributions from over 180 employers in a year. The Fund operates within a tolerance level of three days before categorising a payment as overdue. In total 132 monthly contributions were received outside this three day period, of which 65 were subsequently received within one month, 34 were received between one and three months and the remainder after three months.

No interest was charged on any of the late payments as the value of the late payments did not form a material risk to the Fund. The Fund continues to monitor the timeliness of contribution receipts from all employers and will consider charging interest if the Fund experiences a series of consistent late payments from any individual employer or a late payment that is of significant size to be a material risk to the Fund.

## Forecasts

The following tables show the forecasts for the Fund Account and Net Assets Statement for the three years to 31 March 2017. This is the first year of publishing such forecasts and the outturn against these forecasts will be reported in future annual reports.

Fund Account	2014-15 £000	2015-16 £000	2016-17 £000
Contributions	150,710	157,852	165,009
Payments	(150,840)	(152,648)	(161,884)
Admin expenses	(1,926)	(2,114)	(2,165)
Net investment income	55,821	59,910	64,321
Investment expenses	(22,601)	(23,178)	(25,122)
Change in market value	186,258	201,394	216,721
Net increase in the fund	217,422	241,216	256,879

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

	2014-15 £000	2015-16 £000	2016-17 £000
Fixed Income	915,412	952,974	992,203
Equities	1,575,092	1,701,488	1,838,104
Absolute Return Funds	540,759	589,047	641,696
Investment Properties	250,941	259,097	267,517
Private Equity	206,107	228,367	253,030
Secured Loans	162,589	169,906	177,552
Cash	23,571	30,973	38,617
Other Alternative Investments	61,328	65,251	69,426
Total Investment Assets	3,735,799	3,994,234	4,267,957



The forecasts for total investment assets are based on the actual allocations at 31st March 2014 figures multiplied by the forecast long term returns for each asset class as provided by the Fund's investment advisor.

These forecasts have also been adjusted for any investment decisions formally approved by the Committee prior to the date of publication of this annual report. They do not assume or take into account any other potential additions or disposals of investments within these asset classes during this three year period. The long term forecasts, are as follows:

Asset Class	Long term forecast return
Equities	7.0%
Absolute Return	7.0%
Property	5.9%
Private Equity	9.6%
Corporate Bonds	3.8%
Index Linked Gilts	2.9%
Secured Loans	4.8%
Cash	-

These long term forecasts are revised every three years in line with the actuarial valuation exercise and the subsequent strategic asset allocation review with the next review taking place in 2016.

#### Operational Expenses

	2014-15 £000	2015-16 £000	2016-17 £000
<b>Pensions Administration</b>			
Employees	1,315	1,384	1,382
Supplies and Services	336	344	353
Actuarial Fees	103	162	166
IT Costs	50	38	39
Investment in IT system		97	97
External Audit Fees	29	30	30
Printing & Postage	64	66	67
Legal Fees	29	30	30
	1,926	2,114	2,165

#### Investment Management

External Fund Managers	22,601	23,178	25,122
Custodian	167	172	176
Professional Fees	103	106	108
Total	22,871	23,456	25,406

The Cheshire Pension Fund pays over 24,000 pensioners every month, with a monthly gross payroll in excess of £10.4m million. Unfortunately mistakes can occur and 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 attempt to 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

	2013-14 £000	2012-13 £000	2011-12 £000	2010-11 £000	2009-10 £000	Total £000
Overpayments Recovered	32	35	47	60	76	250
Overpayments written off:						
Deaths		11				11
Payroll/Pensions Data Match					44	44
<b>Total</b>	<b>32</b>	<b>46</b>	<b>47</b>	<b>60</b>	<b>120</b>	<b>305</b>
Annual Payroll	124,638	118,983	110,946	103,626	96,175	554,368
Write offs as % of payroll	0.00%	0.01%	0.00%	0.00%	0.05%	0.00%
Number of cases written off	0	26	0	0	21	47
Number of cases recovered	35	46	61	123	126	391
Number of cases in the process of being recovered	8	10	8	11	5	42



## Administrative Management Performance

In the Scheme Year 2013 /14 we faced arguably the biggest change in the Local Government Pension Scheme (LGPS) history as we changed from a final salary scheme to implementing a Career Average Pension Scheme (CARE) in April 2014.

With the introduction of the New LGPS 2014 every aspect of scheme administration needed to change, including all scheme documentation, factsheets, operational guidelines, calculations, pension software, member and employer engagement and the redesign of the website.

### Implementing the LGPS 2014

This large project would be demanding on resources, but it is business critical to ensure continuity of service and to meet our statutory obligations. Therefore the Fund Officers felt that early planning, collaboratively working with other Pension Funds and agreeing a robust project plan would be key to successfully implementing the new LGPS from 1st April 2014.

### Collaborative Working

Our neighbouring authority Merseyside Pension Fund agreed to work with us to develop a detailed Project Plan to bring in the LGPS 2014. This enhanced collaboration enabled us to avoid duplication of effort and increase the experience, expertise and resources available for the project. This helped to reduce the cost of the project for both Funds.

### The Project focused on the following areas:

- Staff training and development
- New documentation and processes
- Systems/calculation testing and validation
- Employer and Member communication and engagement.

### LGPS 2014 – Go live

The year leading up to the 1st April 2014 was challenging, but at the same time provided the team with unique development opportunities. Our highly qualified staff successfully brought in new procedures and documentation ready for the delivery of the new scheme, and were on hand to manage member queries and provide technical advice to employers.

Unfortunately due to the late publication of the LGPS Regulations (Transitional Provisions) and the Government Actuaries Department (GAD), the current pension software does not meet the full LGPS 2014 specification criteria to calculate all of the key calculations. To overcome this problem we have designed manual workarounds, spreadsheets, documented processes and training manual, which have enabled us to continue to calculate and deliver against our published service levels.

### CIPFA benchmarking

The Fund participates in the Chartered Institute of Public Finance (CIPFA) Pensions Administration Benchmarking Club. The club compares a wide range of statistics with other Administering Authorities in England and Wales to assess performance, with a drive to raising the standard of administration and keeping the service cost effective. The fund is required to provide extensive data to CIPFA, including the number of staff and the range of work that is carried out in each area.

The total cost of administering the fund per member for the 2013/14 financial year was £19.49 compared with £19.09 for 2012/13. This compared favourably with the average for local authorities which was £20.75 for 2013/14 and £21.42 for 2012/13.

CIPFA generate a report based on this benchmarking data which breaks down how the total cost is calculated.



The annual cost of administering the Cheshire Pension Fund per member compared with the average cost for authorities in the benchmarking club is shown in the table below:

Cost per member 2013/14	Cheshire Pension Fund £	Average £
Staff	£8.73	£8.87
Payroll	£1.77	£1.97
Other Direct Costs	£8.99	£9.91
Total cost per member	£19.49	£20.75

The following table shows the Cheshire Pension Fund's total cost per member compared against a range of other local authorities within the benchmarking club:

#### Comparison of unit cost per member 2013/14

Highest	£24.90
Cheshire West & Chester	£19.49
Average	£20.75
Lowest	£14.75

## Administration Performance

As mentioned later in the Scheme Administration Report, with the introduction of New LGPS 2014 every aspect of the administration needed to change. Implementing the new scheme would be demanding on resource and paramount in our planning was the ability to support and lead our employers and members through the transition, whilst at the same time meet our service level agreements for key casework types. We therefore prioritised the casework into two categories.

## Business Critical

Where an immediate payment is due or will shortly fall due i.e. actual retirements, voluntary redundancies and dependants pensions. This has been given the highest priority and significant resource has focused on this area. It is important to note that in these areas we continue to achieve our published service levels.





## Non-Critical

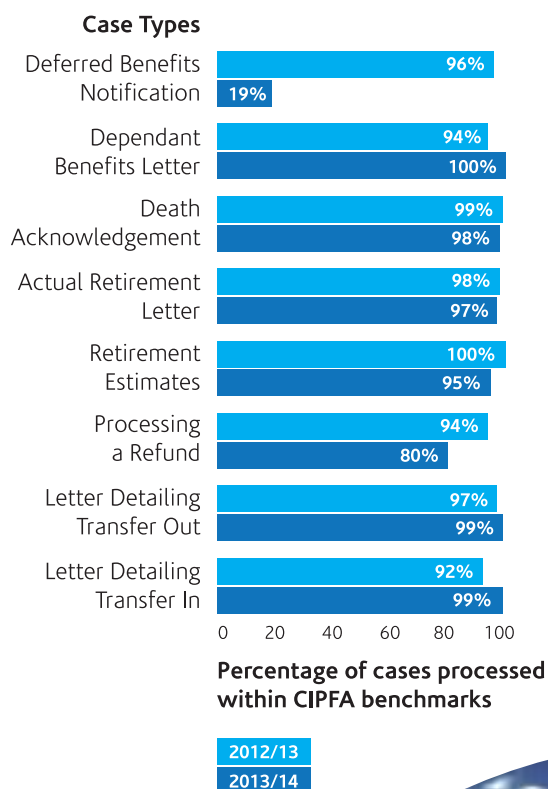
As our resource has been targeted on those areas where an immediate pension is due, we have seen a reduction in the completion of deferred pension casework. A deferred pension is when a member leaves the Scheme with an entitlement to receive a pension in the future. This approach to prioritising workloads was agreed by the Pension Fund Committee and by employers through the Pension Fund Consultative Forum.

A separate project was initiated in March 2014 to address this build up of deferred cases. Taking advantage of the fact that a great deal of the initial preparation for LGPS 2014 has been carried out, resource has been channeled into tackling backlogs of cases. The opportunity was also taken to streamline some processes at the same time. As a result of these initiatives, the number of deferred cases that required processing has dropped from 412 to 79 while the number of cases processed but requiring checking dropped from 898 to 440.

The table below shows the impact of prioritising retirement benefits over the calculation of deferred benefits and processing refunds and that we have managed to maintain a very high standard of service in those areas that we have focused our resources.

2013/2014	Target for completion (days)	Number of cases processed	% processed within target
Letter Detailing Transfer In Details	10	329	99
Letter Detailing Transfer Out Quote	10	531	99
Processing a Refund	10	136	80
Retirement Estimates	5	2,349	95
Actual Retirement Letter	5	1,499	97
Death Acknowledgment	5	541	98
Dependant Benefits Letter	10	122	100
Deferred Benefits Notification	10	2,472	19

## Comparison of performance between 2012/13 and 2013/14



## Fund's Membership Profile over a five year period

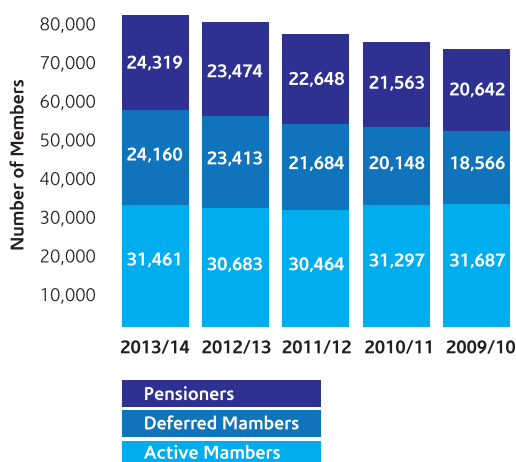
The fund's membership continues to grow year on year across all membership categories with the number of pensioners increasing by the largest percentage. It is positive to note that despite continued pressure on public sector finances that the number of active members in the scheme increased year on year, as increasing amount of employers are now obliged to auto-enrol new employees into the scheme.

### Membership Category (at 31st March each year)

	March-10	March-11	% change	March-12	% change	March-13	% change	March-14	% change
Actives	31,687	31,297	-1.2%	30,464	-2.7%	30,683	0.7%	31,461	2.5%
Pensioners	20,642	21,563	4.5%	22,648	5.0%	23,474	3.6%	24,319	3.6%
Deferreds	18,566	20,148	8.5%	21,684	7.6%	23,413	8.0%	24,160	3.2%
Total	70,895	73,008	3.0%	74,796	2.4%	77,570	3.7%	79,940	3.1%

## Analysis of membership profile

The chart below shows the total fund membership for each of the last 5 financial years. Total fund membership is broken down to show the number of active, deferred and pensioner members.



## Retirements with enhancement – Ill health, redundancy and efficiency of the service

The table below shows the total number of pensioners as at 31st March 2014 that had received an enhanced pension benefit as a result of retiring on ill health, redundancy or efficiency of the service. It should be noted that members who retire on tier 3 of ill health do not receive enhanced benefits and have been excluded. It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age.

Reason for leaving	Number of pensioners 2013/14	% of total number of pensioners 2013/14
Ill Health retirement	735	3%
Early Retirement – Redundancy or Efficiency	3,273	13%



## LGPS Contributions Breakdown

### Employers who made a contribution to the Fund during 2013/14

The table below shows the total contributions received from each employer within the Fund, and the total contributions paid by employees split by contribution banding.

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Cheshire East Council	365,588.51	638,218.49	1,801,632.79	2,468,465.38	877,127.02	594,955.91	49,925.29	133,705.95	34,637.40	-	26,928,241.01	33,892,497.78
Cheshire Probation Service	-	-	39,060.05	299,523.08	96,704.14	37,538.73	-	3,484.91	-	-	2,065,013.49	2,541,324.40
Cheshire West and Chester Council	438,489.24	647,979.65	1,716,605.61	2,601,996.13	1,092,682.60	888,615.29	87,906.95	99,492.76	46,318.26	-	28,275,158.66	35,895,245.15
Avenue Services	295.75	-	5,581.65	10,540.70	4,986.96	-	-	-	-	-	59,029.81	80,434.87
St Wilfrid's Primary School	-	327.67	1,104.00	-	-	-	-	-	-	-	5,432.44	6,864.11
Odd Rode Parish Council	-	-	1,139.75	26.70	-	-	-	-	-	-	3,709.07	4,875.52
Cheshire Fire and Rescue Service	2.01	9,297.68	68,365.73	183,628.31	70,200.93	24,332.00	-	-	280.13	-	1,137,547.50	1,493,654.29
Halton Borough Transport	-	-	-	10,054.27	-	-	-	-	1,234.65	-	36,659.64	47,948.56
Halton Borough Council	103,723.13	303,844.39	658,082.76	1,405,377.37	418,961.53	246,391.47	39,190.10	19,671.94	5,510.00	-	10,650,020.82	13,850,773.51
Halton Borough Council - Halton Lodge	416.94	559.05	2,427.60	2,738.97	-	-	-	-	-	-	20,188.41	26,330.97
Halton Borough Council - Strictly Education	3,549.70	7,539.31	28,718.07	11,455.67	1,368.63	-	-	-	-	-	176,710.77	229,342.15
Warrington Borough Council	140,863.54	320,871.32	1,289,597.74	1,646,428.46	656,828.17	342,177.12	70,634.26	68,291.85	9,380.52	-	14,940,462.37	19,485,535.35
Warrington Borough Council – Strictly Education	7,529.20	15,243.57	28,134.81	9,807.43	768.60	-	57.40	2,020.88	207.48	-	213,724.09	277,493.46
NW Fire Control Ltd	-	574.44	172.82	1,580.38	-	3,170.90	-	-	-	-	11,528.62	17,027.16



Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Alderley Edge Parish Council	-	390.06	791.11	1,616.27	-	-	-	-	-	-	8,436.13	11,233.57
Northwich Town Council	-	-	6,342.48	2,921.96	2,226.91	-	-	-	-	-	35,000.76	46,492.11
Nantwich Town Council	1,413.86	1,070.19	1,067.65	12,099.59	-	-	-	-	-	-	46,817.31	62,468.60
Knutsford Town Council	-	49.25	379.78	1,763.34	-	-	-	-	-	-	6,470.01	8,662.38
Penketh Parish Council	1,647.42	594.49	1,614.93	1,514.84	-	-	-	-	-	-	17,083.54	22,455.22
Bollington Parish Council	-	550.88	-	1,055.19	-	-	-	-	-	-	4,837.53	6,443.60
Middlewich Town Council	-	-	-	1,787.72	2,940.19	-	-	-	-	-	13,314.47	18,042.38
Poynton-with-Worth Parish Council	-	588.29	695.19	2,406.17	2,737.26	-	-	-	-	-	18,649.32	25,076.23
Valuation Tribunal Services	-	-	-	-	-	4,219.56	-	-	-	-	44,429.12	48,648.68
Disley Parish Council	-	787.89	43.09	1,258.76	-	-	-	-	-	-	6,331.68	8,421.42
Wybunbury Parish Council	-	-	29.43	-	-	-	-	-	-	-	85.92	115.35
Prestbury Parish Council	-	-	-	1,184.02	-	-	-	-	-	-	3,424.54	4,608.56
Nether Alderley Parish Council	-	-	83.88	327.59	-	-	-	-	-	-	1,137.24	1,548.71
Birchwood Town Council	-	1,851.18	1,103.65	1,428.85	2,089.22	-	-	-	-	-	18,185.92	24,658.82
Grappenhall and Thelwall Parish Council	-	-	710.51	2,875.68	-	-	-	-	-	-	10,187.42	13,773.61
Conxgleton Town Council	-	-	3,682.95	3,919.12	1,041.12	2,379.82	-	1,152.84	-	-	31,986.08	44,161.93

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Frodsham Town Council	-	-	825.77	-	-	-	-	-	-	-	2,631.37	3,457.14
Sandbach Town Council	404.67	-	1,589.66	4,903.38	2,667.04	-	-	-	-	-	26,216.88	35,781.63
Priestley Sixth Form College	4,720.17	11,292.70	27,070.92	18,135.62	5,898.21	-	-	-	1,091.59	-	185,799.65	254,008.86
Warrington Collegiate Institute	5,304.42	15,749.70	61,542.17	85,452.21	17,009.29	21,203.32	-	3,574.84	-	-	837,618.24	1,047,454.19
Macclesfield College	1,974.53	8,896.22	32,079.20	33,413.40	14,964.28	4,570.81	-	2,948.91	267.57	-	275,672.87	374,787.79
West Cheshire College	19,246.85	31,269.79	96,401.89	100,087.91	27,743.21	20,568.50	-	252.24	252.24	-	877,742.69	1,173,565.32
South Cheshire College	614.16	5,192.18	34,481.40	102,856.58	27,543.49	21,434.03	-	-	1,828.08	-	690,354.81	884,304.73
Reaseheath College	27,272.28	15,009.68	87,602.14	133,234.01	33,868.07	15,960.06	87.33	3,750.90	-	-	900,117.83	1,216,902.30
Wade Deacon High School	7,202.38	9,339.86	21,407.06	20,601.46	2,761.04	4,537.00	-	-	-	-	259,496.41	325,345.21
Rudheath Primary Academy	1,196.27	4,053.30	4,580.92	2,842.42	-	-	-	-	-	-	53,265.04	65,937.95
Birchwood Community High School	6,095.95	6,377.60	13,621.31	12,337.97	2,336.53	-	-	2,377.16	667.74	-	170,746.02	214,560.28
Penketh High School	6,975.55	4,458.87	23,527.15	14,276.74	3,042.86	-	-	-	-	-	214,106.58	266,387.75
Worth Primary School	712.49	1,968.22	2,371.87	998.65	-	-	-	-	-	-	25,613.90	31,655.13
St Thomas More Catholic High School	5,396.97	3,287.54	6,295.32	3,741.86	2,343.35	-	-	-	782.57	-	88,384.93	110,232.54
Stapeley Broad Lane Primary School	1,497.50	3,419.46	1,122.19	2,445.87	-	-	-	-	-	-	34,525.33	43,010.35
St Martins Academy	51.65	1,029.82	649.43	-	-	-	-	-	-	-	6,623.60	8,354.50

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Leighton Academy	1,619.48	1,994.83	10,767.62	-	-	-	-	-	-	-	71,684.30	86,066.23
Warrington Collegiate Education Trust	-	-	258.44	919.05	-	1,995.38	-	-	-	-	13,153.08	16,325.95
University Cathedral Free School	296.65	875.50	634.53	1,042.97	-	-	-	-	-	-	9,547.80	12,397.45
Cloughwood Academy	403.72	882.50	5,652.04	5,453.65	3,289.77	-	-	-	-	-	60,840.30	76,521.98
Holmes Chapel Primary School	1,624.79	702.51	2,569.43	2,436.77	-	-	-	-	-	-	29,323.67	36,657.17
Whirley Primary School	153.00	127.49	217.21	118.43	-	-	-	616.13	-	-	4,675.64	5,907.90
Alsager School	1,861.57	3,978.06	10,179.06	10,269.23	3,546.11	-	-	-	-	-	33,447.12	42,241.84
Sir William Stanier Community School	8,528.18	4,371.76	15,029.98	6,857.14	-	1,630.16	-	-	743.68	-	145,954.01	183,114.91
Over Hall Community School	1,937.66	841.19	3,232.15	2,783.72	-	-	-	-	-	-	33,447.12	42,241.84
Ash Grove Academy	912.80	1,007.80	1,873.57	-	-	-	-	-	-	-	16,432.17	20,226.34
Cranberry Academy	827.49	633.20	1,668.82	1,240.50	-	-	-	-	192.70	-	18,333.47	22,896.18
St Michael's Academy	1,656.04	3,591.61	1,810.53	2,744.75	-	-	-	-	150.45	-	41,237.35	51,190.73
Crewe Town Council	-	-	-	-	1,667.25	-	-	-	-	-	4,609.49	6,276.74
Adelaide School	340.50	-	759.84	1,954.76	-	-	-	-	-	-	12,285.71	15,340.81
Parkroyal Community School	907.90	2,344.54	3,146.73	2,385.64	-	-	-	-	-	-	36,742.06	45,526.87
Vivo Care Services Ltd	387.10	14,822.64	56,187.69	25,872.97	8,437.12	4,892.32	-	1,299.04	-	-	317,498.72	429,397.60

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
The Quinta Primary School	754.62	-	714.46	614.55	-	-	-	-	-	-	8,187.38	10,271.01
Uni Primary Academy Weaverham	267.20	190.17	861.31	665.25	-	-	-	-	-	-	8,242.54	10,226.47
Cavendish High Academy	153.82	418.62	3,152.74	566.80	273.72			-	-	-	15,355.20	19,920.90
Riverside College	2,264.39	16,325.18	65,141.44	46,374.48	4,753.84	17,542.88	-	-	-	-	572,472.53	724,874.74
South Cheshire Enterprises	625.74	-	-	-	-	-	-	-	-	-	4,163.89	4,789.63
Poulton with Fearnhead Parish Council	-	-	1,868.34	-	-	-	-	-	-	-	5,967.04	7,835.38
University COE Academy	1,891.34	8,936.36	17,192.50	31,066.24	387.94	4,465.57	-	-	-	-	192,160.65	256,100.60
Neston Town Council	-	-	735.14	2,268.11	-	-	-	-	-	-	8,334.32	11,337.57
The Fallibroome Academy	9,744.88	12,196.77	27,393.67	18,653.94	2,484.97	3,505.09	-	-	-	-	250,902.33	324,881.65
Brine Leas School	14,984.69	5,070.25	11,844.47	5,168.15	-	3,807.89	-	-	-	-	138,373.19	179,248.64
Ormiston Bolingbroke Academy	4,990.51	6,644.32	9,656.41	10,600.94	1,052.58	-	-	-	-	-	121,004.80	153,949.56
Winsford E-Act Academy	5,004.63	12,507.06	19,726.42	16,300.53	-	4,075.36	-	-	-	-	177,343.19	234,957.19
Sandbach Academy	12,746.46	6,054.40	11,800.51	9,874.02	-	3,800.20	-	-	-	-	156,310.86	200,586.45
Christleton Academy	2,612.80	8,124.27	17,817.83	7,934.05	-	3,859.14	-	-	1,099.46	-	112,425.25	153,872.80
Bishops Blue Coat COE HS	4,877.62	2,472.49	13,786.38	14,046.42	-	3,669.82	-	-	-	-	128,325.10	167,177.83
Congleton Academy	5,320.16	8,984.27	12,196.90	10,650.44	-	-	-	-	-	-	127,548.61	164,700.38



Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Delamere Academy	1,718.19	2,081.44	979.56	1,180.88	-	-	-	-	-	-	21,500.40	27,460.47
Mottram St Andrew School	16.48	1,077.42	1,182.17	5,047.55	-	-	-	-353.60	353.60	-	22,760.41	30,054.03
Brio Leisure	6,969.19	24,342.74	16,090.77	43,576.57	10,653.50	7,129.63	-	-31,144.46	-	-	414,529.71	492,210.65
The Heath School	1,783.99	3,295.59	16,558.72	21,118.21	2,493.83	-	-	518.42	2,623.18	-	150,685.48	199,077.42
Palacefields Academy	1,158.62	611.89	3,418.03	4,006.75	-	-	-	-	-	-	34,876.00	44,071.29
Macclesfield Academy	2,635.39	3,042.35	12,100.06	7,375.71	-	-	-	-	-	-	132,544.84	157,698.35
Lacey Green Primary School	3,488.66	2,375.12	2,919.14	2,181.27	-	-	-	-	-	-	35,984.08	46,948.27
Holmes Chapel Comprehensive School	19,370.00	5,304.26	13,929.44	8,801.97	-	280.28	-	-	-	-	169,035.35	216,721.30
Wilmslow Town Council	-	-	101.66	683.71	2,534.98	-	-	-	-	-	9,281.32	12,601.67
UOC Academies Trust	-	-	2,879.93	3,336.86	2,891.91	1,495.53	-	-	-	-	27,459.27	38,063.50
University COE Academy Northwich (UCAN)	3,947.46	6,130.97	12,500.76	9,279.19	1,957.25	-	-	659.34	68.74	-	94,035.38	128,579.09
Knutsford Academy	5,972.56	13,746.58	11,906.61	18,374.86	2,907.72	1,233.50	-	-	668.80	-	199,358.62	254,169.25
Livewire	2,426.47	20,040.36	72,560.46	58,570.85	19,533.87	9,222.22	6,600.45	2,238.62	723.50	-	665,925.96	857,842.76
Warrington Cultural Trust	151.28	946.15	9,178.04	20,556.14	3,198.22	4,782.82	-	-	-	-	128,294.01	167,106.66
Alsager Town Council	-	-	-	2,027.33	1,810.94	-	-	-	-	-	10,862.04	14,700.31
Neston High School	9,399.91	10,014.39	15,308.27	9,204.04	3,032.60	-	-	-	-	-	174,419.98	221,379.19

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Sandymoor School	355.39	1,990.17	1,178.91	2,979.25	2,471.45	-	-	-	-	-	28,015.93	36,991.10
Tarporley High School & Sixth Form College	6,840.06	6,675.71	7,609.06	13,785.06	-	3,505.09	-	-	-	-	137,151.95	175,566.93
Eaton Bank Academy	6,871.21	5,333.89	14,873.45	8,874.69	2,935.61	-	-	-	-	-	166,304.51	205,193.36
Lymm High School	3,630.44	18,889.57	20,997.91	21,974.11	2,402.69	5,178.61	-	-	-	-	239,861.76	312,935.09
County High Leftwich	14,595.97	4,330.47	4,141.77	9,854.73	-	2,186.90	-	-	-	-	132,680.76	167,790.60
Kelsall Primary School	846.28	931.63	2,193.73	3,405.38	-	-	-	-	-	-	27,325.69	34,702.71
Handforth Parish Council	-	-	-	1,541.00	-	-	-	-	-	-	4,455.46	5,996.46
Kings Leadership Academy, Warrington	268.80	-	305.15	191.85	-	-	-	-	-	-	2,600.70	3,366.50
Holmes Chapel Parish Council	-	-	-	444.64	-	-	-	-	-	-	1,286.10	1,730.74
Lymm Parish Council	-	-	-	440.89	-	-	-	-	-	-	1,241.39	1,682.27
University Academy Warrington	2,057.46	8,508.72	10,533.54	8,264.08	2,737.32	-	-	-	-	-	137,540.96	169,642.08
Great Sankey High School	3,664.49	11,346.42	18,194.14	14,022.88	1,426.77	2,224.18	-	-	-	-	186,720.17	237,599.05
All Hallows Catholic College	5,218.89	8,408.95	8,580.61	6,439.25	-	4,438.52	-	-	-	-	142,456.77	175,542.99
Beamont Collegiate Academy	1,806.12	6,500.88	21,464.39	17,250.45	2,732.49	-	-	1,291.33	-	-	260,079.25	311,124.91
The Waterways Trust	-	-	830.92	-	-	-	-	-	-	-	4,007.03	4,837.95
Cheshire Community Action	-	-	-	3,545.44	-	-	-	-	-	-	13,418.08	16,963.52

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Volunteer Centre Warrington	-	843.95	-	5,605.71	-	-	-	-	-	-	17,638.69	24,088.35
Age Concern Mid Mersey	-	384.36	2,021.27	1,542.90	-	-	-	-	-	-	12,213.87	16,162.40
Middlewich Joint Cemetery Committee	-	-	915.17	-	-	-	-	-	-	-	2,916.15	3,831.32
Warrington Housing Association	3,010.92	2,414.83	9,488.56	36,664.45	5,375.09	17,141.58	-	-	-	-	199,218.84	273,314.27
Cheshire and Warrington Sports Partnership	262.19	154.66	1,827.88	4,845.18	8,080.26	4,122.00	-	-	-	-	35,406.36	54,698.53
Care Quality Commission	-	-	-	1,431.48	5,375.11	-	-	-	-	-	21,224.16	28,030.75
Norton Priory Museum Trust	-	1,465.06	994.69	8,114.24	-	-	-	-	-	-	21,222.59	31,796.58
Norton Priory Museum Trust – Halton BC	-	-	-	3,006.96	-	-	-	-	-	-	9,298.34	12,305.30
The Catholic High School, Chester	4,675.39	5,180.32	12,583.93	11,858.62	-	4,260.76	-	-0.02	-0.02	-	165,444.20	204,003.18
Macclesfield Museum Trust	3,344.58	-	-	2,269.63	-	-	-	-	-	-	29,121.07	34,735.28
Deafness Support Network	-	-	-	681.96	3,040.56	-	-	2,021.16	-	-	32,627.40	38,371.08
Warrington Community Living	-	18,875.40	3,098.22	12,367.26	1,681.52	3,630.00	-	-	-	-	108,103.02	147,755.42
Cheshire County Sports Club	445.36	97.16	1,088.75	-	-	-	-	-	-	-	6,118.68	7,749.95
Cheshire and Warrington Tourism Board	-	-	-	690.48	-	-	-	-	-	-	1,774.08	2,464.56
Dane Housing Group	872.62	1,280.48	9,839.83	69,326.14	15,302.16	14,710.26	152.20	-	-	-	508,075.22	619,558.91
Sandbach School	1,053.13	4,877.42	14,654.74	22,461.86	-	3,991.96	-	-	-	-	191,435.22	238,474.33

[illegible]



Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£	£		
A D Solutions	-	-	-	3,864.52	-	-	-	-	-	-	15,577.11	19,441.63
Regent Cleaning (Fire)	730.62	-	-	-	-	-	-	66.46	-	-	3,257.01	4,054.09
Hall Cleaning Services Ltd	461.46	-	-	-	-	-	-	-	-	-	1,706.35	2,167.81
Bullough's Cleaning Ltd	1,253.42	1,463.74	592.73	-	-	-	-	-	-	-	9,059.43	12,369.32
Aspens Services	1,706.20	-	-	-	-	-	-	-	-	-	6,917.79	8,623.99
SERCO Group	-	-	-	-	6,957.33	4,123.98	-	-	-	-	105,154.52	116,235.83
Ringway Jacobs	2,334.34	2,574.87	20,148.21	57,648.61	18,902.93	2,564.76	-	-	-	-	357,550.97	461,724.69
R M Estates	-	-	2,159.36	-	-	-	-	-	-	-	8,161.71	10,321.07
Sport Cheshire	-	-	-	1,660.92	-	-	-	-	-	-	5,708.16	7,369.08
Marketing Cheshire	-	-	1,205.45	2,744.83	5,180.96	-	-	-	-	-	30,963.55	40,094.79
May Gurney Limited	8,563.02	801.73	12,580.04	40,788.96	3,968.91	-	-	-	-	-	262,457.58	329,160.24
Plus Dane Housing Association Ltd	108.38	1,381.07	63,140.32	100,124.46	24,382.14	7,316.20	-	-	-	-	797,070.41	993,522.98
Local Solutions	-	-	-260.55	-	-	-	-	-	-	-	-987.89	-1,248.44
Dataspire	-	-	1,859.99	-	-	-	-	-	-	-	6,872.47	8,732.46
Ringway Infrastrucutre	-	928.97	26,277.67	19,430.38	2,963.30	-	-	-	-	-	208,218.92	257,819.24
Curzon Cinemas Limited	565.10	-	1,187.81	-	-	-	-	-	-	-	6,628.66	8,381.57

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
Foundation Enterprises NW	-	-	-	2,100.45	-	-	-	-	-	-	15,859.03	17,959.48
Northgate Managed Services	-	-	1,234.16	-	-	-	-	-	-	-	4,162.59	5,396.75
HQ Theatres Limited	441.67	1,652.85	-	6,603.31	-	-	-	-	-	-	31,905.00	40,602.83
Tommy Thumbs	541.96	-	-	-	-	-	-	50.91	-	-	2,349.92	2,942.79
Bulloughs – Collegiate	3,146.95	-	1,090.51	-	-	-	-	-	-	-	15,215.78	19,453.24
Compass (Chartwells Ltd)	1,099.63	-	-	-	-	-	-	-	-	-	4,459.49	5,559.12
Adoption Matters NW	1,239.12	1,682.45	3,618.05	43,231.96	15,001.28	4,397.39	-	3,189.37	-	-	208,346.83	280,706.45
Bulloughs – Brine Leas	2,117.88	275.10	-	-	-	-	-	-	-	-	11,634.22	14,027.20
Police & Crime Commissioner	-	11,053.53	657,674.04	1,129,911.89	262,307.99	88,343.59	15,332.12	29,538.92	-	-	5,838,178.32	8,032,340.40
Warrington Borough Transport	-	-	3,521.37	11,214.59	-	4,932.00	-	-	-	-	61,239.36	80,907.32
Sir John Deane's College	6,947.93	10,925.71	8,189.93	15,525.30	3,256.79	5,262.40	-	2,075.80	-	-	158,708.38	210,892.24
Mid-Cheshire College	84.57	8,074.23	61,724.98	74,146.24	13,737.74	21,470.85	-	1,842.04	7,010.64	-	675,594.86	863,686.15
Making Space	-	-	1,804.44	5,255.78	-	-	-	-	-	-	121,296.63	128,356.85
Vision Support	-	-	-	-	-	-	-	-	-	-	24,000.00	24,000.00
David Lewis Centre	275.05	-	-	-	-	-	-	-	-	-	753,031.38	753,306.43
Youth Federation	-	-	-	-	-	-	-	-	-	-	5,000.00	5,000.00

Employer Name	Employees Contributions split by contribution banding										Employer's Contributions	Total
	5.50%	5.80%	5.90%	6.50%	6.80%	7.20%	7.50%	Added Years	ARC's	Councillors (at 6%)		
	£	£	£	£	£	£	£	£	£			
King's School	333.66	297.64	1,991.01	8,776.75	-	7,866.00	-	8,023.70	-	-	101,988.87	129,277.63
University College Chester	512.74	67,856.62	160,771.35	600,824.05	84,909.72	62,265.19	24,462.52	12,437.18	11,252.38	-	2,621,134.49	3,646,426.24
C L S Care Services	1,383.76	1,013.72	721.72	7,551.03	2,344.76	-	-	-	-	-	430,214.30	443,229.29
Chester and District Housing Trust	6,012.86	6,693.26	55,775.95	247,570.56	35,329.64	28,943.41	4,535.13	5,218.76	-	-	1,310,776.67	1,700,856.24
Weaver Vale Housing Trust	3,285.02	3,998.23	85,426.35	226,799.82	20,189.78	40,709.80	-	3,377.77	-	-	1,271,160.49	1,654,947.26
BAM UK Ltd	292.20	-	-	-	-	-	-	-	-	-	10,867.50	11,159.70
Winsford Town Council	281.10	377.06	3,015.20	2,268.11	-	-	-	-	-	-	18,350.81	24,292.28
Halton Borough Council Councillors								-	-	2,958.19	9,894.02	12,852.21
Cheshire West Councillors								-	-	43,760.13	161,892.31	205,652.45
Cheshire East Councillors								-	-	38,133.52	141,729.66	179,863.18
Chesh Magistrates Courts								-	-	-	167,600.00	-
Connexions Cheshire/Warr								-	-	-	-56,680.33	-56,680.33
Creative Support	-	-	-	-	-	-	-	-	-	-	31,738.00	31,378.00
D.V.L.C.Swansea								-	-	-	6,760.37	-
Wirral Metro Dist Cl								-	-	-	24,933.18	-
C of E Coun Social Aid								-	-	-	2,247.42	-
<b>TOTAL</b>	<b>512.74</b>	<b>67,856.62</b>	<b>160,771.35</b>	<b>600,824.05</b>	<b>84,909.72</b>	<b>62,265.19</b>	<b>24,462.52</b>	<b>390,985.63</b>	<b>127,345.34</b>	<b>84,851.85</b>	<b>116,791,895.30</b>	<b>149,915,761.29</b>

# Investment Policy & Performance

## Asset Allocation

The strategic asset allocation of the Pension Fund is determined on a triennial basis in conjunction with the actuarial valuation exercise. It aims to meet the long term target rate of return with an acceptable level of risk and includes an appropriate diversification of asset classes. The strategic asset allocation is agreed by the Pension Fund Committee after taking advice from the Fund's professional advisers.





The strategic asset allocation for the Pension Fund at 31 March 2014 is set out in the table below. It should be noted that a forward looking strategic asset allocation approved by the Pension Fund Committee and effective 1 April 2014 is set out in the Fund's Statement of Investment Principles.

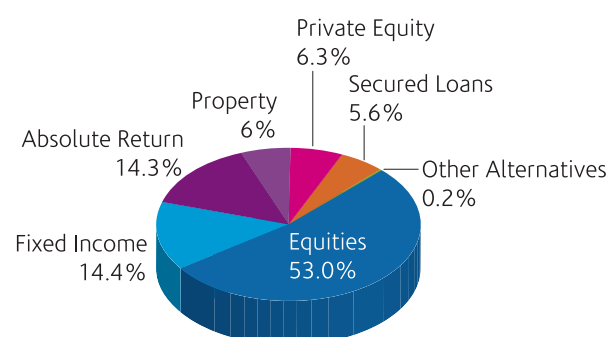
Asset Class	2013 Strategic Allocation (%)	2014 Strategic Allocation (%)	Change +/- (%)
Equities	51.0	45.8	- 5.2
Fixed Income	14.0	19.2	+ 5.2
Absolute Return	15.0	15.0	-
Secured Loans	5.0	5.0	-
Property	9.0	7.0	- 2.0
Other Alternatives	1.0	3.0	+ 2.0

Following the 2013 valuation the Pension Fund Committee developed and approved an updated strategic asset allocation for the Fund. The initial phase of transitioning to the new strategic asset allocation involved a reallocation of assets from equities to index linked gilts (5.2% of total fund assets), and a reallocation from property to other illiquid alternatives (2.0%) during the financial year.

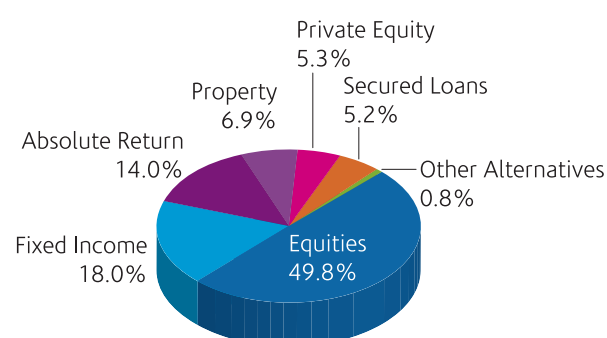
The changes implemented during 2013-14 reflect a key objective of the Fund's strategy to reduce investment risk for scheme employers, affordability permitting.

The actual asset allocation of the Pension Fund at the start and end of the financial year is set out below. The figures are based on market value and reflect the relative performance of investment markets, the impact of asset allocation decisions made by investment managers and changes to the strategic asset allocation during the financial year (as outlined above).

## Actual Asset Allocation



1 April 2013



1 April 2014

The Pension Fund Committee sets control ranges linked to the strategic benchmark against which the Fund's actual asset allocation is monitored. The asset allocations shown in the chart are in line with the control ranges set by the Committee at the 2010 valuation and subsequently updated.

A full explanation including forward looking control ranges is provided in the Statement of Investment Principles.

## Appointed Investment Managers

The Fund has appointed 14 external investment managers to undertake the day to day management of the Fund's assets across 18 mandates. Each manager has a specific performance target against which their performance is regularly monitored. The value of direct assets under management (excluding any investment liabilities) by each manager and their respective benchmarks are shown in the table below.

Manager	Assets (£m)	Date appointed	Mandate	Investment Style	Benchmark	Performance Target
Legal & General	741	1993	Global Equities / Bonds	Passive Index Tracker	Tailored Benchmark	Track Index
Baillie Gifford Global Alpha	407	2011	Global Equities	Active	MSCI All World Index	+3%
Baillie Gifford Long Term Global Growth	325	2005	Global Equities	Active	FTSE All World Index	+3%
Baillie Gifford	51	2008	Fixed Income	Active	45% FT Actuaries All Stock Index, 55% Bank of America Non Gilts Index	+1.5%
GMO	460	2005	Global Equities	Active	MSCI World Index	+3%
Rockspring	245	1988	Property	Active	BNY Property Median	Outperform Index
Goldman Sachs	205	2008	Fixed Income	Active	Bank of America Sterling Broad Index	+2%
Henderson	196	2012	Fixed Income	Active	LIBOR	6% Absolute Return Target
M&G	156	2006	Secured Loans	Active	LIBOR	+1.75%
M&G	30	2009	UK Company Financing Fund	Active	LIBOR	10% per annum
M&G	29	2012	Distressed Debt	Active	LIBOR	15% per annum
Adam Street Partners	105	2003	Private Equity	Active	LIBOR	12%-15% IRR (net of fees)
Pantheon Ventures	84	2003	Private Equity	Active	LIBOR	8%-10% per annum
Lexington	6	2005	Private Equity	Active	LIBOR	10% per annum
Arrowgrass	124	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Permal * *	203	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Och Ziff	80	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Winton	90	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Money Market Funds	18	Various	Cash	Active	LIBOR	Outperform LIBOR
<b>Total</b>	<b>3,555</b>					

\* \* The Fund's investment with Permal was previously called Fauchier, Jubilee Fund.

## Geographic Distribution of Equity Investment

as at 31 March 2014

The Fund has £1,192m invested directly in equities around the world with a further £570m invested indirectly through pooled or collective investment vehicles. The geographical distribution of the Fund's equity investments including pooled funds is shown below:



## Details of Largest Equity Investments

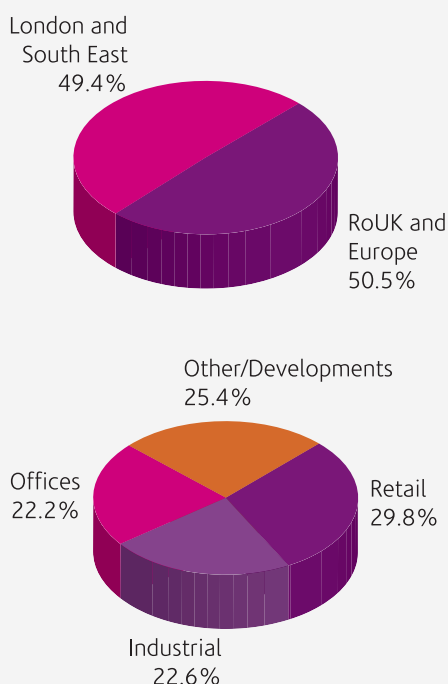
as at 31 March 2014

The Fund's 15 largest direct equity holdings are shown below:

Top 15 Direct Equity Investments	Market Value (£m)
Google	37.3
Amazon.com	32.6
Tencent Holdings	28.1
Baidu Inc	27.9
Illumina	24.1
Ebay	21.2
Apple	17.9
Atlas Copco	16.8
Industria De Diseno	16.1
Kering	14.4
Intuitive Surgical	14.1
Prudential	13.6
Naspers	11.5
Royal Caribbean Cruises	11.1
Royal Dutch Shell	11.1

## Property Holdings

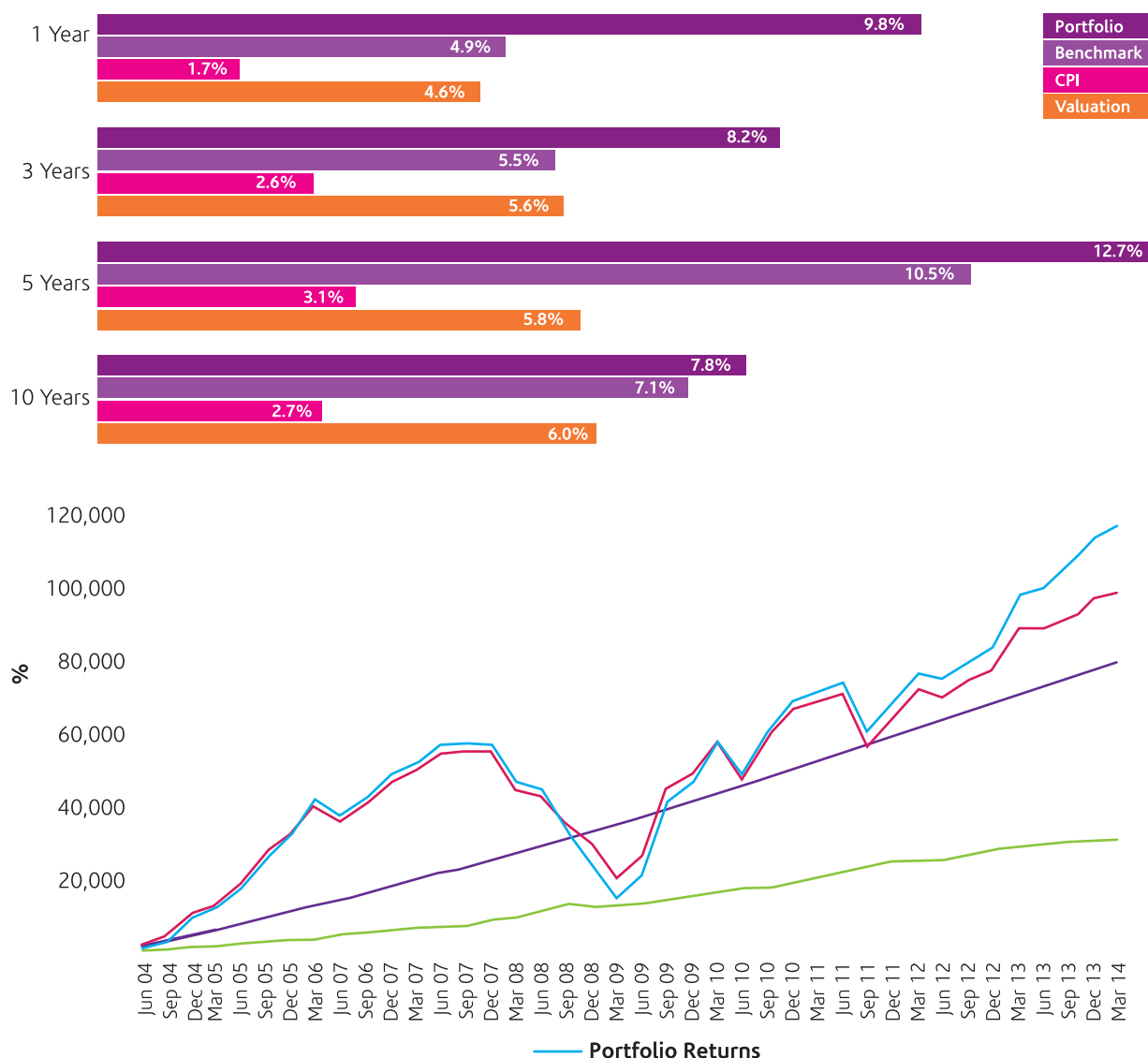
The Fund holds direct UK property assets totalling £231m in a diversified portfolio of UK retail, industrial and office properties with a further £12m invested in UK and European property unit trusts. A portfolio summary including the Fund's 10 largest holdings is shown below.



10 Largest Direct Property Holdings	Sector	Market Value (£m)
Flow 1 & 2, The Causeway, Staines	Office	24.8
City Gateway, Southampton	Multi Use incl. Residential	18.0
Maybrook Retail Park, Canterbury	Out of Town Retail	17.3
Haymarket & Humberstone Gate, Leicester	Retail	17.0
House of Fraser, Victoria Street, West Grimsby	Retail	14.0
Asda Stores Ltd, Bury	Retail	13.6
Haddenham Business Park	Industry	13.5
Welcomebreak A50 Services, Shardlow	Motorway Services	10.9
31/32 Cornhill, London EC3	Office	9.8
Sainsbury's, Church End, Milton Keynes	Retail	9.0

## Investment Performance

The Fund uses a tailored benchmark that reflects its specific asset allocation rather than a peer group benchmark. The following tables show 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:



The Fund has produced a return in excess of its tailored strategic benchmark, CPI and the valuation assumption over all time periods.

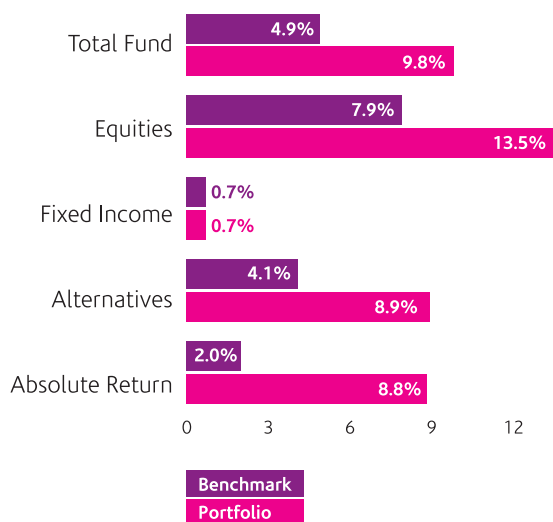
At 31 March 2014, 80% of the Fund's assets were managed actively by external investment managers in the belief that over the long term, active management will add value (net of management fees) over index or benchmark returns.

Notwithstanding this expectation of outperformance from active management, the Fund's performance will inevitably be linked to the performance of the global financial markets. The Fund gains market exposure through index tracking funds managed by Legal and General and this represents 20% of total assets.

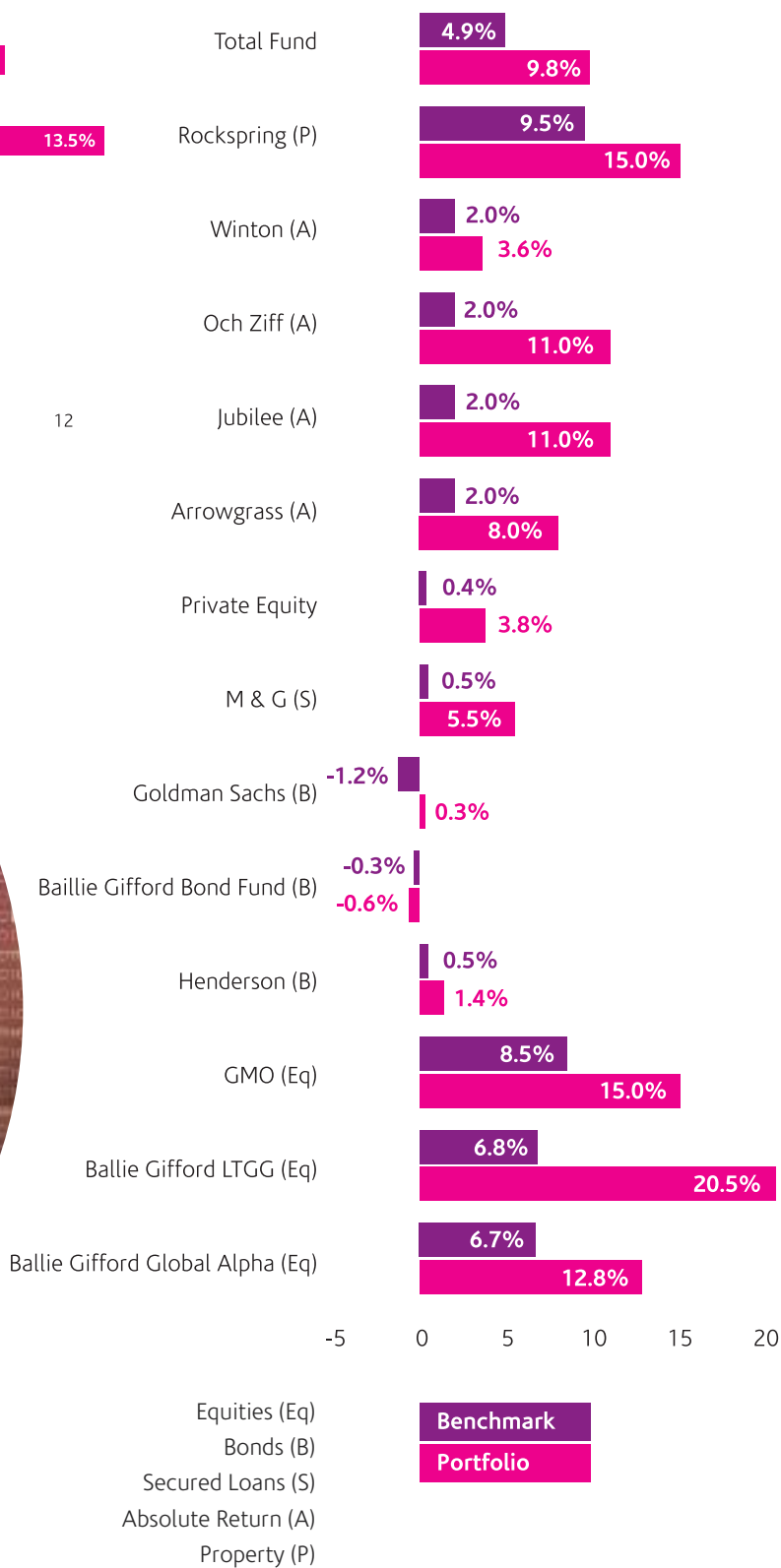


Performance by asset class and investment manager is shown in the charts below.

### 1 Year Performance by Active Investment



### Managers One Year Performance by Asset Class



## Statement of Responsible Investment

The Cheshire Pension Fund adopts a long term approach to responsible investment. The Pension Fund Committee recognise their full responsibility for the oversight of assets and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.

The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the revised Myners Principles. The Code states that institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- be willing to act collectively with other investors where appropriate.
- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.

The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

## 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 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 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 31st March:

	UK	Overseas	Total	%
Number of Companies	37	432	469	
Votes Cast in Favour	714	4,564	5,278	91.81
Votes Cast Against	12	306	318	5.53
Votes Abstained / Withheld	1	152	153	2.66
Total number of Resolutions	727	5,022	5,749	100.00

## Statement of Compliance with the UK Stewardship Code for Institutional Investors

The Cheshire Pension Fund supports the FRC Stewardship Code and, as part of its commitment to best practice, seeks to apply the Principles in the Code to its investment activity.

The day to day management of the Fund's assets is split delegated to its appointed investment managers and the Fund's adherence to the FRC Stewardship Code is set out below.

### Principle 1 Institutional investors should publically disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to apply the Code through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

More details on the Fund's corporate governance strategy can be found in its Statement of Investment Principles, which is available on [www.cheshirepensionfund.org.uk](http://www.cheshirepensionfund.org.uk).

### Principle 2 Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publically disclosed.

The Fund maintains and monitors a Register of Interests which is completed by members of the Pension Fund Committee. Pension Fund Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed on the Fund's website.

### Principle 3 Institutional Investors should monitor their investee companies.

The Pension Fund Committee delegates responsibility for managing the Fund's assets to the Investment Managers, who are expected to monitor companies and intervene where necessary. The Fund's appointed equity managers provide a quarterly report to the Investment Sub Committee on the level its level of engagement with investee companies. Additionally the Fund and its investment managers receive an "Alerts" service from the LAPFF which highlights corporate governance issues of concern at investee companies.

Ultimately, the Fund's investment managers can exercise their discretion not to vote in accordance with industry best practice. Where this discretion is exercised, the rationale for this decision is reported to the Investment Sub Committee on a quarterly basis.

**Principle 4** Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's Investment Managers, including the escalation of engagement when necessary. Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation. Any such actions and subsequent outcomes are reported to the Pension Fund Committee in order to monitor activity and assess effectiveness.

**Principle 5** Institutional investors should be willing to act collectively with other investors where appropriate.

Collaborative engagement is a key part of a responsible investment strategy and the Fund will seek to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

**Principle 6** Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attaching to its investments, where practical.

The Fund supports the principles underpinning the UK Corporate Governance Code. As a general rule, the Fund will vote in favour of resolutions which are in line with the UK Corporate Governance Code or comply with best practice. The Fund will vote against resolutions which do not meet these guidelines, or which represent a serious breach of best practice, or which will have a negative impact on shareholders rights. The Fund may abstain on resolutions which may have an adverse impact on shareholder rights, or represent a less significant breach of these guidelines, or where the issue is being raised for the first time with a company. The specific voting outcome will depend on the particular circumstances of the company and the types of resolution on the meeting agenda.

The Fund's appointed investment managers are responsible for the exercise of voting rights attaching to investments that are managed by them on behalf of the Fund.

Reports summarising the Fund's voting activity are presented to the Investment Sub Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts.

**Principle 7** Institutional investors should report periodically on their stewardship and voting activities.

The Fund publishes details of its stewardship and voting activities in the Annual Report and Accounts.

## 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
<b>Principle 1: Effective Decision Making:</b>  Administering authorities should ensure: <ul style="list-style-type: none"> <li>• 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</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<b>Compliant</b>  Decisions are taken by the Pension Fund Committee which is responsible for the management of the Cheshire Pension Fund.  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.  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.
<b>Principle 2: Clear objectives:</b>  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.	<b>Compliant</b>  The Committee has established objectives for the Fund which take account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This 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.
<b>Principle 3: Risk and liabilities:</b>  <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<b>Compliant</b>  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 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.



**Principle****Evidence of Compliance****Principle 4: Performance assessment:****Partially compliant**

- 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.

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 retender 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:****Partially compliant**

Administering authorities should

- 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.

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.

This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.

**Principle 6: Transparency and Reporting:****Compliant**

Administering authorities should

- 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.

The Pension Fund Committee maintains minutes of meetings which are available on the Council website.

The Council meet periodically with sponsoring employer bodies. A member representative attends Committee meetings.

The Statement of Investment Principles 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.



## 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 and GMO. 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
GMO	Segregated Equity	Bank of New York Mellon
Goldman Sachs	Fixed Income	State Street
Baillie Gifford Bond Fund	Fixed Income	Bank of New York Mellon
Henderson	Fixed Income	BNP Paribas
M&G	Secured Loans	State Street
Arrowgrass	Absolute Return	CITCO Fund Services
Och Ziff	Absolute Return	CITCO Fund Services
Winton	Absolute Return	CITCO Fund Services
Permal	Absolute Return	HSBC
Legal & General	Passive Equity / Gilts	HSBC

Both the investment managers and custodians report monthly on the investment transactions undertaken and officers of the Authority consolidate and analyse the data for accounting and management information purposes. The Investment Sub Committee receive detailed report from each investment manager on a quarterly basis with any issues raised escalated to the full Pension Fund Committee.

## Investment performance – link to Funding Strategy Statement

As noted on page 10 of this report, an output of the 2013 triennial valuation the actuary set a notional common contribution rate of 27.3%. In practice, no employer pays this notional rate as each individual employer will have a contribution rate which reflects their own particular circumstances.

Volatility in employer contribution rates can have a significant impact on payroll and the actuary has a regulatory requirement to ensure as constant a contribution rate as possible is maintained.

As part of the 2013 valuation process, extensive modelling was conducted to explore the long term effect on the Fund of capping or stabilising future contribution increases to avoid fluctuations in employer contribution rates resulting from formal funding valuations.

The results of this modelling indicated that it was justifiable to limit employer contribution rate changes to within defined limits of employers' contributions per annum, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events which render the stabilisation unjustifiable.

The table below summarises the actuary's recommendations for stabilised rates from the outputs of their modelling:

Type of Employer	Stabilisation Mechanism
Tax Raising bodies excluding Cheshire East Council (including Police and Fire and Parish Councils)	+0.5%pa/-0.5%pa
Cheshire East Council	+1.5%pa/-0.5%pa
Colleges	+2.0%pa/-0.5%pa
Academies	Same stabilisation as ceding local authority

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.

Two scheme employers phased in their contribution increases over a 3 year period.

During the year the Fund welcomed 31 new employers into the scheme, 26 schools converted to academies, 1 town Council passed a resolution to join the scheme, 1 company wholly owned by Cheshire West and Chester Council and 3 admitted bodies.

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 3 new admitted bodies and admission agreements and pension indemnity bonds were put in place by all 3, to be reviewed on an annual basis.

A bond was not required by the wholly owned Council company, as the Council acted as guarantor should the company default on its pension obligations.





# Scheme Administration Report

## Pensions Section structure

The Pensions section forms part of the Corporate Finance Team within the Finance Service which sits in the Resources Directorate of Cheshire West and Chester council.

The section which deals with the day to day administration of the scheme membership is made up into four teams:

- **Data Management team** – responsible for indexing incoming post and e-mails onto member records, creating records for new members, amending records for existing active, deferred and pensioner members and data cleansing for the annual benefits statements and triennial valuation projects.
- **Benefits Team** – responsible for the calculation of retirement benefits, early leavers, deceased members, CETV calculations for divorced members, transfers in and out of the fund and arranging and maintaining AVC'S/added years/ARC'S/ APC's contracts.
- **Employer Liaison and Communications Team** – responsible for 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.
- **Systems Team** – responsible for maintaining the AXISE pensions database to ensure it is backed up regularly, running monthly, quarterly and one-off reports through AXISE to provide accurate statistics for CIPFA benchmarking data and other projects and providing assistance to staff members who are having issues with the AXISE pensions database.

## Staff Numbers

The number of full time equivalent (FTE) staff reduced from 33.4 in 2012/13 to 32.6 in 2013/14 though this includes some vacant positions that have yet to be filled.

There are 25.2 FTE staff that work on the administration of the fund, 2.2 FTE working in communications and a further 5.2 staff working in employer liaison and pension fund investments.

## Technology and Pensions Administration System

The Pensions section currently uses the AXISE pensions administration software supplied by Aquila Heywood, utilising benefits calculation, task management, document imaging, document production and workflow functionality. The current version of AXISE will cease to be supported from January 2015 and following a collaborative procurement exercise, the Council will be migrating to the UPM software supplied by Civica over the Summer and Autumn of 2014. The implementation plan includes the roll out of employer and employee self-service functionality in 2015.

Pensioners payroll is processed through the Council's Oracle payroll system

The Pension Fund has a dedicated website [www.cheshirepensionfund.org](http://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.

In 2013/14 a Cheshire Pension Fund twitter account @CPF\_LGPS was launched to widen the communication channels open for the Fund to communicate to its customers.

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 laid out in the Communications Policy Statement section of this report.

## Audit

The Pension Fund is subject to an annual audit from the Council's external auditors. The Pension Fund is also allocated a set annual amount of days for Internal Audit review. The control framework, core processes and procedures have been subject to a significant degree of testing in recent years and have been found to be robust. Audit resource is therefore allocated on a risk based approach. In 2013/14 the two areas identified for review were two major projects, the implementation of the LGPS 2014 scheme and secondly the decision making, governance and implementation of the investment strategy review. Both reviews validated the process followed with some additional recommendations for further improvements.

## Internal Dispute Resolution Procedure

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 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 beneficiaries' 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 stage 1 decision they may move to a 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 Advisory Service (TPAS) and ask for their assistance. Where the complaint or dispute cannot be resolved after the intervention of TPAS, the member has three years in which to apply to the Pensions Ombudsman for a decision

The Pension Ombudsman can investigate any type of complaint about a beneficiaries pension, but the beneficiary must have been through stages 1 and 2 above of the IDRP before they contact the Ombudsman.

Fortunately such instances are few and far between. The table below shows the total number of resolved cases during 2013/14.

Stage	Cases Submitted during 13/14	Outstanding cases resolved in 13/14*	Outstanding cases as % of benchmarked workload	Dismissed	Upheld
1st	0	0	0	0	0
2nd	0	2	>1	2	0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>&gt;1</b>	<b>2</b>	<b>0</b>

**\*Includes cases submitted from previous financial years**

The total number of cases resolved during the year amounted to less than **1%** of the total benchmarked workload.



# Actuarial Report

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

## Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated January 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers;
- 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 different employers in determining contribution 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 the risk to other employers including tax raising employers 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 below the theoretical rate required to return their portion of the Fund to full funding over their deficit recovery period if the valuation assumptions are borne out. 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 still a sufficiently high chance that the Fund will return to full funding over the deficit recovery period.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £3,259 million, were sufficient to meet 82% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £723 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

### 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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	Nominal % p.a.	Real % p.a.
Discount rate	4.6%	2.1%
Pay increases	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

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\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of

1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

### Current Pensioners Future Pensioners\*

Males	Females
22.3 years	24.4 years
24.1 years	26.7 years

\*Future pensioners are assumed to be aged 45 at the last valuation date

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Cheshire West and Chester Council, the administering authority to the Fund, or on the Fund's website.

## Experience over the period since April 2013

Experience has been better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been greater than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



### Steven Scott FFA

Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson  
LLP 16

May 2014

## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 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.

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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Cheshire Pension Fund, which is in the remainder of this note.

## Balance sheet

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £1,965m in respect of employee members, £739m in respect of deferred pensioners and £2,087m in respect of pensioners. 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, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	4,791	4,607

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).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to decrease the actuarial present value by £275m.

## Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2013 % p.a.
Inflation/Pensions Increase Rate	2.8%	2.8%
Salary Increase Rate	3.6%	5.1% *
Discount Rate	4.3%	4.5%

\*Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

### Current Pensioners Future Pensioners\*

Males	Females
22.3 years	24.4 years
24.1 years	26.7 years

\*Future pensioners are assumed to be aged 45 at the last valuation date

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

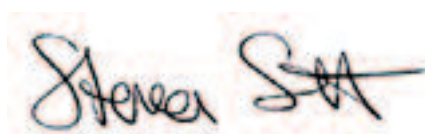
## Commutation assumption

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.

## Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 2 May 2014. 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:



**Steven Scott FFA**

16 May 2014



# Governance Arrangements

Cheshire West and Chester Council is the statutory Administering Authority for the Cheshire Pension Fund.

## Fund's Governance Objectives

- To ensure that the Governance arrangements of the Fund are conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively;
- To ensure that the Fund is governed and administered by Pension Committee Members and Officers who have appropriate knowledge and skills in order to discharge their responsibilities;
- To understand, manage and monitor the risks to the Fund;
- To ensure that the Fund procures the most appropriate services and goods at the most competitive price; and
- To be accountable to the Fund's members, employers and stakeholders for all decisions made.





## Governance Structure

Overall responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council who have delegated the governance of the Fund to the s151 Officer for Cheshire West and Chester Council advised by the Pension Fund Committee. Monitoring of investment performance and manager monitoring is undertaken by the Investment Sub Committee but ultimate responsibility for this function lies with the full Pension Fund Committee.

## The Pension Fund Committee

The Committee receive recommendations from the Investment Sub Committee and the Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively. 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. The Committee principally fulfill this responsibility by:

- Meeting quarterly, or otherwise as necessary, to effectively monitor investment activities during the year;
- Monitoring investment policy and monitor overall performance;
- Overseeing the appointment and termination of investment managers;
- Establishing performance benchmarks and targets for investment managers;
- Reviewing 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 regular reports from the (PCF) on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself and justify to stakeholders that the Fund is being run on an effective basis; and
- Approving and maintaining a Statement of Investment Principles, Funding Strategy Statement, Communication Policy, Governance Compliance Statement and publish a Pension Fund Annual Report.

## The Investment Sub Committee

The Committee review the investment performance of the Fund and Managers against set objectives, benchmarks and targets and consider if, and to what extent, any recommendation to the Pension Fund Committee may be necessary to ensure the efficient and effective investment performance of the Fund.

The Investment Sub Committee's key responsibilities are to:

- Receive reports from the Fund's investment managers and other service providers on issues that may impact on the Fund's investment strategy and objectives. Consider these reports and to what extent any recommendations to the Pension Fund Committee may be necessary to ensure the efficient and effective investment performance of the Fund;
- Receive and consider any investment manager and service provider issues escalated to the Committee by key Officers; and
- Receive appropriate advice from investment advisors in order to formulate and continually review the structure to ensure effective consideration, implementation and monitoring of investment opportunities for the Fund.

## The Pension Consultative Forum

The Fund is keen for all stakeholders to participate in the governance of the Fund and achieves this through the Pension Consultative Forum which consists of employer representatives from Local Authorities, Police, Fire and Rescue Authorities, Housing Associations, Admitted Bodies, Colleges and the Trades Unions. The Forum allows the Fund's stakeholders to bring their own perspective to the management of the Fund. The Forum's key responsibilities are to:

- Agree the terms and manage, on an ongoing basis, the Service Level Agreements in relation to the provision of administration services;
- Discuss the minutes and updates from the Pension Fund Committee and ensure the flow of information between the Committees and the Forum; and
- Ensure that the Forum's functions are discharged and approve the Annual Administration Reports.

## Delegation

The Administering Authority has delegated the following functions:

The s151 Officer sets the appropriate funding target for the Fund.

The day to day management of the Fund is delegated to the Head of Finance who is supported by the Senior Manager – Corporate Finance who heads the Pension Team.

The Head of Finance and Officers within Corporate Finance have delegated powers which include the following key responsibilities:

- Monitoring the activity and performance of the Fund's investment managers including compliance with policy and performance objectives;
- Ensuring that appropriate research is undertaken into new investment initiatives to ensure that the Fund is best placed to deliver the long term financial objectives;
- Monitoring and reconciliation of investment managers and custodians reports;
- Monitor funding levels;
- Maintaining regular dialogue with the Fund's advisors, investment managers and custodians;
- Preparation and maintenance of the Funding Strategy Statement, the Governance Policy Statement and the Communications Policy Statement;
- Calculation and authorisation of all benefit payments; and
- Provision of accurate and reliable membership data for actuarial valuation purposes.

## Representation

Representation on the Fund's Committees is outlined below.

### Pension Fund Committee

The Committee has the following membership:

Cheshire West and Chester Council	Elected Members	4 (voting rights)
Cheshire East Council	Elected Members	4 (voting rights)
Warrington Borough Council	Elected Members	1 (voting rights)
Halton Borough Council	Elected Members	1 (voting rights)
Employee representative	Unison Representative	1 (non voting rights)

Decisions are made by a clear majority and the Chairman of the Committee has a casting vote should there be equality in the voting.

### Investment Sub Committee

Membership of the Investment Sub Committee is open to voting members of the Pension Fund Committee through nomination, with final approval resting with the Full Committee.

### Pension Consultative Forum

The Forum has the following membership:

- A Chairperson (who is also Chairperson of the full Pension Fund Committee)
- An Employee Representative
- Up to two representatives from Cheshire West and Chester Council
- Up to two representatives from Cheshire East Council
- One representative each from Warrington and Halton Borough Councils
- One employer representative from Cheshire Police, Cheshire Fire & Rescue, Colleges, Admitted Bodies, and the Housing Trusts





## Governance Compliance Statement

The LGPS regulations require that the Administering Authority, after consultation with such persons as they consider appropriate, prepare, maintain, publish and keep under review a published compliance statement. The Fund's Compliance Statement sets out voting rights, stakeholder representation, frequency of meetings, access to papers, training and any reasons for non compliance with the Government's best practice principles. A link to the Fund's Compliance Statement is provided on the publications page of the report.

Principle	Cheshire Pension Fund	Compliance
<b>Structure</b>		
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.	The Pension Fund Committee established by the Administering Authority has been given this clear remit.	Comply
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.	Cheshire West and Chester Council is compliant with these principles; the Main Committee includes a member representative. The Pension Consultative Forum (PCF) comprises of other Councils, Unison, Pensioner Representatives, Colleges and Admitted Bodies.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	The Pension Consultative Forum (PCF) receives all papers sent to the main committee except where reports are deemed to be confidential (e.g. ongoing/ open fund manager appointment reports) PCF meetings are attended by the Chair of the main committee and officers of the Council.	Comply
Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	The Chairman of the PCF is the Chairman of the main committee, together with the member representative (Unison Representative).	Comply

Principle	Cheshire Pension Fund	Compliance
<b>Representation</b>		
That all-key stakeholders are afforded the opportunity to be represented within the main or sub committee. These include:	Scheme Employers, Housing Trusts, Colleges and Admitted Bodies are represented on the PCF.	Comply
<ul style="list-style-type: none"> <li>• Employing authorities</li> <li>• Admitted Bodies</li> </ul>		
<ul style="list-style-type: none"> <li>• Scheme Members (including deferred and pensioner scheme members).</li> </ul>	The main committee and the PCF include a trade union representative.	Comply
<ul style="list-style-type: none"> <li>• Independent professional observers</li> </ul>	The committee has expert advisors attending each meeting, however, we are currently reviewing this area in particular and looking at the profile and experience required for an independent advisor to compliment and add value to the proposed structure going forward.	Under Review Partial Compliance
<ul style="list-style-type: none"> <li>• Expert advisors (on an ad hoc basis)</li> </ul>	Expert advisors attend each Committee meeting. For example, the actuary attends periodically when the valuation, and other issues are being considered, and the investment consultant attends each meeting.	Comply
<ul style="list-style-type: none"> <li>• The policy on voting rights is clear and transparent.</li> </ul>	To date all decisions have been reached by consensus, but voting rights remain with councillors on the main committee because the Council retains legal responsibility as the administering body. The PCF does not have voting rights as they are not members of the administering body. However, the PCF chairman and member representative are members of the main committee, and will bring the perspectives of all stakeholders on the PCF to the main committee.	Comply

## 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.	There is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Comply
Where such a policy exists, it applies equally to all members of the main and sub committees.	The policy applies equally to all members on the main and sub committees.	Comply

## Meetings (Frequency / Quorum)

The main committee meets at least quarterly.	The main committee meets quarterly with additional special meetings as and when required.	Comply
The sub-committee meets at least twice a year and is synchronised with the dates when the main committee sits.	The Pensions Consultative Forum meets at least twice a year.	Comply



Principle	Cheshire Pension Fund	Compliance
<b>Access</b>		
That subject to any rules in the council's constitution, all members of main and secondary committees have equal access to committee papers, documents and advice that is considered at meetings of the main committee.	The sub- committee receives all papers sent to the main panel, except where reports are deemed to be confidential (such as ongoing/open fund manager appointment reports).	Comply
<b>Scope</b>		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Cheshire West and Chester Council is fully compliant with this principle by bringing both investments and benefit issues to the current Pension Fund Committee.	Comply
<b>Publicity</b>		
That 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.	Cheshire West and Chester Council is fully compliant with this principle by publishing statements in the Annual Report and our Website.	Comply



## Member Training

The Cheshire Pension Fund is keen to maintain and develop the knowledge and skills of its trustees on a continual basis. In order to achieve this, the Fund continues to seek the most appropriate structure to deliver a comprehensive training package that supports the delivery of a first class service to employers and members alike.

The Fund's trustees and officers completed the CIPFA knowledge and skills framework questionnaire, which aimed to identify the knowledge base of those involved. It was pleasing that all parties had a strong base of knowledge for all aspects of the LGPS. Following completion of this exercise, the Fund has developed a rolling 2 year training and skills programme.

The programme is delivered by industry experts and external advisors and is directly linked not only to the knowledge and skills framework but also the key activities that will be of interest to the Funds employers and members. The training programme was approved by the Pension Fund Committee and will see the delivery of a training session every quarter. This training and education programme has been developed in accordance with the Funds Policy statement on the subject.

In addition to this formal plan the Fund will supplement these defined sessions with additional training and education to reflect current issues e.g. specific asset classes in advance of a procurement process, and seminars and conferences held by industry recognised professionals and the Funds existing advisors and fund managers.

During 2013/14 the following sessions were held for all members of the committee:

Date	Topic	Delivered by
31 May 2013	LGPS 2014	Officers
	Investment Strategy and de-risking	Mercer
15 November	The case for multi asset credit	Wellington
22 November 2013	Triennial Valuation	Hymans Robertson
21 March 2014	LGPS 2014	Officers
	Illiquid Assets	Mercer

The Pension Fund Committee has designated the section 151 Officer to be responsible for ensuring that the policy in respect of training and education is implemented.

As the officer nominated by the pensions committee responsible for ensuring that the authority's training policies and strategies are implemented, the section 151 Officer can confirm 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**

Head of Finance

# Statement of Accounts





**Cheshire Pension Fund - Fund Account**  
for the year ended 31 March 2014

	Notes	2013-14 £000	2012-13 RESTATED £000
<b>Contributions and Benefits</b>			
<b>Contributions Receivable</b>			
From Employers	6.1	116,792	113,962
From Employees		33,124	33,050
<b>Total Contributions Receivable</b>	6.2	149,916	147,012
<b>Transfers in from Other Schemes</b>	7	8,667	11,268
<b>Benefits Payable</b>			
Pensions		-124,638	-118,983
Lump Sums		-21,051	-19,843
Death Benefits		-3,619	-3,142
<b>Total Benefits Payable</b>	8	-149,308	-141,968
<b>Payments to and on account of Leavers</b>			
Refund of Contributions		-13	-14
Transfers to Other Schemes		-8,534	-8,510
	9	-8,547	-8,524
<b>Administration Expenses</b>	10	-2,202	-2,169
<b>Net Additions / withdrawals from dealing with members</b>		-1,474	5,619
<b>Returns on Investments</b>			
<b>Investment Income</b>	11	40,608	42,486
<b>Taxes on Income</b>	12	-920	-792
<b>Profits and losses on disposal of investments and changes in the market value of investments</b>	14f	302,256	312,507
<b>Investment Management Expenses <sup>1</sup></b>	13	-22,497	-20,934
<b>Net Returns On Investments</b>		319,447	333,267
Net Increase/ (Decrease) in the Fund During the Year		317,973	338,886
Opening Net Assets of the Scheme		3,259,329	2,920,443
<b>Closing Net Assets of the Scheme</b>		<b>3,577,302</b>	<b>3,259,329</b>

### Cheshire Pension Fund - Net Assets Statement as at 31 March 2014

	Notes	2013-14 £000	2012-13 £000
<b>Investment Assets</b>			
Pooled Investment Vehicles	14/f, 19/20	1,408,953	1,306,341
Equities	14/f, 19/20	1,129,018	994,003
Absolute Return Funds	14b/f, 19/20	496,466	460,638
Investment Properties	17	230,965	188,249
Private Equity	14c/f 19/20	195,454	204,748
Loans	14d/f, 19/20	57,632	38,618
Derivative Contracts	15, 19/20	479	1,296
		<hr/> 3,518,967	<hr/> 3,193,893
Cash	14e/f, 19/20	31,105	34,030
		<hr/> 3,550,072	<hr/> 3,227,923
Other Investment Balances		6,032	4,723
	14f, 19/20	<hr/> 3,556,104	<hr/> 3,232,646
<b>Investment Liabilities</b>			
Derivative Contracts	15, 19/20	-764	-808
		<hr/>	<hr/>
<b>Total Net Investments</b>	18	<hr/> 3,555,340	<hr/> 3,231,838
<b>Long Term Assets</b>			
	23	13,888	16,019
<b>Current Assets</b>			
	24		
Cash at Bank		47	197
Debtors		16,488	19,243
<b>Current Liabilities</b>			
	25		
Creditors		-7,854	-5,245
Receipts In Advance		-607	-2,723
		<hr/>	<hr/>
Net Current Assets		21,962	27,491
<b>Total Net Assets</b>		<hr/> <b>3,577,302</b>	<hr/> <b>3,259,329</b>





## 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 & 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 Superannuation Act 1972 and the LGPS Regulations.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) (Amendment) Regulations 2013
- The LGPS (Management and Investment of Funds) Regulations 2009

The LGPS is a contributory defined benefit pension scheme up to 31 March 2014 and will be a career average revalued earnings scheme from 1 April 2014. 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 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 with active members participating in 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 & Chester Council with lead officer responsibility delegated to the Director of Resources. Day to day management of the Fund's affairs has been delegated to the Head of Finance 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 Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee.

The Fund undertakes a strategic review of its investments on a triennial basis to coincide with the LGPS's triennial valuation cycle and 2013-14 was the last year of the current cycle. New contributions strategies will be in place for 1 April 2014.

In recent years the UK Public Sector has undergone unprecedented change; as a result the Cheshire Pension Fund's employers have increased significantly in both number and diversity. A key part of setting an appropriate investment strategy involves consideration of the broad range of financial characteristics and structural factors relevant to different groups of employers. A one-size fits all approach investment approach is therefore no longer appropriate for the Fund.

The key development arising from the 2013-14 investment strategy review is therefore the implementation of four bespoke investment strategies. Each investment strategy aims to better reflect the risk and return characteristics required by individual employers on their journey towards their own long term funding objective.

The Fund has introduced four investment strategies each defined by their respective allocation to growth assets and defensive assets:

Growth Strategy A	80% Growth / 20% Defensive
Growth Strategy B	70% Growth / 30% Defensive
Medium Growth Strategy	50% Growth / 50% Defensive
Gilts Strategy	0% Growth / 100% Defensive

Previously the Fund's investment strategy was weighted 81% to growth assets and 19% to defensive assets. The key investment manager change during 2013-14 was therefore linked to aligning the asset allocation for each investment strategy to strategic allocation as set out above. In November 2013 the Fund invested £167m in the Legal and General Over 5 Year Index Linked Gilts Fund with a corresponding reduction to passive equities, also with Legal & General. This is part of a phased transition to the four starting investment strategies with a further tranche of Gilts due to be purchased during April 2014. Further changes to the Fund's investment managers will be implemented during 2014-15.

To manage the Fund's assets in accordance with the agreed investment strategy, the Council has 14 appointed external investment managers who each have specific responsibility for part of the Fund's investment portfolio.

The Council uses the services of BNY Mellon 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.

BNY Mellon Asset Servicing report for the year ended 31 March 2014 shows that the Fund achieved a return from its investments of +9.8% (+12.8% in 2012-13) compared with the Fund's tailored benchmark return of +4.9% (+10.0% in 2012-13). For the three years ended 31 March 2014 the Fund achieved an annualised return of +8.2% per annum against the Fund's benchmark return of +5.5% per annum.

## Membership

In accordance with the Governments Automatic Enrolment Legislation, eligible employees are automatically entered 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.

There are 177 employer organisations with active members who were contributing into the fund as at 31 March 2014, including the Administering Authority itself, as detailed below:

Cheshire Pension Fund	31 March 2014	31 March 2013 RESTATED
Number of employers with active members	177	148
<b>Number of employees in the scheme</b>		
Cheshire West and Chester Council	7,481	7,812
Other employers	23,980	22,871
<b>Total</b>	<b>31,461</b>	<b>30,683</b>
<b>Number of pensioners</b>		
Cheshire West and Chester Council	1,404	1,173
Other employers	22,915	22,301
<b>Total</b>	<b>24,319</b>	<b>23,474</b>
<b>Number of Deferred pensioners</b>		
Cheshire West and Chester Council	2,784	2,187
Other employers	21,376	21,226
<b>Total</b>	<b>24,160</b>	<b>23,413</b>
Undecided Leavers	1,121	1,467
<b>TOTAL MEMBERSHIP</b>	<b>81,061</b>	<b>79,037</b>

The membership figures for 2012-13 have been restated by 1,467 to include undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due) who had been omitted from the total.

The table below provides a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members).

	Active	Ceased	Total
Scheduled Body	118	28	146
Admitted Body	59	38	97
<b>Totals</b>	<b>177</b>	<b>66</b>	<b>243</b>

The table below provides a summary of the members in the fund analysed by active, deferred, pensioner and undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due).

Type	Numbers
Active	31,461
Deferred	24,160
Pensioners	24,319
Undecided Leavers	1,121
<b>Total</b>	<b>81,061</b>

## Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employer's contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2013. The next valuation will be based on information as at 31 March 2016.

## Benefits

Pension benefits under the LGPS up to 31 March are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
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 salary. 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.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the fund scheme handbook which is available from the Fund.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This change took effect from 1 April 2011.

## LGPS 2014

Following the Government's commitment to overhaul all public service pension schemes, the LGPS will undergo significant change from 1 April 2014. A summary of the key changes are provided below.

	Proposed Scheme	Existing Scheme
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary (FS)
Accrual Rate	1/49th	1/60th
Revaluation Rate	By order of Her Majesty's Treasury	Based on Final Salary
Contribution Flexibility	Members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)	65
Death in Service lump sum	3 x assumed pensionable pay	3 x pensionable pay
Death in Service survivor benefits	1/160 accrual basis	1/160 accrual basis
Ill-health provision	Three Tiers	Three Tiers
Indexation of pension in payment	Pensions Increase Orders (presently CPI)	Pensions Increase Orders (presently CPI)
Qualifying period for benefits	2 years	3 months

## Note 2 – Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013-14 financial year and its position at year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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 22 of these accounts.

The accounts contain a number of restatements to the 2012-13 figures as follows:

- The 2012-13 figures for investment manager fees relating to private equity investments were not previously been captured within the Investment Management Expenses figure as distributions are received net of fees, therefore the fees were contained within the change in fair value figure. The accounts have been adjusted to capture the private equity fees which amounted to £3.579m (note 13). This change also affects the investment management fees and profit and loss figure in the fund account as well as the sales and change in fair value figures in note 14f.
- The 2012-13 figures in Note 20 for the other price risk sensitivity analysis have also been restated to take account of updated potential market movements as at 31 March 2014, in order to provide consistent comparison across the two years. There has also been a restatement of £12.7m which was previously included within the high yield

figure in error. The £12.7m has been redistributed across UK, developed and emerging equities and cash.

- The prior year comparator figure for the M&G UK Financing Fund has been restated from £32.4m to £32m (note 28) for the amount drawn down against the £50m commitment.
- The table in note 19c has been restated as forward foreign currency contracts had been classified as level 1 in error when they should be level 2. The misstatement relates to £922k of assets and £153k of liabilities.
- The table in note 19b has been restated for 2012-13 to reclassify all balances into fair value through profit and loss which were previously categorised as available for sale assets in error. The category of available for sale assets has been removed. The carrying value has been restated by £682k and the fair value has been restated by £3.004m, both on the fair value through profit and loss line.
- The membership figures in note 1 have been restated for 2012-13 by 1,467 to include undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due) who had been omitted from the total.

## Note 3 – Summary of Significant Accounting Policies

### Fund Account – revenue recognition

#### a) Contribution income

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

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 an accruals basis in accordance with the terms of the transfer agreement.

#### 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 is received under contracts classified as operating



leases. The income is recognised on an accruals basis for income due within the year rather than a straight line basis across the term of the lease (see Note 17c for further information).

- 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) Administration Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

### g) Investment Management Expenses

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

Fees of the external investment managers and custodian are 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 & Co
- Goldman Sachs Asset Management
- M&G Investments
- Arrowgrass Capital Partners
- Permal
- Winton Capital
- Och Ziff Capital Management

Performance related fees amounted to £6.96m in 2013-14 (£5.7m in 2012-13) for managers who outperformed the benchmark.

The fees for private equity investments have not previously been captured within the Investment Management Expenses figure as distributions are received net of fees, therefore the fees were contained within the change in fair value figure. The accounts have been adjusted to capture the private equity fees which amounted to £2.236m in 2013-14 (the 2012-13 Investment Management Expenses has also been restated to include the private equity fees of £3.579m).

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 2013-14 was £1.9m relating to fees due for the quarter ending 31 March 2014 (£729k in 2012-13).

The cost of obtaining investment advice from external consultants is included in investment expenses (Note 13).

The cost of the Council's in-house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers are also charged to the fund.

## Net Assets Statement

### h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date with the exception of any assets classified as loans and receivables, e.g. cash and debtors, which will be measured at amortised cost. 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 as follows:

- Market-quoted investments

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.

- Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, debt securities and absolute return funds. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the funds share of the net assets in the private equity fund or limited partnerships using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. Where these valuations are not at the Fund's balance sheet date, the valuations have been adjusted having due regard to latest dealings, asset values and other appropriate financial information at the time of preparing these statements, in order to reflect our balance sheet date.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. 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.

### i) Freehold and leasehold properties

The investment properties were valued at open market value as 31 March 2014 by Colliers CRE, Chartered Surveyors in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Acquisition costs of investments are included in the Total Purchase Cost.

### j) Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**k) Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not directly hold derivatives for speculative purposes.

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 14f).

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.

**l) Cash and cash equivalents**

Cash comprises cash in hand and on 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 changes in value.

**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 produced by the scheme actuary in accordance with the requirements of IAS19 Employee Benefits and relevant actuarial standards.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, 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. The fund has appointed Clerical Medical, Standard Life and Equitable Life as its AVC providers. Individual members AVC contributions are paid directly to the AVC provider by their respective employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. Further detail can be found in Note 26.



## 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

The Cheshire Pension Fund does not have any critical judgements contained within the accounts.

### 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 2014 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
<b>Private equity</b>	It is important to recognise the 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 British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £195.5m (£204.7m as at 31 March 2013). There is a risk that this investment may be under or overstated in the accounts.
<b>Absolute Return funds</b>	Absolute Return funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of absolute return funds in the financial statements is £496m (£461m in 2012-13). There is a risk that this investment may be under or overstated in the accounts.
<b>Pension fund liability</b>	The pension fund liability is calculated every three years by the Funds actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in the actuarial calculation which is included within the Annual Report. This estimate is subject to significant variances based on changes to the underlying assumptions.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £374m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £114m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £119m.

## Note 5 – Events After the Balance Sheet Date

The Greater Manchester Pension Fund (GMPF) was chosen by the Ministry of Justice to administer the LGPS in respect of the National Probation Service from 1 June 2014. Liabilities formally transferred to GMPF on 1 June 2014 and it is expected that assets totalling circa £50m will be transferred to GMPF between 1 October 2014 and 31 March 2015.

## Note 6 – Contributions Receivable

### Note 6.1 – Employer Contributions Receivable

	2013-14 £000	2012-13 £000
Normal Contributions	78,405	76,509
*Deficit Funding	32,628	31,839
Cost of Early Retirements (pension strain)	5,477	5,402
Augmentation Contributions	282	212
<b>Total</b>	<b>116,792</b>	<b>113,962</b>

\* Employer Normal Contributions may include an element towards reducing any deficit in the scheme's funding position. At the triennial valuation (31 March 2010) the Actuary calculated a common employer contribution rate of 22.8%, of which 6.7% targeted recovering the funding deficit with 16.1% towards future service costs. It is estimated that employers contributed a notional £32.6m in 2013-14 (£31.8m in 2012-13) towards deficit funding.

The cost of early retirements represents the contributions relating to Employers meeting the capitalised costs of discretionary early retirements. The Fund recharges the 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 early retirement contributions

from scheme employers who have the option of paying over more than one year.

Augmentation Contributions include those payable by Employers to provide new benefits or to augment benefits awarded to specific members under LGPS regulations.

### Note 6.2 – Analysis of Contributions Receivable

	2013-14		2012-13	
	Employers £000	Employees £000	Employers £000	Employees £000
Scheme Employers	76,858	22,404	73,352	22,116
Cheshire West & Chester Council	28,502	7,643	28,740	7,931
Community Admission Body	10,260	2,786	9,906	2,697
Transferee Admission Body	1,172	291	1,964	306
<b>Total</b>	<b>116,792</b>	<b>33,124</b>	<b>113,962</b>	<b>33,050</b>

## Note 7 – Transfers In from Other Pension Funds

	2013-14 £000	2012-13 £000
Transfers from other Local Authorities	5,306	7,038
Transfers from other pension funds	3,361	4,230
Bulk Transfers	0	0
<b>Total</b>	<b>8,667</b>	<b>11,268</b>

There were no bulk transfers during 2013-14.



## Note 8 – Benefits Payable

	2013-14 £000	2012-13 £000
Scheme Employers	93,647	88,973
Cheshire West & Chester Council	43,429	41,402
Community Admission Body	8,635	8,024
Transferee Admission Body	3,597	3,569
<b>Total</b>	<b>149,308</b>	<b>141,968</b>

## Note 9 – Payment to and on Account Of Leavers

	2013-14 £000	2012-13 £000
Individual Transfers	8,534	8,510
Refunds to Members leaving service	13	14
<b>Total</b>	<b>8,547</b>	<b>8,524</b>

The refunds to members leaving the service relates to members who opted out of the scheme within three months of joining. The individual transfer figure represents the cash payments from the Fund in relation to individual scheme members' who have left the scheme and transferred their benefits to another pension provider.

## Note 10 – Administrative Expenses

The costs incurred by the Council in administering the Fund, as declared annually to Communities and Local Government, totalled £2.202m for the year ended 31 March 2014. This represents an increase of £33k from £2.169m in 2012-13. A breakdown of the significant items is shown below.

	2013-14 £000	2012-13 £000
Direct Staffing	1,245	1,410
Other Supplies and Services	336	344
Actuarial Fees	388	202
IT	131	102
Legal Fees	38	58
Printing & Postage	37	32
External Audit Fees	30	25
Income	-3	-4
<b>Total</b>	<b>2,202</b>	<b>2,169</b>

## Note 11 – Investment Income

	2013-14 £000	2012-13 £000
Dividends from Equities	19,697	20,554
Net Rents from Properties	12,104	13,288
Income from Fixed Interest Securities	7,890	6,501
Income from Pooled Investment Vehicles:		
Other	292	365
Property	253	1,130
Stock Lending	235	138
Interest from Cash Deposits	99	162
Other	38	348
<b>Total</b>	<b>40,608</b>	<b>42,486</b>

## Note 12 – Taxes on Income

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 2013-14 amounts to £920k and is shown as a tax charge, compared to £792k in 2012-13.

As Cheshire West & 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 – Investment Expenses

	2013-14 £000	2012-13 RESTATED £000
Management Fees	21,619	20,152
Management Fees – Investment Properties	620	529
Investment Advisory Fees	125	95
Custody Fees	103	128
Performance monitoring services	30	30
<b>Total</b>	<b>22,497</b>	<b>20,934</b>

Investment management expenses include both those paid directly to the investment manager by the Administering Authority, and where the manager deducts their fee directly from funds under management by netting off their fee from the Gross Asset Value. All investment management fees are accounted for on an accruals basis.

The fees for private equity investments have not previously been captured within the Investment Management Expenses figure as distributions are received net of fees, therefore the fees were contained within the change in

fair value figure. The accounts have been adjusted to capture the private equity fees which amounted to £2.236m in 2013-14 (the 2012-13 Investment Management Expenses has also been restated to include the private equity fees of £3.579m).

## Note 14 – Investments

	2013-14 £000	2012-13 £000
<b>Investment Assets</b>		
<b>Equities</b>		
Overseas Quoted	1,037,499	916,162
UK Quoted	91,519	77,840
<b>Pooled Investments</b>		
Fixed Income – Multi Strategy	452,641	449,592
UK Government Index Linked Gilts	170,775	0
UK Equity Listed	321,405	383,515
Overseas Equity Listed	296,441	312,710
Secured Loans	155,588	147,486
Overseas Unit Trusts – Property	10,652	11,930
UK Unit Trusts – Property	1,425	1,077
UK Equity Unlisted	26	32
<b>Absolute Return Funds</b>	<b>496,466</b>	<b>460,638</b>
<b>Private Equity</b>	<b>195,454</b>	<b>204,748</b>
<b>Investment Properties</b>	<b>230,965</b>	<b>188,249</b>
<b>Cash Deposits</b>	<b>31,105</b>	<b>34,030</b>
<b>Loans</b>	<b>57,632</b>	<b>38,618</b>
<b>Derivative Contracts:</b>		
Futures	0	334
Forward currency contracts	479	962
<b>Other investment balances:</b>		
Outstanding dividends entitlements and withholding tax claims	6,032	4,723
	<b>3,556,104</b>	<b>3,232,646</b>
<b>Investment Liabilities</b>		
<b>Derivative Contracts:</b>		
Futures	0	-20
Forward currency contracts	-764	-788
<b>Net Investments</b>	<b>3,555,340</b>	<b>3,231,838</b>

A review of the investment strategy during 2013-14 resulted in the fund's asset allocation being amended in order to implement the four new investment strategies as outlined in Note 1. This led to a change in the assets held with Legal and General. In November 2013 the Fund invested £167m in the Legal and General Over 5 Year Index Linked Gilts Fund with a corresponding reduction to passive equities, also with Legal & General. This is part of a phased transition to the four starting investment strategies with a further tranche of Gilts due to be purchased during April 2014. Further changes to the Fund's investment managers will be implemented during 2014-15.

The changes have impacted upon the year on year comparison figures for UK Listed Equities, UK Government Index Linked Gilts and Overseas Listed Equities.

#### Note 14a – Fixed Income Multi Strategy

The Fund has invested in three pooled fixed income investment vehicles managed separately by Goldman Sachs Asset Management, Henderson and Baillie Gifford & Co. 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 managers may use derivative instruments to manage risk and to express their investment convictions.

#### Note 14b – Absolute Return Funds

	2013-14 £000	2012-13 £000
Permal	202,567	182,420
Arrowgrass Capital Partners	124,419	115,251
Winton Capital	89,650	86,548
Och Ziff Capital Management	79,830	76,419
<b>Total</b>	<b>496,466</b>	<b>460,638</b>

In March 2013 Legg Mason and its affiliate Permal completed the acquisition of Fauchier from BNP Paribas Investment Partners. Consequently, Fauchier has been merged under the wider Permal Group brand however the Pension Fund's investment in the Jubilee Absolute Return Fund remains unaffected.

#### Note 14c – Private Equity

	Number of Funds	2013-14 £000	2012-13 £000
Adam Street Partners	16	105,445	108,126
Pantheon Ventures	7	84,222	89,681
Lexington	1	5,787	6,941
<b>Total</b>		<b>195,454</b>	<b>204,748</b>

#### Note 14d – Loans

The Fund has committed £50m 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 31st March 2014 £32m of this commitment had been drawn down.

The Fund has also 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 31st March 2014 £26.7m of this commitment had been drawn down.

#### Note 14e – Cash

	2013-14 £000	2012-13 £000
Cash Deposits	3,573	16,771
Cash Instruments	27,532	17,259
<b>Total</b>	<b>31,105</b>	<b>34,030</b>

## Note 14f – Reconciliation of movements in investments and derivatives

	Fair value at 31 March 2013 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in fair value £000	Fair value at 31 March 2014 £000
Pooled Investment Vehicles	1,306,341	576,051	-534,091	60,652	1,408,953
Equities	994,003	346,633	-356,439	144,821	1,129,018
Absolute Return Funds	460,638	31,428	-29,982	34,382	496,466
Private Equity	204,748	10,372	-39,161	19,495	195,454
Investment Properties	188,249	22,254	-15,105	35,567	230,965
Loans	38,618	20,962	-4,766	2,818	57,632
	<b>3,192,597</b>	<b>1,007,700</b>	<b>-979,544</b>	<b>297,735</b>	<b>3,518,488</b>
Derivative Contracts:					
Futures	334			-334	0
Forward currency contracts	962	5,550	-6,044	11	479
	<b>3,193,893</b>	<b>1,013,250</b>	<b>-985,588</b>	<b>297,412</b>	<b>3,518,967</b>
Cash	34,030		-7,769	4,844	31,105
	<b>3,227,923</b>	<b>1,013,250</b>	<b>-993,357</b>	<b>302,256</b>	<b>3,550,072</b>
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	4,723				6,032
	<b>3,232,646</b>				<b>3,556,104</b>
<b>Investment Liabilities</b>					
Derivative Contracts:					
Futures	-20				0
Forward currency contracts	-788				-764
<b>Net Investments</b>	<b>3,231,838</b>				<b>3,555,340</b>

	Fair value at 31 March 2012 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts RESTATED £000	Change in fair value RESTATED £000	Fair value at 31 March 2013 £000
Pooled Investment Vehicles	<b>1,135,003</b>	181,041	-152,189	142,486	<b>1,306,341</b>
Equities	<b>862,737</b>	257,092	-238,702	112,876	<b>994,003</b>
Absolute Return Funds	<b>425,911</b>	207,827	-206,564	33,464	<b>460,638</b>
Private Equity	<b>199,580</b>	24,040	-35,920	17,048	<b>204,748</b>
Investment Properties	<b>169,034</b>	22,419	-7,550	4,346	<b>188,249</b>
Loans	<b>27,722</b>	10,471	-1,441	1,866	<b>38,618</b>
	<b>2,819,987</b>	702,890	-642,366	312,086	<b>3,192,597</b>

## Derivative Contracts:

Futures	<b>249</b>			85	<b>334</b>
Forward currency contracts	<b>3,311</b>	5,826	-7,171	-1,004	<b>962</b>
	<b>2,823,547</b>	708,716	-649,537	311,167	<b>3,193,893</b>

Cash	<b>59,880</b>		-27,190	1,340	<b>34,030</b>
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	<b>2,883,427</b>	708,716	-676,727	312,507	<b>3,227,923</b>
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Outstanding dividend entitlements,  
accrued interest and recoverable  
withholding tax

	<b>5,037</b>				<b>4,723</b>
	<b>2,888,464</b>				<b>3,232,646</b>

**Investment Liabilities**

## Derivative Contracts:

Futures	<b>-130</b>				<b>-20</b>
Forward currency contracts	<b>-175</b>				<b>-788</b>
<b>Net Investments</b>	<b>2,888,159</b>				<b>3,231,838</b>



The fees for private equity investments have not previously been captured within the Investment Management Expenses figure as distributions are received net of fees, therefore the fees were contained within the change in fair value figure. The accounts have been adjusted to capture the private equity fees which amounted to £2.236m in 2013-14 (the 2012-13 Investment Management Expenses has also been restated to include the private equity fees of £3.685m). These adjustments have resulted in changes to the sales and change in fair value figures for 2012-13.

The change in fair value of investments during the year comprises all increases and decreases in the fair value of investments held at any time during the year, including realised and unrealised profits and losses on purchase and sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other costs and amounted to £1.3m in 2013-14 (£1.3m for 2012-13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme. It is not practical to obtain or estimate the transaction costs incurred in 2013-14.

## Note 14g – Analysis of Fund Assets

The table below provides an analysis of fund assets as at 31 March 2014

	UK £000	Non-UK £000	Global £000	Total £000
Equities	321,405	249,073	1,176,386	<b>1,746,864</b>
Alternatives	228,728	681,851	12,411	<b>922,990</b>
Bonds	623,416			<b>623,416</b>
Property (direct holdings)	230,965			<b>230,965</b>
Cash	13,714		17,391	<b>31,105</b>
<b>Total</b>	<b>1,418,228</b>	<b>930,924</b>	<b>1,206,188</b>	<b>3,555,340</b>

## Note 14h – Analysis of Investment Income

The table below provides an analysis of investment income accrued as at the 31 March 2014

	UK £000	Non-UK £000	Global £000	Total £000
Equities		2	20,256	<b>20,258</b>
Alternatives	7,893	253		<b>8,146</b>
Property (direct holdings)	12,104			<b>12,104</b>
Cash	72		28	<b>100</b>
<b>Total</b>	<b>20,069</b>	<b>255</b>	<b>20,284</b>	<b>40,608</b>



## Note 15 – Analysis of Derivatives

	Asset 2013-14 £000	Liability 2013-14 £000	Asset 2012-13 £000	Liability 2012-13 £000
Equity Futures Contracts	0	0	334	20
Forward Foreign Exchange Contracts	479	764	962	788
<b>Total</b>	<b>479</b>	<b>764</b>	<b>1,296</b>	<b>808</b>

### Equity Futures and Foreign Exchange Contracts:

	Exchange	Expiration	Economic Exposure Value 2013-14 £000	Market Value 2013-14 £000	Economic Exposure Value 2012-13 £000	Market Value 2012-13 £000
<b>Assets</b>						
Japan	TOPIX	Less than 1 Year	0	0	5,092	224
Australia	SPI 200	Less than 1 Year	0	0	-2,728	54
Singapore	MSCI Singapore	Less than 1 Year	0	0	1,939	23
Germany	DAX	Less than 1 Year	0	0	-660	13
USA	S&P 500 Emini	Less than 1 Year	0	0	1,184	15
Canada	S&P TSE60	Less than 1 Year	0	0	-756	5
Sweden	OMXS30	Less than 1 Year	0	0	0	0
Switzerland	Swiss MKT	Less than 1 Year	0	0	0	0
<b>Total assets</b>			0	0	<b>4,071</b>	<b>334</b>
<b>Liabilities</b>						
Italy	FTSE/MIB	Less than 1 Year	0	0	381	-20
UK	FTSE 100	Less than 1 Year	0	0	0	0
Sweden	OMXS30	Less than 1 Year	0	0	-253	0
Australia	SPI 200	Less than 1 Year	0	0	0	0
Singapore	MSCI Singapore	Less than 1 Year	0	0	0	0
<b>Total Liabilities</b>			0	0	<b>128</b>	<b>-20</b>
<b>Net futures</b>			0	0	<b>4,199</b>	<b>314</b>

Equity futures have been removed from the portfolio as the fund can achieve the desired results through direct investment in the underlying securities.

## 2013-14 Forward Foreign Exchange Contracts:

Contract	Settlement Date	Currency Bought £000		Currency Sold £000		Asset £000	Liability £000
Forward OTC	3 months	2,154	USD	1,316	GBP		-24
Forward OTC	3 months	1,188	EUR	1,623	USD	9	
Forward OTC	3 months	435,496	JPY	4,203	USD	16	
Forward OTC	3 months	435,496	JPY	4,203	USD	34	
Forward OTC	2 months	71	USD	64	CHF		-1
Forward OTC	2 months	663	USD	491	EUR		-8
Forward OTC	2 months	748	SGD	590	USD	3	
Forward OTC	2 months	908	USD	672	EUR		-11
Forward OTC	2 months	1,046	SGD	824	USD	4	
Forward OTC	2 months	932	USD	1,034	CAD		-3
Forward OTC	2 months	1,190	USD	1,076	CHF		-17
Forward OTC	2 months	1,202	USD	1,087	CHF		-17
Forward OTC	2 months	1,202	USD	1,087	CHF		-17
Forward OTC	2 months	1,317	USD	1,485	AUD		-35
Forward OTC	2 months	1,393	USD	1,571	AUD		-38
Forward OTC	2 months	1,597	USD	1,771	CAD		-5
Forward OTC	2 months	2,479	USD	1,833	EUR		-28
Forward OTC	2 months	1,679	USD	1,892	AUD		-45
Forward OTC	2 months	510,148	JPY	5,031	USD		-46
Forward OTC	2 months	673,396	JPY	6,639	USD		-60
Forward OTC	2 months	683,599	JPY	6,741	USD		-62
Forward OTC	2 months	683,599	JPY	6,744	USD		-63
Forward OTC	2 months	1,099	USD	6,940	NOK		-36
Forward OTC	2 months	18,723	USD	11,474	GBP		-243
Forward OTC	2 months	1,011	USD	608	GBP		-1
Forward OTC	2 months	2,030	SGD	1,602	USD	7	
Forward OTC	2 months	1,801	USD	183,340	JPY	13	
Forward OTC	2 months	2,064	USD	1,234	GBP	4	
Forward OTC	2 months	3,045	SGD	2,415	USD	4	
Forward OTC	2 months	5,404	USD	550,020	JPY	38	
Forward OTC	2 months	3,045	SGD	2,416	USD	3	
Forward OTC	1 month	124,278	JPY	1,210	USD		-2
Forward OTC	1 month	1,027	USD	6,120	NOK	3	
Forward OTC	1 month	124,278	JPY	1,209	USD		-2
Forward OTC	1 month	1,023	USD	6,120	NOK	0	
Forward OTC	3 months	80,496	GBP	134,000	USD	65	
Forward OTC	3 months	162,400	GBP	196,000	EUR	276	
<b>Total Derivatives</b>						<b>479</b>	<b>-764</b>

## 2012-13 Forward Foreign Exchange Contracts:

Contract	Settlement Date	Currency Bought £000	Currency Sold £000	Asset £000	Liability £000
Forward OTC	1 month	507Â HKD	43 GBP		-0
Forward OTC	1 month	1,206 SEK	122 GBP		-1
Forward OTC	1 month	1,706 HKD	145 GBP		-0
Forward OTC	1 month	1,953 SEK	198 GBP		-0
Forward OTC	2 months	386 USD	356 CHF	6	
Forward OTC	2 months	411 USD	380 CHF	7	
Forward OTC	2 months	407 CAD	401 USD		-1
Forward OTC	2 months	3,427 SEK	541 USD		-9
Forward OTC	2 months	376 GBP	584 USD		-7
Forward OTC	2 months	406 GBP	628 USD		-7
Forward OTC	2 months	882 USD	814 CHF	15	
Forward OTC	2 months	1,375 SGD	1,110 USD		-1
Forward OTC	2 months	1,400 SGD	1,131 USD		-1
Forward OTC	2 months	1,524 USD	1,142 EUR	38	
Forward OTC	2 months	1,839 USD	1,378 EUR	46	
Forward OTC	2 months	895 GBP	1,384 USD		-16
Forward OTC	2 months	1,529 USD	1,485 AUD		-11
Forward OTC	2 months	2,127 USD	1,591 EUR	55	
Forward OTC	2 months	15,830 HKD	2,042 USD		-2
Forward OTC	2 months	2,827 USD	2,114 EUR	73	
Forward OTC	2 months	19,173 HKD	2,473 USD		-2
Forward OTC	2 months	3,087 SGD	2,493 USD		-3
Forward OTC	2 months	21,006 HKD	2,170 USD		-2
Forward OTC	2 months	19,126 SEK	3,021 USD		-54
Forward OTC	2 months	3,755 SGD	3,032 USD		-3
Forward OTC	2 months	4,187 SGD	3,379 USD		-3
Forward OTC	2 months	4,187 SGD	3,380 USD		-3
Forward OTC	2 months	4,187 SGD	3,381 USD		-4
Forward OTC	2 months	4,731 SGD	3,820 USD		-4
Forward OTC	2 months	31,519 HKD	4,066 USD		-3
Forward OTC	2 months	5,656 SGD	4,567 USD		-5
Forward OTC	2 months	6,103 USD	4,574 EUR	151	
Forward OTC	2 months	37,336 HKD	4,816 USD		-4
Forward OTC	2 months	8,620 USD	6,455 EUR	217	
Forward OTC	2 months	9,144 USD	6,850 EUR	228	
Forward OTC	2 months	1,248 USD	6,940 NOK	39	
Forward OTC	2 months	781 USD	72,970 JPY	3	
Forward OTC	2 months	780 USD	72,970 JPY	3	
Forward OTC	2 months	1,465 USD	137,161 JPY	4	
Forward OTC	2 months	1,917 USD	179,227 JPY	7	
Forward OTC	2 months	3,426 USD	320,112 JPY	14	
Forward OTC	2 months	4,460 USD	416,868 JPY	17	
Forward OTC	2 months	1,830 USD	173,157 JPY		-8
Forward OTC	1 month	82 USD	78 AUD	0	
Forward OTC	3 months	77,127 GBP	117,000 USD	39	
Forward OTC	3 months	126,357 GBP	150,000 EUR		-634
<b>Total Forward Foreign Currency Contracts</b>				<b>962</b>	<b>-788</b>
<b>Total Derivatives</b>				<b>1,296</b>	<b>-808</b>

The Fund and its investment managers use exchange traded index futures contracts for managing risk by implementing shifts in investment exposure. Forward currency contracts are used to hedge the risks associated with the foreign currencies represented by the securities held, or to adjust the foreign currency exposure of the Fund.

The Fund hedges its European equity exposures by investing in a hedged European equity mandate with Legal and General. The Fund also hedges its direct European and US Dollar equity exposure through forward currency contracts. As at the year end the balance was £341k (-£1m in 2012-13).

## Note 16 – Stock Lending

In accordance with the LGPS (Management & Investment of Funds) Regulations 2009 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 2014 the Fund earned £235k (£138k 2012-13) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £57.9m (£2.1m 2012-13) and the value of collateral held was £63.6m (£2.3m 2012-13).

## Note 17 – Investment Properties

	2013-14 £000	2012-13 £000
Freehold	207,175	163,124
Heritable	5,020	19,420
Leasehold	18,770	5,705
<b>Total</b>	<b>230,965</b>	<b>188,249</b>

## Note 17a – Property Income

	2013-14 £000	2012-13 £000
Rental Income	14,186	13,691
Surrender premiums	0	1,603
Dilapidations	50	300
Interest/Misc Income	7	66
Direct Operating Expenses	-2,064	-1,932
Rent adjustment required on purchase/sale	0	-675
<b>Net Rental Income</b>	<b>12,179</b>	<b>13,053</b>





## Note 17b – Fair Value of Investment Properties

	2013-14 £000	2012-13 £000
Balance at the start of the year	188,249	169,034
Additions	22,254	22,419
Disposals	-15,105	-7,550
Net gain/loss on fair value	35,567	4,346
<b>Balance at the end of the year</b>	<b>230,965</b>	<b>188,249</b>

At the year end there were no amounts of restrictions on the realisability of investment property or the remittance of income on proceeds of disposals.

Contractual obligations for development, repairs and maintenance amounted to £157k (£4.761m in 2012-13). There were no obligations to purchase new properties.

## Note 17c – 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 returns.

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	2013-14 £000	2012-13 £000
No later than one year	1,963	1,305
Between one and five years	4,298	6,108
Later than five years	6,723	7,341
<b>Total</b>	<b>12,984</b>	<b>14,754</b>

With regards to the properties owned and leased by the Fund, all are leased to the 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 18 – Investment by Fund Manager

	2013-14 £000	2013-14 %	2012-13 £000	2012-13 %
Baillie Gifford & Co	783,165	22.0	681,843	21.1
Legal & General	741,253	20.8	683,515	21.1
GMO	459,575	12.9	399,748	12.4
Goldman Sachs Asset Management	205,318	5.8	204,682	6.3
Rockspring Property Investment Managers	244,522	6.9	202,738	6.3
M&G Investments	215,275	6.1	187,039	5.8
Permal	202,566	5.7	182,419	5.6
Henderson	196,258	5.5	193,550	6.0
Arrowgrass Capital Partners	124,419	3.5	115,251	3.6
Adams Street Partners	105,445	3.0	108,126	3.3
Winton Capital	89,650	2.5	86,548	2.7
Pantheon Ventures	84,222	2.4	89,681	2.8
Och Ziff Capital Management	79,830	2.2	76,419	2.4
Fidelity (Money Market)	7,123	0.2	5,299	0.2
Deutsche Bank (Money Market)	6,111	0.2	6,646	0.2
Lexington Capital Partners	5,787	0.2	6,941	0.2
Bank of New York Mellon	4,786	0.1	-588	0.0
HG Capital	26	0.0	32	0.0
Internal	9	0.0	9	0.0
The Co-Operative Bank (Public Sector Reserve)	0	0.0	1,940	0.1
<b>Total</b>	<b>3,555,340</b>	<b>100</b>	<b>3,231,838</b>	<b>100</b>

A review of the investment strategy during 2013-14 resulted in the fund's asset allocation being amended in order to implement the four new investment strategies as outlined in Note 1. This led to a change in the assets held with Legal and General. In November 2013 the Fund invested £167m in the Legal and General Over 5 Year Index Linked Gilts Fund with a corresponding reduction to passive equities, also with Legal & General. This is part of a phased transition to the four starting investment strategies with a further tranche of Gilts due to be purchased during April 2014. Further changes to the Fund's investment managers will be implemented during 2014-15.

These changes have impacted upon the year on year comparison figures for UK Listed Equities, UK Government Fixed Interest and Overseas Listed Equities.

The Co-operative Bank (Public Sector Reserve) balance is nil as the fund has changed its banking service provider to Lloyds bank with effect from 1 April 2014.

## Note 18a – Concentration of Investments

The SORP and CIPFA Code of Practice require disclosure where there is a concentration of investment which exceeds either 5% of the total value of the net assets of the scheme or of any class or type of security. Four investments fall into this former category as follows:

Security Description	Market Value 31 March 2014 £000	% of total fund	Market Value 31 March 2013 £000	% of total fund
Goldman Sachs Sterling Broad Fund	205,318	5.78	204,682	6.33
Legal and General pooled UK equities	202,036	5.69	366,038	11.33
Permal (Fauchier) - Jubilee absolute return fund	202,566	5.64	182,419	5.64
Henderson horizon total return bond	196,258	5.52	193,550	5.99



Investments which fall into the second category are as follows:

	Market Value 31 March 2014 £000	% of Asset Type	Market Value 31 March 2013 £000	% of Asset Type
<b>Fixed Income</b>				
Goldman Sachs Sterling Broad Fund	205,318	45.36	204,682	45.53
Henderson horizon total return bond	196,258	43.36	193,550	43.05
Baillie Gifford Aggregate Bond	45,866	10.13	46,273	10.29
<b>Absolute Return</b>				
Jubilee absolute return fund	202,566	40.80	182,419	39.60
Arrowgrass International Fund	124,419	25.06	115,251	25.02
Winton Futures GBP Fund	89,650	18.06	86,548	18.79
OZ Overseas Fund II	79,830	16.08	76,419	16.59
<b>UK Listed Equities</b>				
L&G UK Equity Index	321,404	78.94	366,038	79.34
<b>Uk Government Index Linked Gilts</b>				
Over 5 Year Index Linked Gilts*	170,775	100.00	0	0
<b>Secured Loans</b>				
M&G European Loan Fund	155,588	84.26	147,486	81.98
M&G UK Companies Financing Fund	29,059	15.74	32,427	18.02
<b>Overseas Listed Equities</b>				
L&G North America Equity Index Fund	65,719	4.91	123,255	10.03
ED – Europe (EX UK) Index	43,343	3.24	73,382	5.97
<b>Loans</b>				
M&G Debt Opportunities Fund	28,573	100.00	6,191	100.00
<b>Property</b>				
Burgan House, Staines	24,800	10.74	15,800	8.39
Southampton City Gateway, Southampton	17,960	7.78	4,680	2.49
Maybrook Retail Park, Canterbury	17,330	7.50	16,850	8.95
1, 3, 5 & 7 Haymarket and 2-4 Humberstone Gate, Leicester	17,000	7.36	15,500	8.23
11-29 Victoria Street, Grimsby	14,000	6.06	13,815	7.34
Spring Street, Bury*	13,600	5.89	0	0
Haddenham Business Park, Buckinghamshire	13,500	5.85	11,530	6.12
Riverside House, Aberdeen*	0	0	13,200	7.01
Welcome Break Services, Derby	10,845	4.70	11,250	5.98
<b>Property – Unit Trusts</b>				
German Retail Box Fund	8,065	66.78	8,566	65.86
Pan European Property Unit Trust	2,587	21.42	3,364	25.87
Industrial Trust	1,425	11.80	1,077	8.28

	Market Value 31 March 2014 £000	% of Asset Type	Market Value 31 March 2013 £000	% of Asset Type
<b>Private Equity</b>				
Pantheon 2008 Europe VI	20,150	10.31	609	0.30
Pantheon 2004 USA Fund VI	15,891	8.13	2,978	1.45
Pantheon 2004 Europe Fund IV	14,974	7.66	1,377	0.67
ASP 2005 US Fund	14,273	7.30	17,624	8.61
Pantheon 2007 USA Fund VIII	12,221	6.25	2,194	1.07
ASP 2007 US	11,654	5.96	9,813	4.79
ASP 2006 US	11,091	5.67	1,884	0.92
ASP 2004 US Fund	10,933	5.59	11,819	5.77
Pantheon 2007 Asia Fund V	10,916	5.59	18,455	9.01
ASP Direct Co (2006)	8,347	4.27	11,615	5.67
ASP 2005 Non-US Fund	6,413	3.28	15,401	7.52
ASP 2006 Non US	6,259	3.20	12,543	6.13
ASP 2004 Non-US Fund	4,909	2.51	18,146	8.86
ASP 2007 Direct	2,363	1.21	10,950	5.35
ASP 2006 Direct	2,184	1.12	11,715	5.72
<b>Cash And Cash Instruments</b>				
BNY Mellon Sterling Liquidity Fund	14,300	51.05	3,380	19.15
Fidelity Institutional Liquidity Fund	7,123	25.43	5,299	30.03
Deutsche Bank Global Liquidity Managed Fund	6,109	21.81	6,640	37.63
<b>UK Equity Unlisted</b>				
Mercury Unquoted 2nd Fund	20	75.51	25	77.65
Mercury Unquoted 1st Fund	6	24.49	7	22.35

\*The assets identified were only held by the fund in one of the two years.





Note 19a –

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 £000	Loans and receivables at amortised cost £000	Financial liabilities at amortised cost £000	Fair value through profit and loss £000	Loans and receivables at amortised cost £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>						
Pooled investments	1,408,953			1,306,344		
Equities	1,129,018			994,003		
Absolute return funds	496,466			460,638		
Private equity	195,454			204,748		
Loans	57,632			38,618		
Derivative contracts	479			1,296		
Cash		30,623			33,642	
Other investment balances		6,020			4,664	
Debtors		30,376			35,262	
	<b>3,288,002</b>	<b>67,019</b>	<b>-</b>	<b>3,005,647</b>	<b>73,568</b>	<b>-</b>
<b>Financial liabilities</b>						
Derivative contracts	-764			-808		
Other investment balances						
Creditors			-7,247			-7,968
	<b>-764</b>	<b>-</b>	<b>-7,247</b>	<b>-808</b>	<b>-</b>	<b>-7,968</b>
<b>TOTAL</b>	<b>3,287,238</b>	<b>67,019</b>	<b>-7,247</b>	<b>3,004,839</b>	<b>73,568</b>	<b>-7,968</b>



## Note 19b – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date. Loans and receivables are included for current assets measured at fair value whereas long term assets are excluded.

	2013-14		2012-13	
	Carrying Value £000	Fair Value £000	Carrying Value RESTATED £000	Fair Value RESTATED £000
<b>Financial assets</b>				
Loans and receivables	36,193	67,019	35,233	73,568
Fair value through profit and loss	3,288,002	3,288,002	3,005,647	3,005,647
<b>Total Financial assets</b>	<b>3,324,195</b>	<b>3,355,021</b>	<b>3,040,880</b>	<b>3,079,215</b>
<b>Financial Liabilities</b>				
Fair value through profit and loss	-764	-764	-808	-808
<b>Total Financial Liabilities</b>	<b>-764</b>	<b>-764</b>	<b>-808</b>	<b>-808</b>

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

The above table has been restated for 2012-13 to reclassify all balances into fair value through profit and loss which were previously categorised as available for sale assets in error. The category of available for sale assets has been removed. The carrying value has been restated by £682k and the fair value has been restated by £3.004m, both on the fair value through profit and loss line.

## Note 19c – Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments 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

Financial instruments 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 that 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

Financial instruments 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 also 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. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

The following table provides an analysis of the financial 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 direct property and items which are valued at amortised cost (i.e. loans and receivables).

Values as at 31 March 2014	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Financial assets</b>				
Available for sale assets	2,345,774	729,035	212,714	3,287,523
Fair value through profit and loss		479		479
<b>Total financial assets</b>				
<b>Financial liabilities</b>	<b>2,345,774</b>	<b>729,514</b>	<b>212,714</b>	<b>3,288,002</b>
Available for sale assets				
Fair value through profit and loss		-764		-764
<b>Total financial liabilities</b>		<b>-764</b>	<b>-</b>	<b>-764</b>
<b>Net financial assets</b>	<b>2,345,774</b>	<b>728,750</b>	<b>212,714</b>	<b>3,287,238</b>

Values as at 31 March 2013	Quoted Market Price Level 1 RESTATED £000	Using observable inputs Level 2 RESTATED £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Financial assets</b>				
Available for sale assets	2,040,526	740,325	223,498	3,004,349
Fair value through profit and loss	334	923		1,256
<b>Total financial assets</b>				
<b>Financial liabilities</b>	<b>2,040,860</b>	<b>741,248</b>	<b>223,498</b>	<b>3,005,605</b>
Available for sale assets				
Fair value through profit and loss	-20	-787		-808
<b>Total financial liabilities</b>	<b>-20</b>	<b>-787</b>	<b>-</b>	<b>-808</b>
<b>Net financial assets</b>	<b>2,040,840</b>	<b>740,461</b>	<b>223,498</b>	<b>3,004,797</b>

The table above has been restated as forward foreign currency contracts had been classified as level 1 in error when they should have been level 2. The misstatement relates to £922k of assets and £153k of liabilities.

A reconciliation of fair value measurement in Level 3 is set out below:

	2013/14 £000	2012-13 £000
<b>Opening balance</b>	<b>223,498</b>	<b>217,670</b>
Acquisitions	10,372	24,040
Disposal proceeds	-39,161	-35,920
Total gains / (losses) included in the fund account:		
On assets sold	0	0
On assets held at year end	18,005	17,708
<b>Closing balance</b>	<b>212,714</b>	<b>223,498</b>

## Note 19d – Breakdown of Asset Values

The table below summarises the asset between types of assets and whether they are quoted or unquoted (excluding direct property and items valued at amortised cost i.e. cash and accruals).

	2013-14			2012-13		
	Quoted Market Price £000	Unquoted Market Price £000	Total £000	Quoted Market Price £000	Unquoted Market Price £000	Total £000
<b>Equity Securities:</b>						
Consumer	424,558		424,558	408,395		408,395
Manufacturing	173,018		173,018	165,609		165,609
IT	160,855		160,855	106,858		106,858
Financial Institutions	159,116		159,116	126,945		126,945
Energy and Utilities	92,095		92,095	72,848		72,848
Other	73,682		73,682	70,913		70,913
Health and Care	45,694		45,694	42,435		42,435
<b>Private Equity</b>	1,164	194,290	195,454	2,151	202,597	204,748
<b>Real Estate – Overseas property</b>		12,077	12,077		13,007	13,007
Investment Funds and Unit Trusts:						
Equities	788,620	26	788,647	696,225	32	696,257
Absolute Return Funds	52,121	444,345	496,466	43,635	417,003	460,638
Bonds	374,851	77,790	452,641	304,510	145,081	449,592
Other		155,588	155,588		147,486	147,486
<b>Secured Loan Investments</b>		57,632	57,632		38,618	38,618
<b>Derivatives</b>	-626	341	-285	1,296	-808	488
<b>Total</b>	<b>2,345,148</b>	<b>942,089</b>	<b>3,287,238</b>	<b>2,041,820</b>	<b>963,016</b>	<b>3,004,836</b>



## Note 20 – 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 the fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Risk management policies are 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 are 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 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 administering authority has determined that the following movements in market price risk are reasonably possible for the 2013-14 reporting period:

Asset Type	Potential market movements % (+ / -)
Private Equity	25.4
Global Equities - Emerging	30.1
Global Equities - Developed	17.3
UK Equities	17.3
Property Unit Trusts	15.1
High Yield	8.8
Absolute Return Funds	7.9
Corporate Bonds	2.8
Government Bonds	2.3
Cash	1.4

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. The tables do not reconcile back to the net assets figure as they exclude direct property.

Asset Type	Value as at 31 March 2014 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Global equities – Developed	1,203,961	17.3	208,285	-208,285
Absolute Return Funds	496,466	7.9	39,221	-39,221
UK equities	406,466	17.3	70,319	-70,319
Government Bonds	349,368	2.3	8,035	-8,035
Corporate bonds	274,048	2.8	7,673	-7,673
High Yield	213,220	8.8	18,763	-18,763
Private equity	195,480	25.4	49,652	-49,652
Global equities – Emerging	121,149	30.1	36,466	-36,466
Cash	45,911	1.4	643	-643
Property Unit Trusts	12,077	15.1	1,824	-1,824
Investment income due	6,021	0.0	-	-
Net derivative assets	-285	0.0	-	-
<b>Total assets available to pay benefits</b>	<b>3,323,882</b>		<b>441,775</b>	<b>-441,775</b>

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 (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2013 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Global equities – Developed	1,074,507	17.3	185,890	-185,890
Absolute Return Funds	478,115	7.9	37,771	-37,771
UK equities	443,414	17.3	76,711	-76,711
Corporate bonds	338,631	2.8	9,482	-9,482
Private equity	204,780	25.4	52,014	-52,014
High Yield	186,104	8.8	16,377	-16,377
Global equities – Emerging	138,889	30.10	41,806	-41,806
Government Bonds	110,961	2.3	2,552	-2,552
Cash	49,583	1.4	694	-694
Property Unit Trusts	13,007	15.1	1,964	-1,964
Investment income due	4,664	0.0	-	-
Net derivative assets	489	0.0	-	-
<b>Total assets available to pay benefits</b>	<b>3,043,144</b>		<b>425,261</b>	<b>-425,261</b>

The figures for year ending 31 March 2013 have been restated to take account of updated potential market movements. There has also been a restatement of £12.7m which was included within the high yield figure in error. The £12.7m has been redistributed across UK, developed and emerging equities and cash.

### 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 are subject to interest rate risks, which represent the risk that the fair value or 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 funds 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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial asset at fair value:

Asset Type	2013-14 £000	2012-13 £000
Corporate and Government Bonds	<b>452,641</b>	449,592
Cash and cash equivalents	<b>17,873</b>	20,151
Cash balances	<b>13,232</b>	13,879
<b>Total</b>	<b>483,746</b>	<b>483,622</b>

## Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The £452.641m (£449.592m in 2012-13) fair value of the bond mandates managed by Henderson, Goldman Sachs and Baillie Gifford are more sensitive to movements in interest rates as measured by their duration (the level of sensitivity to interest rates) of 2.37, 6 and 8.46 years respectively.

A 1% increase in the prevailing level of interest would decrease the aggregate fair value of these mandates by £21.3m (£26.5m in 2012-13). Likewise a 1% decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

The secured loans invested in by M&G and Henderson, and the UK Financing Fund loans and Debt Opportunities Fund managed by M&G, are typically structured with a floating rate payment structure, whereby a fixed basis point spread is paid over the prevailing reference rate, typically 3 month LIBOR or EURIBOR. As a result, there is negligible interest rate risk involved in these investments. However, the total interest earned on investments will vary from time to time with changes in the underlying reference rate.

## 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 sterling 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 has also hedged its European and equity exposure by investing in a hedged European equity mandate with Legal and General and also hedges its direct European and US Dollar equity exposure through forward currency contracts.

The Fund's currency rate risk is routinely monitored by the Council 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 2014 and 31 March 2013:

Currency exposure – asset type 2013-14	Gross Exposure £000	Hedging Exposure £000	Net Exposure £000
Overseas listed equities	1,373,627	-187,725	1,185,902
Overseas unquoted securities	195,454		195,454
Absolute Return funds overseas fixed interest	79,830	-80,377	-547
Overseas unit trusts	11,639		11,639
<b>Total</b>	<b>1,660,550</b>	<b>-268,102</b>	<b>1,392,448</b>

Currency exposure – asset type 2012-13	Gross Exposure £000	Hedging Exposure £000	Net Exposure £000
Overseas listed equities	1,279,088	-200,232	1,078,856
Overseas unquoted securities	204,748		204,748
Absolute Return funds overseas fixed interest	76,419	-77,052	-633
Overseas unit trusts	12,966		12,966
<b>Total</b>	<b>1,573,221</b>	<b>-277,284</b>	<b>1,295,937</b>

## Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisers, the Council 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 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 2013-14 £000	Change to net assets available to pay benefits +13% £000	-13% £000
<b>Overseas listed equities:</b>	<b>1,191,666</b>	<b>154,916</b>	<b>-154,916</b>
Of which from USD	676,508	87,946	-87,946
Of which from JPY	59,143	7,689	-7,689
Of which from HKD	45,403	5,902	-5,902
Of which from SEK	32,541	4,230	-4,230
Of which from CHF	27,462	3,570	-3,570
Of which from DKK	16,799	2,184	-2,184
Of which from ZAR	11,461	1,490	-1,490
Of which from other currencies	322,349	41,905	-41,905
<b>Overseas unquoted securities:</b>	<b>195,454</b>	<b>25,409</b>	<b>-25,409</b>
Of which from USD	160,330	20,843	-20,843
Of which from EUR	35,124	4,566	-4,566
<b>Absolute Return funds overseas:</b>			
Of which from USD	-546	-71	71
<b>Overseas unit trusts:</b>			
Of which from EUR	11,639	1,513	-1,513
<b>Total</b>	<b>1,398,213</b>	<b>181,767</b>	<b>-181,767</b>



Net Currency exposure – asset type	Asset values 2012-13 £000	Change to net assets available to pay benefits +13% £000	-13% £000
<b>Overseas listed equities:</b>	<b>1,078,856</b>	<b>140,251</b>	<b>-140,251</b>
Of which from USD	566,495	73,644	-73,644
Of which from JPY	63,049	8,196	-8,196
Of which from HKD	27,331	3,553	-3,553
Of which from SEK	38,739	5,036	-5,036
Of which from CHF	28,771	3,740	-3,740
Of which from DKK	15,175	1,973	-1,973
Of which from ZAR	10,401	1,352	-1,352
Of which from other currencies	328,895	42,757	-42,757
<b>Overseas unquoted securities:</b>	<b>204,748</b>	<b>26,617</b>	<b>-26,617</b>
Of which from USD	168,147	21,859	-21,859
Of which from EUR	36,601	4,758	-4,758
<b>Absolute Return funds overseas:</b>			
Of which from USD	-633	-82	82
<b>Overseas unit trusts:</b>			
Of which from EUR	12,966	1,686	-1,686
<b>Total</b>	<b>1,295,937</b>	<b>168,472</b>	<b>-168,472</b>

## 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 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 Henderson, Goldman Sachs and Baillie Gifford and secured loans managed by M&G. However the majority of the Funds fixed income assets are investment grade quality (above BBB rated) sovereign or corporate bonds rated.

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

S&P Quality Rating	Fair Value 2013-14 £000	% of Fair value of Fixed Income Assets 2013-14
AAA	46,928	10.37
AA	165,814	36.64
A	63,816	14.10
BBB	76,315	16.86
Below BBB	65,279	14.42
Cash	19,756	4.36
Derivatives	2,860	0.63
NR	11,873	2.62
<b>Total</b>	<b>452,641</b>	<b>100</b>

S&P Quality Rating	% of Fair value Fair Value 2012-13 £000	of Fixed Income Assets 2012-13
AAA	192,079	42.73
AA	51,088	11.36
A	71,846	15.98
BBB	59,767	13.29
Below BBB	42,428	9.44
Cash	18,150	4.04
Derivatives	3,276	0.73
Loans	9,097	2.02
NR	1,842	0.41
<b>Total</b>	<b>449,573</b>	<b>100</b>

The Fund also invests in secured loans through dedicated mandates managed by M&G, whilst the Henderson Fixed Income mandate also has discretion to invest a proportion of their fund tactically in the same asset class. Secured loans are below investment grade, which as a result carry greater credit risk than investment grade sovereign or corporate bonds or loans.

The increased credit risk associated with this asset class is mitigated by the managers through detailed credit research analysis and through constructing a diversified portfolio of secured loans across individual counterparties, ratings, industry sector and geography. Credit risk is further reduced by the senior position in the capital structure that is inherent in this asset class which is secured against the counterparty's assets.

The Fund's aggregate exposure to credit risk through these secured loan mandates as measured by the credit rating is summarised in the table below:

2013-14 Rating	Fair Value £000	% of Fair value of Assets
BBB-	467	0.30
BB+	9,491	6.10
BB	17,270	11.10
BB-	34,540	22.20
B+	34,229	22.00
B	50,722	32.60
B-	5,446	3.50
CCC+	2,801	1.80
CCC and below	622	0.40
<b>Total</b>	<b>155,588</b>	<b>100</b>

2012-13 Rating	Fair Value £000	% of Fair value of Assets
BBB-	1,187	0.80
BB+	1,484	1.00
BB	13,061	8.80
BB-	24,935	16.80
B+	48,979	33.00
B	47,940	32.30
B-	8,312	5.60
CCC+	1,484	1.00
CCC and below	1,039	0.70
<b>Total</b>	<b>148,421</b>	<b>100</b>

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

The Council 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 2014 was £13.2m (31 March 2013 £13.9m) and was held in the Deutsche Bank and Fidelity money market accounts. The Co-operative Bank (Public Sector Reserve) balance is nil as the fund has changed its banking service provider to Lloyds bank with effect from 1 April 2014. 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 Rockspring.

2013-14 Counterparty	Moodys Rating	£000	% of cash balances
Bank of New York Mellon (Money Market)	Aaa-mf	14,300	45.97
Fidelity Worldwide Investment (Money Market)	Aaa-mf	7,123	22.90
Deutsche Bank Advisors (Money Market)	Aaa-mf	6,109	19.64
Bank of New York Mellon Cash Accounts	Aaa-mf	3,091	9.94
The Co-Operative Bank (Public Sector Reserve)	A-	0	0
Cash in transit	NR	482	1.55
<b>Total</b>		<b>31,105</b>	<b>100</b>

2012-13 Counterparty	Moodys Rating	£000	% of cash balances
Bank of New York Mellon Cash Accounts	Aaa-mf	16,383	48.15
Deutsche Bank Advisors (Money Market)	Aaa-mf	6,640	19.51
Fidelity Worldwide Investment (Money Market)	Aaa-mf	5,299	15.57
Bank of New York Mellon (Money Market)	Aaa-mf	3,380	9.93
The Co-Operative Bank (Public Sector Reserve)	A-	1,940	5.70
Cash in transit	NR	388	1.14
<b>Total</b>		<b>34,030</b>	<b>100</b>



### 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 Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

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

The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. Illiquid assets can include assets where a) there are no highly liquid active markets, such as investment properties and private equity or b) individual fund structures, where the Fund's investment is locked in for a specific period or where the investment manager may have the ability to 'gate' or limit investors withdrawal from the fund. As at 31 March 2014 the value of illiquid assets was £287m, which represented 8.07% of the total fund assets (31 March 2013 £294m which represented 9.1% of the total fund assets).

In terms of liquidity risk, the Fund had £31m (2012-13 £34m) of cash balances as at 31 March 2014 and current net assets of £22m (£27m in 2012-13). The Funds net cashflow, before taking account of investment, as at 31 March 2014 was -£1.4m (+£6m in 2012-13). There is no significant risk that it will be unable to meet its current commitments.

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

**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 are 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.

Moody's rating	Fair value of collateral 31 March 2014 £000	% of fair value of collateral 31 March 2014 %	Fair value of collateral 31 March 2013 £000	% of fair value of collateral 31 March 2013 %
Aaa	52,584	83	1,626	69
Aa1	11,042	17	721	31
<b>Grand Total</b>	<b>63,626</b>	<b>100</b>	<b>2,347</b>	<b>100</b>

## Note 21 – Funding Arrangements

In line with the LGPS (Administration) (Amendment) 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 2013. The next valuation will take place as at March 2016.

The key elements of the funding policy are:

- To ensure long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To ensure that employer contribution rates are as stable as possible;
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- 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 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. Normally this is three years but in some cases a maximum period of 12 years can be granted. 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 2013 valuation, the fund was assessed as 82% funded (81% at the March 2010 valuation). This corresponded to a deficit of £723m (2010 valuation: £600m) at that time.

Contribution increases will be phased in over the three-year period ending 31 March 2017 for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate which all employers in the fund pay) is:

Common Contribution Rate	31 March 2010 %	31 March 2013 %
Future	16.1	19.3
Deficit	8.2	8.2
<b>Total</b>	<b>27.5</b>	<b>27.5</b>

Individual employer's rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Fund's website.



The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

### Financial assumptions

	31 March 2010		31 March 2013	
	Nominal	Real	Nominal	Real
<b>Discount rate</b>	6.1%	2.8%	4.6%	2.1%
<b>Salary increases*</b>	5.3%	2.0%	3.3%	0.8%
<b>Price inflation / Pension Increases</b>	3.3%	-	2.5%	-

\*1% p.a. for 2010/11, 2011/12 and 2012/13, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

### Longevity assumptions

Assumed life expectancy at age 65	Actives and Deferreds		Current Pensioners	
	Male	Female	Male	Female
2010 valuation - baseline	19.8	22.5	19.8	22.5
2010 valuation - improvements	24.9	27.7	22.9	25.7
2013 valuation - baseline	19.8	22.7	20.1	22.4
2013 valuation - improvements	24.1	26.7	22.3	24.4

### Commutation assumption

It is assumed that future retirees will elect to exchange their pension for additional tax free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% of HMRC limits for service from 1 April 2008.

## Note 22 – Actuarial Value of Promised Retirement Benefits

CIPFA's Code of Practice on Local Authority Accounting 2013-14 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 23 – Long Term Assets

	2013-14 £000	2012-13 £000
<b>Long Term Debtors:</b>		
• Contributions due - Employers	12,477	14,499
• Sundry Debtors	1,411	1,520
<b>Total</b>	<b>13,888</b>	<b>16,019</b>

	2013-14 £000	2012-13 £000
<b>Analysis of Long Term Debtors</b>		
Due from Cheshire West & Chester Council	9,933	10,485
Due from Other Local Authorities	2,438	3,799
Due from Bodies External to General Government	1,517	1,735
<b>Total</b>	<b>13,888</b>	<b>16,019</b>

The Fund has long term debtors for early retirement contributions from scheme employers who have the option of paying over five years and the settlement from Magistrates Courts of £2.351m which is being paid in equal instalments over 10 years (the first payment of £277k was received in 2010-11), discounted at 3.76%. Both have been included at present value.

## Note 24 – Current Assets

	2013-14 £000	2012-13 £000
<b>Current Debtors:</b>		
• Contributions Due - Employers	<b>14,390</b>	16,321
• Contributions Due - Employees	<b>2,150</b>	2,676
• Sundry Debtors	<b>146</b>	281
• Provision for Doubtful Debt	<b>-198</b>	-35
Cash balances	<b>47</b>	197
<b>Total</b>	<b>16,535</b>	<b>19,440</b>

	2013-14 £000	2012-13 £000
<b>Analysis of Current debtors</b>		
Due from Other Local Authorities	<b>9,704</b>	11,803
Due from Cheshire West & Chester Council	<b>4,405</b>	4,388
Due from Bodies External to General Government	<b>2,469</b>	2,943
Other Debtors	<b>45</b>	115
Central Government Bodies	<b>63</b>	29
Less Provision for Doubtful Debt	<b>-198</b>	-35
<b>Total</b>	<b>16,488</b>	<b>19,243</b>

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 25 – Current Liabilities

	2013-14 £000	2012-13 £000
Sundry Creditors	6,954	4,969
Benefits Payable	900	276
Receipts in Advance	607	2,723
<b>Total</b>	<b>8,461</b>	<b>7,968</b>

	2013-14 £000	2012-13 £000
<b>Analysis of creditors</b>		
Due to Bodies External to General Government	4,007	3,361
Due to Other Local Authorities	303	142
Due to Cheshire West & Chester Council	1,384	116
Other Creditors	2,160	1,546
Due to Central Government Bodies	0	80
<b>Total</b>	<b>7,854</b>	<b>5,245</b>



## Note 26 – Additional Voluntary Contributions (AVCs)

The AVC providers to the members of the Fund are Clerical Medical, Standard Life and Equitable Life. 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 (2) (a) of the LGPS (Management and Investment of Funds) Regulations 2009. 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 Clerical Medical, Standard Life and Equitable Life for the year to 31 March 2014 is shown below, along with a prior year comparator.

	Clerical Medical £000	Standard Life £000	Equitable Life £000	Total £000
Contributions received in year 2014	369	161	2	532
Contributions received in year 2013	272	224	4	500
Fair value at 31 Mar 2014	2,331	2,313	622	5,266
Fair value at 31 Mar 2013	2,337	2,206	751	5,294

## Note 27 – Related Party Transactions

The Fund is administered by Cheshire West and Chester Council. Consequently there is a strong relationship between the Council and the Fund. 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 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 2013-14 the Fund received £1.4k from the Council (paid in 2012-13 £2.4k) for interest accrued on these balances. This payment was to correct a miscalculation of interest which had been paid to the council in error.

The Council is one of the largest employers and contributed £28.3m into the Fund in 2013-14 (2012-13 £28.9m). At the year end, a balance of £11.562m (2012-13 £14.872m) was due to the Fund from the Council, primarily relating to early retirement costs which will be repaid over more than one year and also contributions which were paid in April but became due in March. A balance of £1.4m (2012-13 £0.1m) was owing to the Council for Fund transactions processed through the Administering Authority's accounts payable and receivable systems. The Administering Authority incurred costs of £2.202m to administer the Fund in 2013-14 (2012-13 £2.169m) and this was recharged to the Pension Fund. Note 10 provides an analysis of these costs. These are related party transactions as Cheshire West and Chester is also a member body of the Pension 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 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.

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 and Cheshire East Councils.

## Governance

Responsibility for managing the Fund lies with the full Council of Cheshire West & Chester Council with lead officer responsibility delegated to the Director of Resources. Day to day management of the Fund's affairs has been delegated to the Head of Finance 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 Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee.

Since January 2004 elected members who are offered membership of the Scheme under their respective Council's scheme of allowances have been eligible to join the Scheme. As at 31 March 2014, nine members of the Pension Fund Committee had taken this option and were members of the Scheme.

There are two members of the Committee who are in receipt of pension benefits from the Fund (Councillor P. Mason and Councillor D. Newton). In addition, Committee members Councillors M. Hogg (Chairman), F. Keegan, P. Raynes, D. Beckett, H. McNae, M. Henesy, P. Mason and M. Wharton are active members of the Fund.

With the introduction of the new LGPS from 1 April 2014 council Members are not entitled to join, however, a Councillor who was a member of the scheme on 31 March 2014 may continue to accrue rights until the end of the term of office which that member is serving.

Each member of the Committee 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 strictly 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.

## Key Management Personnel

The posts of Director of Resources and Head of Finance are deemed to be key management personnel with regards to the pension fund. The financial value of their relationship with the fund (in accordance with IAS24 Related Party Disclosures) are set out below:

	31 March 2012 £000	31 March 2013 £000
Short term benefits	59	58
Long term/post retirement benefits	1,314	1,323
<b>Total</b>	<b>1,373</b>	<b>1,381</b>

## Note 28 – Contingent Liabilities And Contractual Commitments

The Fund has contractual commitments to the value of £275m (2012-13 £299m) in private equity funds. As at 31 March 2014 the Fund had actually invested £237m (2012-13 £270m) and therefore had an outstanding commitment of £38m (2012-13 £29m). As these funds are denominated in US Dollars and Euros the commitment in Sterling is subject to changes due to currency fluctuations.

The Fund has contractual commitments to the value of £50m to the UK Companies Financing Fund managed by M&G. As at 31 March 2013 £32m (£32m in 2012-13 restated from £32.4m) has been drawn down.

The Fund also has contractual commitments to the value of £30m to the Debt Opportunities Fund managed by M&G. As at 31 March 2014 £26.7m has been drawn down (£6.2m in 2012-13).

## Note 29 – 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 3 employers with Parent Company Guarantees. The bonds are drawn in favour of the pension 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 30 – Impairment for Bad and Doubtful Debts

During 2013-14 the fund has recognised doubtful debts of £53k (£35k in 2012-13) relating to outstanding rental income on its investment properties of £51k (£32K in 2012-13) and non-recovery of pensioner death overpayments totalling £2k (£3k in 2012-13).

## Note 31 – Statement of Investment Principles

The Fund's Statement of Investment Principles (SIP) sets out the Fund's investment objectives and investment management arrangements. A full copy of the SIP can be obtained from the Pensions Section, Cheshire West & Chester Council, HQ, 58 Nicholas Street, Chester, CH1 2NP or from the Fund's website at: [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

## Note 32 – Funding Strategy Statement

Under the LGPS (Administration) (Amendment) Regulations 2013 administering authorities are required to prepare a Funding Strategy Statement (FSS). The key requirements relating to the FSS in the regulations are that;

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - FSS guidance produced by CIPFA;
  - Its Statement of Investment Principles published under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund's actuary must have regard to the FSS as part of the fund valuation process.

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 for the Cheshire Pension Fund can be obtained from the Pensions Section, Cheshire West & Chester Council, HQ, 58 Nicholas Street, Chester, CH1 2NP or from the Fund's website at: [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)



# Funding Strategy Statement – January 2014



# 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 31st March 2014.

## 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. The Administering Authority runs the Cheshire Pension Fund, to ensure it:

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

The 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. 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 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. 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, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

## 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 and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member 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 aim to do?

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

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers. 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
- 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 including tax raising employers 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. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Nick Jones, Finance Manager - Pensions, in the first instance at [nick.jones@cheshirewest.gov.uk](mailto:nick.jones@cheshirewest.gov.uk).

## 2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the "future service rate"; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "past service adjustment". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus, in certain circumstances there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

### 2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this 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 shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the Common Contribution Rate is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31st March 2014, including an analysis at Fund Level of the Common Contribution Rate. Further details of individual employer contribution rates can also be found in the formal report.

## 2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, is also considered when setting contributions: more details are given in Section 3.

Subject to the Administering Authority's approval it may be agreed to pool contributions for some employers, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Any costs of salary increases above that assumed at the formal valuation must be paid by the employer.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

## 2.5 What different types of employer 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. There are currently more employers in the Fund than ever before, Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies – County or Unitary Councils, and other specified employers such as a Fire Authority, a Police and Crime Commissioner, an academy or a further/higher education establishment. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme or a). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

The Administering Authority has no discretion over whether to admit Scheduled Bodies to the Fund, and the Scheduled Bodies have no discretion whether to continue to allow its non-teaching or non uniformed staff to join the Fund. All such bodies become separate new employers in the Fund.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – community admission bodies ("CAB") or those providing a service on behalf of a scheme employer – transferee admission bodies ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.



## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary recognise that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services to the local community.

However, the Administering Authority must also recognise that:

- The Fund provides 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;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. 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;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice
- The Fund seeks to reduce the risk of an employer defaulting on its pension obligations. In that situation, the resulting deficit would fall on the other employers and those employers' services could in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to balance the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

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 increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery) which will temporarily produce lower contribution levels than would otherwise have applied. 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, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

### 3 Calculating contributions or 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 solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions.

These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

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 may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### 3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. 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 choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.



### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities, Police, Fire	Further Education Establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)	Move to gilts basis Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit and Attained Age approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	15 years	20 years	15 years	15 years	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount for 4 main Councils, % of payroll for P&TCs	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (e)	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 three years of contract
New employer	n/a	n/a	Note (f)	Note (g)		Notes (g) & (h)
Cessation of participation: cessation debt 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 (i).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

**Note (a) (Basis for CABs and Designating Employers closed to new entrants)**

The Administering Authority may vary the discount rate used to set employer contribution rate 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.

In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) 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 and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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. In the interests of stability and affordability of employer contributions, 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" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

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 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 (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).



On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Tax Raising or Precepting Body	"Mature" Tax Raising or Precepting Body	Higher/Further Education Establishments	Academy
Max cont increase	+0.5% of pay	+1.5%	+2.0%	Same as ceding LEA
Max cont decrease	-0.5% of pay	-0.5%	-0.5%	Same as ceding LEA

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors. The Administering authority reserves the right to review the stabilisation criteria and limits at any point before 31 March 2016 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) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants. This expectation does not apply to Transferee Admission Bodies.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers 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 (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a monetary amount as default.

#### Note (e) (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, altering the stabilisation parameters and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

#### Note (f) (Academy employers)

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;



- 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. 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 will be as per the ceding Council's rate and the Council's stabilisation parameters will apply;
- e) Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. 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 (g) (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 fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (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 and also providing a form of security as above.

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 (h) (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 two different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

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 is may be under the 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 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 and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options.

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 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

### Note (i) (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;
- The insolvency, winding up or liquidation of the Admission Body;
- The body ceases to be an admission body under the relevant LGPS regulation;
- The expiry or termination of the services contract;
- 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 it should be noted that current legislation does not permit a refund payment to the Admission Body.

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:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilt's cessation basis", which is more prudent than the ongoing 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 significant cessation debts being required.

Under (a) and (c), 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 would look to any bond, indemnity or guarantee in place for the employer.

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 may at its absolute discretion agree deficit recovery payments (calculated on a "gilt's cessation basis") for a period of time after the cessation event. The period of time will be at the sole discretion of the Administering Authority. This approach would be monitored on a regular basis (at a minimum at each triennial valuation) and the Fund reserves the right to revert and seek immediate payment of any funding shortfall identified.

### 3.4 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.

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 their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Employers who are permitted to enter (or remain in) a pool at the 2013 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.

### 3.5 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 includes (but is not limited to) a reduced rate of contribution or an extended deficit recovery period.

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;
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Tax Raising and Precepting bodies	- up to 5 years
Higher and Further Education Establishments	- up to 5 years
Academies	- TBC
Admission Bodies	- payable immediately.

The Administering Authority may permit alternative repayment terms for the most secure employers only (i.e. those who are pre-cepting and eligible for the stabilisation mechanism). In practice this will mean that additional liabilities are assessed in respect of such retirements and converted into an additional contribution payable over the deficit recovery period.

### 3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative amount of ill health retirement strains in any financial year exceeds the allowance at the previous valuation, the Fund will seek advice from the actuary as to whether the employer should pay additional contributions to the Fund.

#### Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current 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 contribution 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 if the policy is ceased.

### 3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt 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 be required to 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 other Fund
- In exceptional circumstances the Fund may at its absolute discretion permit an employer with no remaining active members to continue contributing to the Fund. Under this agreement the Fund may at its absolute discretion agree deficit recovery payments (calculated on a "gilts cessation basis") for a

period of time after the last remaining active member had left the Fund. The period of time will be at the sole discretion of the Administering Authority. This approach would be monitored on a regular basis (at a minimum at each triennial valuation) and the Fund reserves the right to revert and seek immediate payment of any funding shortfall identified.

### 3.9 Policies on bulk transfers

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;
- 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 over the years, 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 Statement of Investment Principles (SIP), 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.

The Fund has 4 broad investment strategies. Employers are allocated to the strategy that best suits their objectives.

### 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. An employer is only allocated to a lower growth investment strategy when there will be no material impact on the contribution required.

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

In the opinion of the Fund actuary, the current funding policy for each of the employer groupings is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

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

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that the investment strategy, coupled with constraining employer contribution rate changes as described in 3.3

Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

#### 4.5 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 regularly. It reports this to the regular Pensions Committee meetings on a quarterly basis, and also to employers through newsletters and Employers Forums.



## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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 2012) and to its Statement of Investment Principles.

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 covered in more detail by the most recent CIPFA 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 in [DATE] for comment;
- b) Comments were requested within [30] days;
- c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website [http://www.cheshirepensionfund.org/?page\\_id=763](http://www.cheshirepensionfund.org/?page_id=763)
- A link to the website URL sent by e-mail to each participating employer in the Fund;
- A full copy included in/ the annual report and accounts of the Fund;
- Copies sent to investment managers and investment advisers;
- Copies made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. 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:

- 5 trivial amendments would be simply notified at the next round of employer communications,
- 6 amendments affecting only one class of employer would be consulted with those employers,
- 7 other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions 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 Statement of Investment Principles, 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 [Key Fund Documents | Cheshire Pension Fund](#)

## 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 Statement of Investment Principles (SIP) 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;
- prepare and maintain a FSS and a SIP, 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/SIP 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 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 Admission Bodies' 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 SIP 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 SIP;
- 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.



## 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

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Investment risk levels reduced when returns have exceeded pre-determined expectations as per a comprehensive risk management framework</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
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>
Employer allocated to inappropriate long-term investment strategy.	<p>Administering authority monitors allocation to investment strategy and there is a formal review at least in line with every formal valuation date where allocation to strategy is agreed with the Fund's investment advisor.</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>Robust selection process followed by 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> <p>Annual pay increase monitoring at employer level will identify pay award strains which can then be recharged to employers over a period not to exceed 3 years</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<p>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.</p>
Orphaned employers give rise to added costs for the Fund.	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>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.</p>

### C4 Regulatory risks

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 results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

## C5 Governance risks

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 (under Regulation 38) 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>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, 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.</p> <p>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> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

## 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.

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 future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the Common Contribution Rate <sup>1</sup>, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer <sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

<sup>1</sup> See LGPS (Administration) Regulations 36(5).

<sup>2</sup> See LGPS (Administration) Regulations 36(7).

### D2 How is the Future Service Rate calculated?

The future service 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 future service 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 calculation is on the “ongoing” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission



Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

### D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

### D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;

- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made; over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

#### D5 How is each employer's asset share calculated?

From 1 April 2014 onwards, the Administering Authority will track each employer's asset position, using an Employer Asset Tracking System. Full details are available on request.

Prior to this date, the Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".



## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

### E3 What assumptions are made

#### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.55% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation) for the majority of employers. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

Where an employer is invested in a lower risk strategy, the asset outperformance assumption has been adjusted accordingly.

## b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

The fund will monitor pay growth and put in place a recharge policy should there be a strain cost in respect of pay rises being higher than assumed.

## c) 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. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

## d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

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.

## e) General

The same financial assumptions are adopted for the majority of employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances. For some employers the financial assumptions are altered to reflect that they have a different funding target e.g. full funding on a gilts basis.

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 – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
<b>Common contribution rate</b>	The Fund-wide future service rate plus past service adjustment. It should be noted that this will differ from the actual contributions payable by individual employers.
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Deficit</b>	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
<b>Deficit repair/recovery period</b>	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
<b>Designating Employer</b>	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.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation.
<b>Funding level Future service rate</b>	The ratio of assets value to liabilities value: for further details (see 2.2). The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.



<b>Gilt</b>	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 their main use in funding is as an objective measure of solvency.
<b>Guarantee / guarantor</b>	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.
<b>Letting employer</b>	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.
<b>Liabilities</b>	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Past service adjustment</b>	The part of the employer’s annual contribution which relates to past service deficit repair.
<b>Pooling</b>	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund’s current pooling policy (see 3.4).

<b>Profile</b>	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.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	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).
<b>Solvency</b>	In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Theoretical contribution rate</b>	The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), 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.

# Statement of Investment Principles – June 2014

## Introduction

The Cheshire Pension Fund ("The Fund") is required to publish a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The SIP for the Cheshire Pension Fund is set out below and complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This Statement of Investment Principles was approved by the Pension Fund Committee on 9th July 2014.

The Regulations also set out the Fund's requirement to maintain a Funding Strategy Statement (FSS). The FSS for Cheshire Pension Fund has been revised to take into account the results of the most recent actuarial valuation (31 March 2013) and was approved by the Pension Fund Committee on 10 January 2014.

The SIP is subject to review from time to time and always within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the administering authority has taken and considered professional advice from Hymans Robertson LLP (the Fund's actuary) and Mercer (the Fund's strategic investment advisor).

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## Scheme Governance

Cheshire West and Chester Council

(The Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) in Cheshire through the Cheshire Pension Fund (the Fund).

The Full Council of Cheshire West and Chester Council has delegated responsibility for the governance of the Fund to the Director of Resources. The s151 Officer who has ultimate responsibility for the Fund's investment strategy and is advised by The Pension Fund Committee and the Fund's strategic investment advisor (Mercer).

## Investment Responsibilities

As stated the responsibility for the administration of the Pension Fund is delegated to the s151 Officer, advised by the Pension Fund Committee.

The Pension Fund Committee comprises 11 members (10 with voting rights) as follows:

<b>Cheshire West and Chester Council</b>	Four members
<b>Cheshire East Council</b>	Four members
<b>Halton Borough Council</b>	One member
<b>Warrington Borough Council</b>	One member
<b>Employee representative (UNISON)</b>	One member (non voting)

The Fund's governance structure also includes a Pensions Investment Sub Committee. The Sub Committee comprises 5 members of the Full Committee and ensures that the Fund's limited governance time is utilised in the most efficient manner by focussing on more complex investment issues.

The day to day responsibility for all investment strategy and monitoring activities is delegated to the Head of Finance after taking and considering expert advice from the Pension Fund Committee and the Fund's professional advisors.

The terms of reference in relation to investments for the Fund's Pension Committee and Investment Sub Committee are shown in the table below:

## Terms of Reference (Investments)

Pension Fund Committee	Investment Sub Committee
1) Maintain and continually review the Fund's management and governance structure.	1) On a quarterly basis, review the performance of the Pension Fund and the Fund Managers against the objectives, benchmarks and targets set.
2) Formulate and continually review the Fund's investment policy and investment strategy including asset allocation strategy, setting target return and risk budgets.	2) Receive and consider any investment manager or service provider issues escalated to the Sub Committee by key officers.
3) Consider, agree and continually review an investment management structure for the Pension Fund and to be responsible for overseeing:- <ul style="list-style-type: none"> <li>a. the appointment and termination of investment managers;</li> <li>b. the establishment of performance benchmarks and targets for investment managers;</li> </ul>	3) After taking appropriate advice, formulate and continually review a governance structure to ensure effective consideration, implementation and monitoring of investment opportunities for the opportunities fund.
4) Oversee the appointment and termination of advisors and consultants to the Pensions Fund as required	4) After taking appropriate advice, identify and implement any tactical asset switches (within ranges prescribed by the Pension Fund Committee).
5) Formulate and review tolerance ranges to delegate to the Investment Sub Committee to allow them to implement tactical changes to the Investment Strategy or Asset Allocation	5) Receive reports from the Fund's investment managers and other service providers on issues that may impact the Fund's investment strategy and objectives and consider 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.

The responsibility for the day-to-day management of the Fund's assets is delegated to its appointed investment managers. Details of the Fund's current roster of investment managers are provided later in this document.



## Investment Objectives

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.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

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.

## Investment Strategy

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, equities are also very volatile

(i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the number of employers in the Fund has increased markedly since the 2010 valuation and stood at more than 170 at 1 April 2014. Each employer has different underlying characteristics and crucially, many have different long term funding objectives.

In order that the Fund delivers on its key objectives; ensuring that each employer takes 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 operates four distinct investment strategies.

The Fund has translated its objectives into four suitable strategic asset allocation benchmarks for the Fund. The strategic benchmarks are

reflected in the investment structure adopted by the Fund; this comprises a mix of segregated and pooled, and active and passive, manager mandates. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

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. Historically the Fund has undertaken this review at least every three years following actuarial valuations of the Fund.

In addition to the required triennial review, the Fund has provided each employer with a 'flightpath', a clearly defined plan to achieve full funding over a defined period of time. The significance of the flightpath on the investment strategy is that as an employer's funding level improves, the Fund will reduce its allocation to growth assets and increase its allocation to matching assets (and vice versa). This ensures that investment strategies are closely aligned to the changing characteristics of scheme employers and strengthens the link between the investment strategy and the overall investment objective.

## Funding Strategy Statement

There are close links between the SIP and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The FSS for Cheshire Pension Fund has been revised to take into account the results of the most recent actuarial valuation (31 March 2013) and was approved by the Pension Fund Committee on 10 January 2014.

The FSS is available on the Fund's website: [http://www.cheshirepensionfund.org/?page\\_id=101](http://www.cheshirepensionfund.org/?page_id=101)

## The types of investments to be held

The Fund operates within a regulatory framework set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This sets out the requirement to formulate the investment policy with a view to;

- the advisability of investing fund money in a wide variety of investments; and
- the suitability of particular investments and types of investment.

The Fund receives advice on the above from its Strategic Investment Advisor, Mercer.

The Fund invests primarily in equities (UK, overseas and global), fixed interest securities (government and corporate), private equity, secured loans, index linked securities, property, absolute return mandates, cash (and money market funds), either directly or through pooled funds.

The Fund may also make use of derivatives such as equity index futures, contracts for differences, foreign currency forwards and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management, generating returns or to hedge specific risks. The Fund's use of such derivatives is subject to the restrictions in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

## Balance between different kinds of investments

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles

The Fund's initial strategic benchmark following the 2013 valuation and investment strategy review is set out below. As stated this strategic benchmark may change over time in line the Fund's investment risk management framework and employer flightpaths. Any changes to the strategic benchmark require the approval of the Pension Fund Committee.

## Strategic Benchmark

	Investment Strategy (%)				
	Growth A	Growth B	Medium Growth	Gilts	Benchmark Index
<b>GROWTH PORTFOLIO</b>	<b>80.0</b>	<b>70.0</b>	<b>50.0</b>	-	
<b>Equities</b>	<b>50.0</b>	<b>40.0</b>	<b>20.0</b>	-	
Global (unconstrained)	12.0	12.0	8.0	-	MSCI World
Global (unconstrained)	10.0	10.0	4.0	-	MSCI All Country World
Global (unconstrained)	8.0	8.0	4.0	-	FTSE All World
UK	10.2	5.2	2.0	-	FTSE All-Share
North America	3.4	1.7	0.7	-	FTSE All World North America
Europe (ex UK)	2.4	1.2	0.5	-	FTSE World Europe Ex-UK
Emerging Markets	1.5	0.7	0.3	-	MSCI Emerging Markets
Pacific (ex Japan)	1.5	0.7	0.3	-	FTSE Developed Asia Pacific
Japan	1.0	0.5	0.2	-	FTSE Japan Index
<b>Absolute Return</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	-	
Fund of Hedge Funds	6.0	6.0	6.0	-	UK Consumer Price Index (CPI)
Multi Strategy	6.0	6.0	6.0	-	UK Consumer Price Index (CPI)
Commodity Trading	3.0	3.0	3.0	-	UK Consumer Price Index (CPI)
<b>Property</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	-	CAPS Property
<b>Private Equity</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	-	LIBOR BBA GBP 1 Month
<b>Opportunities Fund</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	-	LIBOR BBA GBP 1 Month
<b>MATCHING PORTFOLIO</b>	<b>20.0</b>	<b>30.0</b>	<b>50.0</b>	<b>100.0</b>	
<b>Bonds</b>	<b>15.0</b>	<b>25.0</b>	<b>45.0</b>	<b>100.0</b>	
Bonds	15.0	15.0	15.0	-	BofA ML Sterling Broad
Index Linked Gilts	-	10.0	30.0	100.0	FTA Over 5 Year Index Linked
<b>Secured Loans</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	-	LIBOR BBA GBP 1 Month
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

In addition to the strategic benchmark for each investment strategy, the Pension Fund Committee sets appropriate tolerance limits for each asset manager and asset class. Actual asset allocations are monitored against these tolerance limits on a quarterly basis by the Investment Sub Committee in order that rebalancing can occur if required. Tolerance ranges approved by the Pension Fund Committee on 28 March 2014 are shown in the table below:

## Tolerance Ranges

Asset Class	Growth Strategy A and Growth Strategy B	Medium Growth Strategy
<b>Equities</b>	Manager +/- 5% Aggregate +/- 5%	Manager +/- 5% Aggregate +/- 2.5%
<b>Fixed Income</b>	Manager +/- 2.5% Aggregate +/- 2.5%	Manager +/- 2.5% Aggregate +/- 5%
<b>Absolute Return</b>	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)
<b>Illiquid Portfolio</b>	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)



## Risk and diversification of investments

The Fund is exposed to a number of investment risks which pose a threat to the Fund meeting its objectives. It is the Pension Fund Committee's policy to invest the assets of the Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Committee reviews the asset allocation of the Pension Fund on a quarterly basis. The principle investment risks that the Fund is exposed to are set out in the table below:

Risk	Mitigating Actions
<b>Asset Risks</b>	<p>The Pension Fund Committee sets investment guidelines at a strategic, asset class and individual manager level. These guidelines act to mitigate key asset risks and include:</p> <ul style="list-style-type: none"> <li>• Diversification guidelines</li> <li>• Asset class and manager control ranges</li> <li>• Clearly defined objectives for each investment mandate which are reviewed and monitored by the Committee on a quarterly basis</li> <li>• Active management of Fund liquidity to ensure the Fund can meet its short term cash flow requirements</li> <li>• The appointment of a range of investment managers provides protection against the underperformance of one manager</li> </ul>
<b>Operational Risks</b>	<p>When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers.</p> <p>Custody risk is managed by:</p> <ul style="list-style-type: none"> <li>• The use of a global custodian for custody of assets.</li> <li>• The use of formal contractual arrangements for all investments.</li> <li>• Maintaining independent investment accounting records.</li> </ul> <p>Custody risk is managed by:</p> <ul style="list-style-type: none"> <li>• Maintaining a comprehensive risk register with regular reviews.</li> <li>• Operation of robust internal compliance arrangements.</li> <li>• In-depth due diligence prior to making any investment.</li> </ul>



## Expected return on investments

The actuarial valuation, at 31 March 2013, was prepared on the basis of an expected real return on assets of 2.1% over the long term, a nominal return of 4.6% assuming inflation to be 2.5%. This can also be expressed as 1.55% above gilt yields at the time of the valuation, an outperformance assumption that in the opinion of the actuary is within a range that would be considered acceptable for the purposes of the funding valuation.

Where an employer is invested in a lower risk strategy, the asset outperformance assumption has been adjusted accordingly.

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

## Realisation of investments

The Fund's investment managers have discretion as to the timing and amount of the realisation of investments. The majority of assets held within the Fund may be realised quickly if required by the Fund. The exception to this is the Fund's portfolio of illiquid investments including Private Equity and Property, the Fund does however expect to be rewarded for holding illiquid assets by earning an 'illiquidity premium'

## Compliance with Myners principles

In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on Good Investment Governance. The principles were updated through a Treasury report in October 2008, 'Updating the Myners' Principles: A Response to Consultation'.

Local government pension funds are required, by regulation, to produce a statement on their compliance with the Myners' Principles on the

basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds. This guidance (Investment Decision

Making and Disclosure 2009) has been followed in the production of this statement.

The Fund's self-assessment of adherence to the principles are attached as an Appendix 1 to this statement.

## Responsible Investment

The Cheshire Pension Fund adopts a long term approach to responsible investment. The Pension Fund Committee recognise their full responsibility for the oversight of assets and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.

The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the revised Myners Principles. The Code states that institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- be willing to act collectively with other investors where appropriate.

- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.

The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

## 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 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 non-compliance are addressed directly with the Fund's managers.

## Stock Lending

The Fund allows stock held within its segregated portfolios to be lent out to market participants through a stock lending programme managed by its custodian, the Bank of New York Mellon. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund consider it appropriate.

The stock lending policy on pooled funds is determined by the individual investment manager. Any income from such a policy is incorporated in the net asset values of the pooled fund.

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the securities that are transferred under stock lending arrangements do not exceed 25% of the total value of the investment portfolio.

## Appendix 1 – Myners Principles

Principle	Evidence of Compliance
<p><b>Principle 1 Effective Decision Making:</b></p> <p>Administering authorities should ensure:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Compliant</b></p> <p>Decisions are taken by the Pension Fund Committee which is responsible for the management of the Cheshire Pension Fund.</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><b>Principle 2 Clear objectives:</b></p> <p>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>	<p><b>Compliant</b></p> <p>The Committee has established objectives for the Fund which take account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This 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><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Compliant</b></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>

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**Principle**
**Evidence of Compliance**


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**Principle 4 Performance assessment:**

- 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.

**Partially compliant**

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 retender 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.

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**Principle 5 Responsible Ownership:**

Administering authorities should

- 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.

**Partially compliant**

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.

This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.

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**Principle 6 Transparency and Reporting:**

Administering authorities should

- 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.

**Compliant**

The Pension Fund Committee maintains minutes of meetings which are available on the Council website.

The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings.

The Statement of Investment Principles 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.

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# Communications Policy Statement – June 2014

## Introduction

This is the Communications Policy Statement of the Cheshire Pension Fund (the Fund), administered by Cheshire West and Chester Council (the Administering Authority).

This Statement provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders. An effective communications strategy is vital for the Fund to meet its objective of providing a high quality and consistent service.

Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its customers and stakeholders.

The Fund continuously looks at ways to enhance its communication offering to the various audiences and this Communication Policy Statement will be reviewed annually and a revised version will be published following any material change.



## Regulatory Framework

This Statement has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. This Regulation states that:

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—
- (a) members;
  - (b) representatives of members;
  - (c) prospective members; and
  - (d) Scheme employers
- (2) In particular the statement must set out its policy on—
- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
  - (b) the format, frequency and method of distributing such information or publicity; and
  - (c) the promotion of the Scheme to prospective members and their employers.

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

## Minimum standards

Under the Occupational Pension Schemes (Disclosure of Information Regulations) 1996, administrators of the Local Government Pension Scheme (LGPS) are required to provide the following:

- A copy of the scheme regulations and any overriding legislation, on request, – either through providing a personal copy, a copy for inspection or details of how to obtain a copy; members, prospective members, their spouses, beneficiaries and recognised trade unions are entitled to this information.
- Basic information about the scheme must be given automatically to every prospective member before starting, or, if this is not practical, within two months of joining. This information must also be provided on request – unless issued within the previous 12 months – to current members, prospective members, spouses, beneficiaries and recognised trade unions within two months of receipt of a written request.
- Details of any material changes to the LGPS notified to all members and beneficiaries (except excluded persons, that is, deferred pensioners whose present address is unknown) where possible before the change takes effect. Otherwise the change must be notified not later than three months after it has taken effect.
- an annual benefit statement to all active, deferred and pension credit members.

## Key Objectives

The Cheshire Pension Fund recognises that communicating with scheme stakeholders and customers is a critical activity for the Fund and has established communication practices that exceed the minimum standards required by legislation and include these in our communication strategy.

The Fund has identified the following key objectives of its Communications Policy Statement:

- Provide clear, jargon free and timely communication to its customers and stakeholders
- Recognise that different styles and methods of communication suit different customers and stakeholders
- Use the most effective communication medium for the audience receiving the information
- Adapt its communication where possible following feedback from customers and stakeholders
- Seek continuous improvement in the way it communicates
- Inform its customers and stakeholders to enable them to make the decisions they need to make regarding pensions.
- Inform customers and stakeholders about the management and administration of the Fund
- Consult major stakeholders on changes to regulations, policies and procedures that affect the Fund and its stakeholders
- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the Scheme.

- Deliver the communication policy in a cost effective way and encourage the use of electronic/online/ multimedia communication and information sharing
- Evaluate the effectiveness of the communication objectives
- Treat information security with the upmost importance.

This comprehensive list of objectives have been distilled into one underlying core value statement which is employed when considering every piece of communications the Fund delivers:

The Cheshire Pension Fund's communication objective is to deliver:

- the **Right Message**
- at the **Right Time**
- to the **Right Customer**
- using the **Right Media**
- at the **Right Cost**

## Key Audience Groups

The Fund communicates with a diverse group of different customers and stakeholders. For the purposes of this communications policy statement, we have categorised these into key audience groups.

The Communication Policy recognises that the objectives and key messages to these groups may 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.

Cheshire Pension Fund – Key Audience Groups



## Objectives and Key Messages

The Fund has identified a number of core objectives and key messages for the following key audience groups that will provide a framework and consistent 'theme' for all communication to each of the groups. The Fund recognises that 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 Policy Statement and its objectives will be reviewed and updated at least annually and when there is a material change.

Audience Group	Objective	Message
<b>Active Members</b>	<ul style="list-style-type: none"> <li>Promote the LGPS as an attractive benefit to members</li> <li>Improve the understanding of how the LGPS works</li> <li>Inform scheme members of their pension rights and benefits</li> <li>Improve business efficiency and reduce queries and complaints through improved communication</li> <li>Comply with statutory obligations</li> </ul>	<ul style="list-style-type: none"> <li>The full benefit package the LGPS offers in addition to the basic pension</li> <li>Difference between post and pre 2014 scheme and benefits</li> <li>Pre 2014 benefits remain unchanged</li> <li>What it costs</li> <li>Retirement Age</li> <li>50:50 contribution option</li> <li>Employer also pays in to the scheme on the members behalf</li> <li>Impact of any changes in legislation</li> <li>The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues</li> <li>The Pension Fund is managed and administered efficiently within a robust governance framework</li> </ul>
<b>Prospective Members</b>	<ul style="list-style-type: none"> <li>Improve take up of the LGPS, but acknowledging and respecting that prospective scheme members have the right to choose whether they join or not;</li> <li>Promote the LGPS as an attractive benefit to members</li> <li>Improve the understanding of how the LGPS works</li> <li>Inform employees of their prospective pension rights and benefits</li> </ul>	<ul style="list-style-type: none"> <li>The full benefit package the LGPS offers in addition to the basic pension</li> <li>Opt outs can re-join the scheme</li> <li>What it costs</li> <li>50:50 contribution option</li> <li>Employer also pays in to the scheme on the members behalf</li> <li>Impact of auto-enrolment</li> <li>Understand the impact of any changes in legislation</li> <li>The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues</li> <li>The Pension Fund is managed and administered efficiently within a robust governance framework</li> </ul>

Audience Group	Objective	Message
<b>Deferred Members (including opt outs)</b>	<ul style="list-style-type: none"> <li>• Inform scheme members of their pension rights and benefits</li> <li>• Promote the LGPS as an attractive benefit to members</li> <li>• Improve the understanding of how the LGPS works</li> <li>• Improve business efficiency and reduce queries and complaints through improved communication</li> <li>• Comply with statutory obligations</li> </ul>	<ul style="list-style-type: none"> <li>• The full benefit package the LGPS offers in addition to the basic pension</li> <li>• Opt outs can re-join the scheme</li> <li>• Difference between post and pre 2014 scheme and benefits</li> <li>• Pre 2014 benefits remain unchanged</li> <li>• What it costs</li> <li>• Retirement Age</li> <li>• 50:50 contribution option</li> <li>• Employer also pays in to the scheme on the members behalf</li> <li>• Impact of auto-enrolment</li> <li>• Keep personal details up to date</li> <li>• Understand the impact of any changes in legislation</li> <li>• The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues</li> <li>• The Pension Fund is managed and administered efficiently within a robust governance framework</li> </ul>
<b>Pensioner Members</b>	<ul style="list-style-type: none"> <li>• Reaffirm pensioners of their pension rights and benefits</li> <li>• Improve business efficiency and reduce queries and complaints through improved communication</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits remain unchanged</li> <li>• Pensions Increase</li> <li>• Pay Dates</li> <li>• Keep personal details up to date</li> <li>• Dependants pension and nomination process</li> <li>• Contact Tax Office with tax queries</li> <li>• Impact of any changes in legislation</li> <li>• The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues</li> <li>• The Pension Fund is managed and administered efficiently within a robust governance framework</li> </ul>
<b>Employing Authorities</b>	<ul style="list-style-type: none"> <li>• Employers understand how the scheme works</li> <li>• Ensure employers have the necessary information to provide their employees with information about the LGPS</li> <li>• Employers actively promote the LGPS as an important tool in the attraction and retention of employees</li> <li>• Raise employers knowledge and awareness of the key drivers of changes to their pension liabilities and the strategy to fund these liabilities</li> <li>• Inform employers about the management and administration of the Fund</li> <li>• Employers understand their roles and responsibilities and comply with their statutory obligations as a scheme employer</li> <li>• Improve working relationships and data flows</li> <li>• Employers deliver accurate and timely data within the published employer targets</li> </ul>	<ul style="list-style-type: none"> <li>• Employers have a responsibility to provide employees with information about the LGPS.</li> <li>• Employers should promote the LGPS</li> <li>• Employers should understand how the Scheme works</li> <li>• Employers should understand the impact of any changes in legislation</li> <li>• Employers must deliver their LGPS responsibilities and comply with their statutory obligations as a scheme employer</li> <li>• Employers have a responsibility to provide accurate and timely data</li> <li>• Employers should engage with the Pension Fund as earlier as possible if outsourcing any staff</li> <li>• The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues</li> <li>• The Pension Fund is managed and administered efficiently within a robust governance framework</li> </ul>



## Communication deliverables

### Media, tools and channels of communication

The Fund will provide its customers and stakeholders with a comprehensive range of communication deliverables and will strive to use the most effective communication medium for each audience group and will adapt its communication where possible following feedback from its audience.

#### How the Fund will communicate with Active Members

Description	Service
<b>Scheme Booklet</b>	A booklet called "Cheshire Pension Fund – Looking After Your Future" describing scheme benefits with explanatory notes. It 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. The booklet is available on the website.
<b>Employee Factsheets</b>	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.
<b>Annual Benefit Statements</b>	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.
<b>Newsletter – Your Pension</b>	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.
<b>Website</b>	The core information about the Scheme is held on our website. ( <a href="http://www.cheshirepensionfund.org">www.cheshirepensionfund.org</a> ) 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.
<b>Pension Road shows</b>	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.
<b>Pre-Retirement Courses</b>	Attendance at Face to face meetings, organised by a number of our employers that aim to explain the options available for members approaching retirement.
<b>Ad Hoc Meetings</b>	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.
<b>Helpdesk</b>	A dedicated helpdesk 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.
<b>Requests for information</b>	Respond to requests for information providing accurate, timely and informative details of the Local Government Pension Scheme in the most appropriate method.
<b>Annual Reports and Accounts</b>	The audited accounts of the Cheshire Pension Fund are prepared as at 31st 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.

## How the Fund will communicate with Deferred Members

Description	Service
<b>Annual Benefit Statement</b>	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.
<b>Newsletter – Pension Pending</b>	An annual newsletter "Pension Pending" also sent by post accompanies the Benefit Statement. This provides members with any relevant changes to legislation and other news including how to contact the Fund.
<b>Website</b>	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.
<b>Helpdesk</b>	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.
<b>E-mail, Fax and Post</b>	The Fund readily accepts written correspondence received by E-mail, Fax and Post. It has a designated fax number, e-mail account with automatic acknowledgement and postal address.
<b>Retirement Packs</b>	A retirement pack consisting of an information factsheet, a statement of benefits and forms for completion and return is sent within six weeks of retirement to the member's home address. This provides all relevant information to allow a smooth transition from Deferred Membership to Pensioner.

## How the Fund will communicate with Pensioner Members

Description	Service
<b>Pay Advice and P60</b>	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.
<b>Newsletter – Cheshire Chat</b>	An annual newsletter "Cheshire Chat" is also sent by post at the start of the new financial year. 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.
<b>Website</b>	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.
<b>Pension Helpdesk</b>	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.
<b>E-mail, Fax and Post</b>	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, Fax and Post.

## How the Fund will communicate with Pension Fund Staff

Description	Service
<b>Induction</b>	All new members of staff attend a Pensions induction course. Individual development plans are in place.
<b>Training</b>	Staff have individual Personal Development Plans and regular appraisals. They also attend internal, and where appropriate, external courses.
<b>Performance Management</b>	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.
<b>Pensions Qualifications</b>	All staff are encouraged and supported to attain professional qualifications.
<b>Service Plan</b>	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.
<b>Pensions Management Team</b>	Monthly meetings to discuss strategic plans and operational issues.
<b>Section and Team Meetings</b>	All members of staff attend regular Section and Team Meetings.
<b>Intranet</b>	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.
<b>Internet</b>	Staff have access to the internet where this is required as part of their job.
<b>Email</b>	All members of the Team have an individual email account, allowing us to communicate efficiently and effectively.

## How the Fund will communicate with Employing Authorities

Description	Service
<b>Pensions Consultative Forum</b>	The Pension Consultative Forum is a body representative of the major employers in the Fund, the Councils, Police, Fire and Rescue, Colleges and Housing Trusts. Meetings are held at least twice a year with the primary focus on reviewing how the Administration Authority is delivering its administration and management responsibilities.
<b>Website</b>	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.
<b>Employers guide</b>	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.
<b>Employer Newsletter</b>	A periodical newsletter providing legislation, operational items, technical updates and support is issued to Employers.
<b>Employer Welcome Pack</b>	Employer "Welcome" pack setting out details of the process for joining the Fund is issued to all new Employers.
<b>Employer Training</b>	Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer.
<b>Employer Meeting</b>	A forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters annually plus ad hoc meetings where business warrants.
<b>Scheme literature</b>	A range of publications for use by employers and scheme members including the scheme booklet and additional information leaflets.
<b>Administration Forms</b>	Standard forms with guidance notes to notify the Fund of key events affecting pension benefits.
<b>Annual report and accounts</b>	The audited accounts of the Cheshire Pension Fund are prepared as at 31st March each year and every employer receives a copy. They are also published on the website.



## Communication with other organisations

The Fund regularly needs to communicate effectively with its partners and other organisations.

Description	Service
<b>Prospective Employers</b>	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.
<b>Pension Fund Committee</b>	<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 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 Fund has developed an electronic decision making approval protocol to expedite decision making outside of the quarterly meeting cycle.</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 Head of Finance and Senior Manager, Corporate Finance 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>
<b>Administering Authority's Senior Management</b>	<p>The Senior Manager, Corporate Finance meets the Head of Finance on a weekly basis to provide information to evaluate the administration, management and governance of the Pension Fund.</p> <p>The Director of Resources and the Head of Finance receive 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>
<b>Professional Advisors</b>	The Fund's management team meets with and has regular dialogue with its advisers (such as actuarial and investment advisers) to secure information and advice over a wide range of issues relating to the Fund.
<b>Department of Communities and Local Government (CLG)</b>	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.
<b>Department for Work and Pensions (DWP)</b>	Communication in relation to the contracting out details of scheme members and combined pension benefit forecasts.
<b>Trade Unions (TU)</b>	A TU representative attends both the Pension Fund Committee and the Pension Consultative Forum in a non-voting capacity to represent employees.
<b>HM Revenue and Customs (HMRC)</b>	Cheshire Pension Fund ensures it pays all benefits in compliance with both the Lifetime Allowance and Annual Allowance.
<b>Regional Pension Officers Group</b>	The Fund is represented at the Shrewsbury Pension Officers Group (SPOG) which meets quarterly to discuss all aspects of the LGPS. Knowledge sharing and collaborative working are key features of this groups discussions.
<b>North West and Wales Pensions Officers Group</b>	The Fund is represented at the NWWPAG which meets every six months to discuss financial and investment issues relating to the LGPS.



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 -

- Activism
- Appropriate Benchmarks
- Performance Measurement
- Transparency
- Regular Reporting

All of the documents are available on the Fund's website:  
[www.cheshirepensionfund.org/?page\\_id=763](http://www.cheshirepensionfund.org/?page_id=763)

## Funding Strategy Statement

LGPS Regulations require that all Administering Authorities publish a Funding Strategy Statement (FSS). The Fund's FSS sets out our commitment to meeting our liabilities while at the same time maintaining stable employer rates.

## Governance Policy Statement

LGPS Regulations require all Administering Authorities to publish a Governance Policy Statement. The Funds Policy sets out how it delegates its responsibilities including duties and terms of reference and stakeholder representation.

## Governance Compliance Statement

LGPS Regulations require that all Administering Authorities publish 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.

## Statement of Investment Principles

LGPS Regulations require that all Administering Authorities publish a Statement of Investment Principles. A Statement of Investment Principles details the policy controlling how a pension fund invests and covers the following:

- Effective Decision Making
- Clear Objectives
- Focus on Asset Allocation
- Expert Advice
- Explicit Mandates

## Data Protection

To protect personal information held in relation to Scheme members, the Fund is registered under the Data Protection Act 1998 as part of Cheshire West and Chester Council. This allows members to check that their details held are accurate. The fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact the Cheshire Pension Fund on **01244 976000** or via e-mail at **pensions@cheshirewestandchester.gov.uk**

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

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

**Email:** [pensions@cheshirewestandchester.gov.uk](mailto:pensions@cheshirewestandchester.gov.uk)

**Visit our website:** [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

**Write to us at:** Cheshire Pension Fund,  
 Cheshire West and Chester Council,  
 HQ, 58 Nicholas Street, Chester CH1 2NP

To promote accessibility for all, this document can be made available in other formats upon request.

# Auditor Report

Independent Auditor's Statement to the members of Cheshire West and Chester Council on the Pension Fund Financial Statements



We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Cheshire West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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!.

## Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officers' Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Cheshire West and Chester Council, and its compliance with applicable law and the

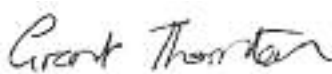
CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Introduction, Financial Performance, and Investment Policy & Performance sections of the annual report.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

## Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Cheshire Pension Fund for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.



**Grant Thornton UK LLP**

Royal Liver Building, Liverpool L3 1PS.  
26 August 2014

## Contacts and Further Information

For more information about the Cheshire Pension Fund, please contact our helpdesk as follows:

Tel: **01244 976000**

Email: **[pensions@cheshirewestandchester.gov.uk](mailto:pensions@cheshirewestandchester.gov.uk)**

Alternatively, you can contact a member of the Pensions Management Team as follows:

**Head of Finance Mark Wynn** Tel: 01244 972537

**Pensions Development Manager Mark Futter** Tel: 01244 972963

**Finance Manager, Pensions Nick Jones** Tel: 01244 972652

**Finance Manager, Investments Steve Tranter** Tel: 01244 972533

**Fund Accountant Heidi Catherall** Tel: 01244 972665


Please visit our website: **[www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)**

To promote accessibility for all, this document can be made available in other formats upon request.









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