Hertfordshire County Council Pension Fund Annual Report and Statement of Accounts 2014/15

Contents

Introduction

1. Foreword

This report provides information for employers and other interested parties on how the Hertfordshire Pension Fund ("Pension Fund") has been managed during the year 1 April 2014 to 31 March 2015.

The table below provides the key statistics for the Pension Fund for 2014/15 compared to 2013/14.

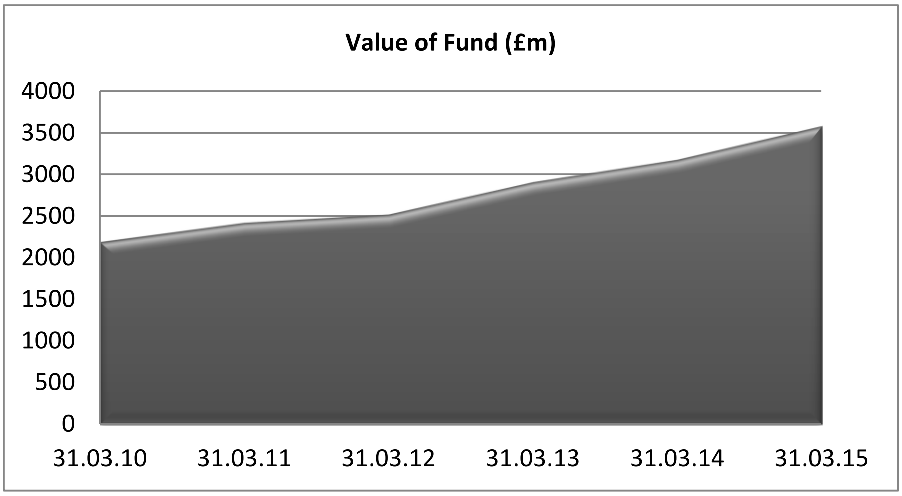
Key Statistics	2013/14	2014/15	Trend
Employers	246	265	▲
Contributing Members	31,575	35,007	▲
Value of the Pension Fund	£3,176 m	£3,581m	▲
Annual Investment Return	8.4%	13.7%	▲

This report summarises the main features of the Pension Fund, starting with a brief outline of the Local Government Pension Scheme ("Scheme"). The Administering Authority Report then outlines the management and administrative arrangements for the Pension Fund. This is followed by the financial statements; the Fund Account and Net Assets Statement for the year 2014/15 with comparative information for the previous year. The Fund Account shows the change in net assets available for benefits during the year. The Net Assets Statement discloses the net assets of the Pension Fund at 31 March 2015. The report concludes with an Investment Report which sets out the Pension Fund's Investment Policy and the level of performance achieved.

2. Financial Summary

The table below provides a five year summary of the Pension Fund accounts and a graph showing the movement of the value of the Pension Fund over the period.

2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s		2014/15 £000s
2,188,656	**2,421,651**	**2,520,578**	**2,907,904**	**Value of the Pension Fund at 1 April**	**3,175,783**
40,649	24,487	19,220	39,045	Net additions / (withdrawals) from dealing with those directly involved in the scheme	(18,538)
(15,191)	(13,185)	(13,819)	(16,512)	Management expenses	(16,164)
207,537	87,625	381,925	245,346	Net returns on investments	439,958
232,995	**98,927**	**387,326**	**267,879**	**Increase / (Decrease) in the Pension Fund during the year**	**405,256**
2,421,651	**2,520,578**	**2,907,904**	**3,175,783**	**Value of the Pension Fund at 31 March**	**3,581,039**



Scheme Administration

1. Background to the Scheme

Legal Framework

The Scheme is a statutory scheme, established by Act of Parliament, the Superannuation Act 1972. The Scheme is governed by the following regulations:

- Local Government Pension Scheme Regulations 2013
- Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014
- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

The Scheme regulations are made under the Superannuation Act 1972 and the Public Service Pension Schemes Act 2013. The Scheme is run by Administering Authorities in accordance with these regulations. In Hertfordshire the Administering Authority is Hertfordshire County Council.

Eligibility

The Scheme is available to all employees of local authorities other than teachers, fire-fighters and police officers for whom separate arrangements apply. Employees are able to join the Scheme if they have a contract of employment of three months or more duration.

Other specified bodies providing public services are included by statute or may apply for admission.

Employers

At 31 March 2015 there were 265 employers in the Pension Fund. Participating employers can be scheduled bodies or admitted bodies, as defined below:

- **Scheduled bodies**. There are two types of scheduled bodies listed in the Scheme regulations. Employees of employers, such as the County Council (including maintained schools), Academies and District and Borough Councils, are able to join the Scheme as of right. Employees of other organisations, such as Parish and Town Councils are able to join the Scheme if the employer designates that they can.

- **Admitted bodies**. These are voluntary, charitable and, in certain circumstances, private sector organisations carrying out local authority contracts, where staff can become members of the Scheme by virtue of an Admission Agreement between the Pension Fund and the relevant body. At 31 March 2015 there were 59 active admitted bodies participating in the Pension Fund.

A full list of employing bodies in the Pension Fund is shown in Appendix 1 at page 64.

The table below provides an analysis of scheduled and admitted bodies at 31 March 2015 and an analysis of active employers and employers that have ceased (these are employers with no active members but with outstanding liabilities). Admitted bodies may have more than one Admission Agreement in the Pension Fund relative to the service contracts they hold with scheduled bodies.

Type of Body	Active	Ceased	Total
Scheduled bodies	147	4	151
Admitted bodies	59	55	114
Total	**206**	**59**	**265**

2. Funding

The Scheme is a funded scheme, financed by contributions from employees and employers and by earnings from investments. The Pension Fund has published a Funding Strategy Statement (shown in Appendix 2 at page 68, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment.

Employees' Contributions

During 2014/15, employees paid contributions at a rate based on their earnings, including contractual and non-contractual overtime and additional hours. From 1 April 2014, the Scheme moved from a final salary scheme to a career average revalued earnings (CARE) scheme. As part of the CARE scheme, employees can elect to move to the 50/50 option which allows employees to pay half the normal contributions in return for half the normal pension benefits.

The rates and salary bandings applicable during 2014/15 are shown in the table below.

Band	Range	Contribution Rate
1	£0 - £13,500	5.50%
2	More than £13,501 up to £21,000	5.80%
3	More than £21,001 up to £34,000	6.50%
4	More than £34,001 up to £43,000	6.80%
5	More than £43,001 up to £60,000	8.50%
6	More than £60,001 up to £85,000	9.90%
7	More than £85,001 up to £100,000	10.50%
8	More than £100,001 up to £150,000	11.40%
9	More than £150,000	12.50%

Employers' Contributions

Employers' contributions are payable at rates specified by the Pension Fund Actuary and are reviewed each triennial valuation. Rates are adjusted to reflect changes in the employer's membership profile and funding level in the Pension Fund (see page 16 for further details).

Investment Income

The cash, which is not immediately required to pay pensions and other benefits, is invested and provides an additional source of income for the Pension Fund.

3. Benefits

The Scheme is a salary-related defined benefit scheme which guarantees to provide benefits which are a specified fraction of a Scheme member's pay. Benefits are not affected by variations in investment performance.

Full details of benefits payable are explained in the Scheme booklet which is available from the Pension Fund website at www.yourpension.org.uk/agencies/HCC/

The following provides the main provisions of the benefit package for the Scheme.

Age of Retirement

The normal pension age in the Scheme is linked to State Pension Age, with a minimum of age 65. The Scheme also makes provisions for the early payment of benefits and members can choose to retire and draw their pension at any time from age 55. Benefits paid before normal pension age will be reduced to reflect that benefits will be paid over a longer period of time.

Retirement Benefits

From 1 April 2014, the Scheme moved from a final salary scheme to a career average revalued earnings (CARE) scheme details of which are accessible from the Pension Fund website at www.yourpension.org.uk/agencies/HCC/.

For membership after 1 April 2014, members build up a pension at a rate of 1/49th of the amount of pensionable pay they receive in each scheme year. The amount of pension built up during the scheme year is added to their pension account and revalued at the end of each year in line with inflation. Up to 25% of the capital value of benefits can be taken as a lump sum at a 12:1 commutation rate, i.e. £12 lump sum for every £1 of pension given up.

Benefits built up before 1 April 2014 are protected and are calculated using membership in the Scheme prior to 1 April 2014 and the member's final pay when they leave the Scheme.

For membership built up between 1 April 2008 and 31 March 2014, the annual pension is based upon final pensionable pay multiplied by 1/60th for each year of Scheme membership. The final pensionable pay is the wage or salary on which contributions were paid over the last 12 months of service. Up to 25% of the capital value of benefits can be taken as a lump sum at a 12:1 commutation rate, i.e. £12 lump sum for every £1 of pension given up.

For membership accrued to 31 March 2008, members will receive an annual pension based on final pensionable pay multiplied by 1/80th for each year of Scheme membership and a lump sum of three times annual pension. Up to 25% of the capital value of benefits can be taken as a lump sum at a 12:1 commutation rate, i.e. £12 lump sum for every £1 of pension given up.

Additional Benefits
The Scheme offers several ways for members to increase their benefits:

- Additional Pension Contributions to purchase additional Scheme pension benefits.
- Contributions to a money purchase Additional Voluntary Contribution scheme (“AVC”), provided by the Standard Life Assurance Company or the Equitable Life Assurance Society.

Ill Health Retirement
A three tier ill health retirement provision is available which is dependent on the likelihood of a member being capable of undertaking any gainful employment in the future. Benefits are calculated in the same way as for normal retirements, with an enhancement for members in tiers 1 and 2 to compensate for premature retirement. Members in tier 3 who are likely to be capable of undertaking gainful employment within three years of retiring must undergo a medical review after 18 months. At the end of the three year period the member will either have their pension benefits deferred to age 65 or move to tier 2 following a medical assessment.

Death in Service
A lump sum death grant of three year’s assumed pensionable pay is payable. Pensions are also payable to surviving spouses, civil partners, or to eligible nominated co-habiting partners (subject to qualifying conditions) and dependent children.

Death after Retirement
Spouses’, civil partners’, eligible co-habiting partners’ and dependent children’s pensions are payable based on the former employee’s pensionable pay or pension. In addition, if death occurred before the pension has been paid for ten years; the balance will be paid as a lump sum.

The benefits detailed above are guidelines only and members should apply to London Pensions Fund Authority, the Scheme Administrator, for individual estimates of benefits payable.

1. Management

Hertfordshire County Council (the "County Council") is the Administering Authority of the Pension Fund and administers the Scheme on behalf of the participating employers and members.

The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that functions relating to the Scheme are the responsibility of the full Council. The County Council has delegated these functions to the Pensions Committee and to the County Council's Chief Finance Officer, the Deputy Chief Executive.

The membership of the Pensions Committee is made up of ten County Council members and three District Council representatives. All employers and a staff representative, nominated by UNISON, are invited to attend meetings as observers.

During 2014/15 some of the functions relating to investment management were delegated by the Pensions Committee to the Investment Sub-Committee, made up of six members (in proportion to the political representation of the full Council) plus one non-voting District Council representative. The Pension Fund's Governance Policy and Compliance Statement that was in force during 2014/15 is set out on the following pages and covers policy on delegations to the Pensions Committee and Investment Sub-Committee. It also includes details of the frequency of meetings, training, terms of reference and describes the Pension Fund's compliance with statutory guidance issued by the Secretary of State for Communities and Local Government.

From 1 April 2015, under the Public Sector Pension Act 2013, Administering Authorities are required to formally establish a Pension Board that will assist the Pension Fund in securing compliance with the Scheme regulations and other legal and regulatory requirements. The membership of the Pensions Board is made up of four employer representatives and four member representatives and the terms of reference for the Pension Board are accessible from the Pension Fund website at: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Local-Pension-Board.aspx From 1 April 2015, the Pensions Committee and Pensions Board form the framework for governance of the Pension Fund and the Investment Sub-committee will cease following its final meeting on 16 June 2015.

Pensions Committee Membership during 2014/15

County Council Members:

D Ashley (Chairman)
C Hayward
R Henry
A Joynes (Joined June 2014)
J King (Left June 2014)
D Lloyd (Vice Chairman)
R Parker
S Quilty
D Scudder
A Searing
D Williams

District Council Representatives (non-voting):

K Ayling (Joined June 2014)
M Mills-Bishop (Left June 2014)
J Lloyd
J O Ranger

2. Governance Policy and Compliance Statement

This statement is prepared in accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013, which require administering authorities to maintain and publish a statement on its governance policy and its compliance with statutory guidance issued by the Secretary of State for Communities and Local Government. This statement was approved by the Pensions Committee on 12 September 2014.

Responsibility
The Administering Authority for the Local Government Pension Scheme in Hertfordshire is Hertfordshire County Council (the "County Council"). Management of the Local Government Pension Scheme is a non-executive function.

The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that the functions relating to the Local Government Pension Scheme are the responsibility of the full Council. The County Council has delegated these functions to the Pensions Committee, whose members can make decisions without reference to the full Council. Some of the functions relating to investment management have been delegated by the Pensions Committee to the Investment Sub-Committee as set out in the Terms of Reference below.

In parallel to this, the County Council has delegated functions relating to the Pension Fund to the County Council's Chief Finance Officer, the Deputy Chief Executive, as specified in Annex 3 (Responsibility for Functions) of the County Council's Constitution.

Terms of Reference
The Pensions Committee, Investment Sub-Committee and Chief Finance Officer, the Deputy Chief Executive, are responsible for the functions set out in the following regulations:

- Local Government Pension Scheme Regulations 2013
- Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014
- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 (as amended)

To clarify this delegation, the Pensions Committee has agreed a protocol setting out the division of responsibility between itself, the Investment Sub-Committee and the Chief Finance Officer, the Deputy Chief Executive. This states that the Pensions Committee is responsible for policy matters including:

- Approval of asset allocation decisions
- Setting Administering Authority discretions
- Approval of the overall investment strategy of the Pension Fund
- Approval and review of:
  - Statement of Investment Principles
  - Funding Strategy Statement
  - Governance Policy and Compliance Statement
  - Communications Strategy Statement
- Appointing (and, when necessary, dismissing) Investment Consultants
- Appointing (and, when necessary, dismissing) the Pension Fund Actuary
- Appointing (and, when necessary, dismissing) the Pension Fund Custodian
- Reviewing the cost of investment management
- Setting performance objectives for the Pension Fund

The Investment Sub-Committee is responsible for the following matters:

- Monitoring the performance of Investment Managers and the investments made
- Appointing (and, when necessary, dismissing) Investment Managers
- Reviewing asset allocation decisions
- Reviewing performance objectives for the Pension Fund

All other operational decisions to implement these policies are delegated to the County Council's Chief Finance Officer, the Deputy Chief Executive.

Representation
The Pensions Committee is made up of ten County Council members (in proportion to the political representation of the full Council) and three (non-voting) District Council representatives elected by the Hertfordshire Local Government Association.

The Investment Sub-Committee is made up of six members (in proportion to the political representation of the full Council split 4:1:1) plus one non-voting District Council representative.

The Chairperson of the Pensions Committee is ex-officio Chairperson of the Sub-Committee and its membership is appointed by the County Council from within the membership of the Pensions Committee.

County Council members, as elected members of the Administering Authority, have voting rights in accordance with the Local Government (Committee and Political Groups) Regulations 1990 SI No 1553 5 (1)(d).

A staff representative, nominated by UNISON, is invited to attend meetings as an observer.

The County Council's Chief Finance Officer, the Deputy Chief Executive, attends meetings to advise the Pensions Committee.

An annual meeting is held for all employers in the Pension Fund to inform them of decisions made and allow them to ask questions directly to the Pensions Committee, Officers and Pension Fund advisers.

Committee meetings and training
The Pensions Committee meets once a quarter. The Investment Sub-Committee meets quarterly and on an ad-hoc basis.

An annual workshop, run by the Pension Fund's Investment Consultant, is held for members of the Pensions Committee to provide members with on going training on pension and investment matters and to provide a forum to discuss and debate issues in more detail. Members of the Pensions Committee also attend ad-hoc training and seminars, receive briefing material and are encouraged to continuously develop their expertise. A quarterly workshop is run for members of the Investment Sub-Committee on investment related matters. Induction training is offered to all new members of the Pensions Committee.

Compliance with Statutory Guidance

The following table provides a summary of how the Pension Fund complies with the statutory guidance issued by the Secretary of State for Communities and Local Government.

Pension Fund Compliance Statement	
Principle	**Compliance and Comments**
A. Structure a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointment Council.	Full
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full

Pension Fund Compliance Statement	
Principle	**Compliance and Comments**
A. Structure (continued) d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Full
B. Representation a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:	
i) employing authorities (including non-scheme employers, e.g. admitted bodies):	Partial The County and District Councils, whose staff make up 65% of the active membership, are represented, but no other organisations are currently represented. All employers are invited to attend as observers if they wish and to attend the annual employers' meeting.
ii) scheme members (including deferred and pensioner scheme members);	Full UNISON has a place on the Pensions Committee to represent all Scheme members.
iii) independent professional observers, and	No The statutory guidance envisages "an independent professional observer could be invited to participate in the governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees". There is no such member of the Pensions Committee at present.
iv) expert advisors (on an ad-hoc basis)	Full The Pension Fund's Investment Adviser, Actuary and Administrator attend the Pensions Committee when appropriate.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Full
C. Selection and Role of Lay Members a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Full

Pension Fund Compliance Statement		
	Principle	**Compliance and Comments**
D.	**Voting**	
a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full The policy is clear that only County Council members can vote. The Pensions Committee believes that the voting arrangements are justified, because in practice the vast majority of decisions are reached by consensus.
E.	**Training/Facility Time/Expenses**	
a)	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 reimbursement of expenses in respect of members involved in the decision-making process.	Full Training is provided internally and externally and offered to all Pensions Committee members. Reimbursement of expenses is covered by the members' allowance schemes in their authority.
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full
c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partial This area is in development.
F.	**Meetings (frequency/quorum)**	
a)	That an administering authority's main committee or committees meet at least quarterly.	Full
b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Full
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Full An annual employers' meeting is held to update employers on Pension Fund matters.
G.	**Access**	
a)	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Full
H.	**Scope**	
a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full Issues relating to the funding and benefit structure are reported to the Pensions Committee.

Pension Fund Compliance Statement	
Principle	**Compliance and Comments**
I. Publicity	
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Full The Governance Policy and Compliance Statement is published in the Annual Report and Statement of Accounts and on the Pension Fund website.

3. Risk Management

Responsibility for the risk management of the Pension Fund during 2014/15 rested with the Pensions Committee. From 1 April 2015, following the change in the governance structure of the Pension Fund, the Pensions Board will assist the Pensions Committee in risk management and monitoring.

Key risks are incorporated in the Pension Fund's risk register, which was approved by the Pensions Committee on 26 February 2014 as part of the Funding Strategy Statement.

Four key risks to the Pension Fund have been identified:

- The Pension Fund's Investment Strategy does not deliver the long term projected investments returns and/or does not comply with legislation.
- The funding level of the Pension Fund deteriorates.
- Employers default on meeting their obligations to the Pension Fund and the Scheme.
- The Pension Fund and its third party providers do not comply with regulations, statute or procedure.

A number of underlying risk control mechanisms are in place or are being developed that aim to manage these risks and these are detailed in the Funding Strategy Statement on pages 68. Risks are monitored on a regular basis and a quarterly Governance and Risk report is presented to the Pensions Committee, providing an update on the status of these risks and the progress made to fully implement risk controls. The quarterly reports and minutes of the Pensions Committee meetings are accessible from www.hertsdirect.org/your-council/civic_calendar/.

Investment risk and return objectives for the Pension Fund are set out in the Investment Strategy and this is reviewed at regular intervals to ensure that it will achieve the objectives. Note 6.14 of the Financial Statements provides details on the nature and extent of risks arising from financial instruments and how these are managed.

Employers are monitored against a risk monitoring framework that aims to identify employers at an early stage who are at risk of defaulting on their obligations to the Pension Fund. A quarterly update is provided to the Pensions Committee in the Governance and Risk report.

4. Administration

Hertfordshire County Council is the Administering Authority of the Pension Fund and administers the Scheme in conjunction with the contracted business services listed below.

Scheme Administrator providing scheme administration services for members in conjunction with the County Council:

- London Pensions Fund Authority (LPFA)

Investment Managers during 2014/15 investing funds on behalf of the Pension Fund:

- Allianz Global Investors Europe GmbH
- Baillie Gifford & Co.
- CBRE Global Collective Investors (UK) Limited
- Global Thematic Partners, LLC
- HarbourVest Partners, LLC
- Henderson Global Investors Limited
- JP Morgan Asset Management (UK) Limited
- Jupiter Asset Management Limited
- LGT Capital Partners (Ireland) Limited
- Legal & General Assurance (Pensions Management) Limited
- Pantheon Ventures UK LLP
- Permira Advisers, LLP
- Royal London Asset Management Limited
- Standard Life Investments Limited
- TTP Venture Managers Limited

Custodian maintaining and managing investment records and safeguarding the Pension Fund's assets:

- BNY Mellon Asset Servicing B.V.

Consulting Actuary providing actuarial services:

- B McKay, Fellow of the Institute and Faculty of Actuaries, for and on behalf of Hymans Robertson LLP

Investment Consultant providing investment advice:

- Mercer Limited

Corporate Governance Adviser providing voting services:

- Research, Recommendations and Electronic Voting Limited

Performance Measurement Consultants providing independent reporting on investment performance:

- BNY Mellon Asset Servicing B.V.

Additional Voluntary Contributions providers for members wishing to increase benefits:

- The Equitable Life Assurance Society
- Standard Life Assurance Company

External Auditor:

- B Singh, Engagement Partner, for and on behalf of Ernst & Young LLP

Banker:

- Barclays Bank, plc

Key contacts

Administering Authority

For Investments

Patrick Towey
Herts Finance Service
Hertfordshire County Council
Postal Point CHO 327
County Hall, Pegs Lane
Hertford, SG13 8DQ

01992 555148
pensions.team@hertfordshire.gov.uk

Scheme Administrator

For Benefits and Administration

Taryn Mutter
London Pensions Fund Authority
Hertfordshire Pension Team
Postal Point CHO 033
County Hall, Pegs Lane
Hertford, SG13 8DQ

01992 555466
hertscc@lpfa.org.uk

Legal Adviser

Kathryn Pettitt
Chief Legal Officer, Hertfordshire County Council

Administration Strategy
The Pension Fund has published an Administration Strategy ("Strategy") that sets out the responsibilities of the Pension Fund and employers and defines the required performance standards expected of the Pension Fund and its employers and also provides details of the charges that will be levied for non-compliance..

The Strategy has been prepared in accordance with regulation 59 of the Local Government Pension Scheme Regulations 2013. This enables a Local Government Pension Scheme Fund to prepare an administration strategy to support the delivery of a high quality administration service.

The Strategy was produced in consultation with employers and subsequent revisions are made in consultation with employers and approved by the Pensions Committee. The latest version was approved by the Pensions Committee on 27 February 2015 and implemented on 1 April 2015 and is accessible from the Pension Fund website at http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

Annual Performance Report
A set of key performance indicators has been agreed and approved by the Pensions Committee and these are used to measure and report on the performance of the Administering Authority, the outsourced pensions administration service provider LPFA and employers. Performance is reported to the Pensions Committee on a quarterly basis and the reports and minutes of the Pensions Committee meetings are accessible from www.hertsdirect.org/your-council/civic_calendar/.

Performance of the Administering Authority
The following table provides details of the Pension Fund's management costs shown as a unit cost per member (active, deferred and pensioner) together with comparative data for 2013/14.

	2013/14	2014/15	Trend
Total management costs	£190.81	£172.41	▼
Total management costs excluding investment management expenses	£28.60	£23.17	▼

The Administering Authority is measured against performance and compliance with statutory requirements placed on administering authorities for the administration of pension funds. Performance of the Administering Authority is reviewed by periodic Internal Audit review and by the volume of complaints or internal disputes raised against the Administering Authority. The following provides details of performance for 2014/15:

- The annual external audit was carried out between February and August 2014 by Ernst & Young LLP. This reviewed the 2013/14 Annual Report and Accounts to provide a true and fair opinion on the financial statements. Ernst & Young LLP issued a positive Audit Results Report with no recommendations for improvements.
- The annual assurance audits were carried out between November 2014 and February 2015 by the Shared Internal Audit Service. The audits reviewed controls and procedures for financial accounting and pensions administration and for investments. The audit reports were issued in January and March 2015 with substantial assurances that effective controls are in operation.
- As part of the annual external review of the 2014/15 Annual Report and Accounts, during February to March 2015, Ernst & Young LLP carried out an assessment of internal controls. Ernst & Young LLP's findings from the assessment will be published in September 2015 as part of the 2014/15 Audit Results Report for the Pension Fund.
- During 2014/15 there were six Internal Disputes against the Administering Authority; Three of these were upheld and three were not upheld. All Internal Disputes were responded to and no further action in relation to these cases are required to date. A copy of the internal disputes resolution procedure is accessible from the Pension Fund website, http://www.yourpension.org.uk/Hertfordshire/Information-for-members/Customer-Care-Complaints

Performance of the Pensions Administration Service
Performance of the pensions administration service delivered by the LPFA is measured against targets set out in the Service Level Agreement and against the number of complaints raised about service delivery. The following provides details of performance for 2014/15:

- During 2014/15 there were seven complaints which were responded to and resolved, five of these were upheld and two were not upheld.
- Efficiency of the pensions administration service is measured against Service level Agreement performance targets and the following chart sets out results for 2014/15 for key service tasks.

Pensions Administration Task	Annual Total	Standard [1]	Within Standard
Joiners to the LGPS	4,741	6 working days	97.6%
Pensions transfers in and out	1,687	6 working days	97.3%
Processing pensions benefits for retirements and deaths	3,556	5 working days	95.6%
Providing deferred members with a benefit statement	4,248	30 working days	23.5% [2]
Processing refunds of pensions contributions	615	5 working days	94.3%
Providing estimates of retirement benefits	2,578	5 working days	86.2%

[1] From receipt of accurate information
[2] Performance in relation to the provision of deferred member benefit statements has been impacted by the volume of work to implement the 2014 Scheme changes. A revised resourcing arrangement has been agreed and will address this in 2015/16.

Performance of Employers

Employers' performance in administering the Scheme is measured against targets set out in the Administration Strategy and compliance with performance standards. The following provides details of performance for 2014/15:

- A total of 55 charges were levied against 30 employers (15% of active employers) for late submission of contribution returns or late payment of monthly contributions for contributions. £122 interest was levied on employers for late payment of contributions in accordance with regulation 70 of the Local Government Pension Scheme Regulations 2013.
- 87% of active employers paid contributions by the due date each month.
- 86% of active employers submitted monthly contribution returns by the due date.
- Charges were levied against 5 employers for late submission of year end membership returns.

5. Communication

The Pension Fund has published a Communication Policy Statement which sets out how it communicates with employers and representatives of employers, Scheme members and prospective Scheme members. It was approved by the Pensions Committee on 27 February 2015.

Communication Policy Statement

This Statement is prepared in accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013, which requires an Administering Authority to prepare, maintain and publish a statement on its policy for communicating with members and employing authorities.

Employers

The following media is used to communicate with employers in the Pension Fund:

- **Annual General Meeting**
  All employers are invited to attend, to listen to presentations on topical issues and to raise questions about the Pension Fund.

- **Monthly Newsletters and Ad Hoc Bulletins**
  All employers receive monthly newsletters which provide information, advice and guidance about administering the Scheme. Ad hoc bulletins are also published to advise employers about specific issues that require attention or action, e.g. changes to Scheme regulations.

- **Annual Report and Accounts**
  A copy of this publication is sent to all employers and is available from the Pension Fund website, www.yourpension.org.uk/agencies/HCC/

- **Hertfordshire Chief Finance Officers' Meeting**
  The Chief Finance Officer for the County Council keeps in contact with the District and Borough Councils through these meetings and keeps them up to date with pension matters.

- **Pensions Committee Reports and Minutes**
  These are available on request to employers who wish to see them. They are also available from the Hertfordshire County Council website, www.hertsdirect.org/yrccouncil/civic_calendar/investcomm/

- **On-line Self Service Portal**
  The on-line self service portal is accessible from the Pension Fund website providing employers with access to information about the LGPS, forms and guides for administering the Scheme and the facility to submit monthly and annual returns electronically.

- **General Advice and Help**
  County Council staff and LPFA (the Pension Fund's outsourced scheme administrator) are available to give advice on the telephone, by letter or by email. Comprehensive information and guidance is also accessible from the Pension Fund website at www.yourpension.org.uk/agencies/HCC/

Scheme Members

The following media is used to communicate with Scheme members:

- **Telephone Helpline**
  LPFA provides a telephone helpline for all enquiries from Scheme members on any aspect of their pension arrangements.

- **Annual Benefit Statements**
  All active and deferred Scheme members receive an Annual Benefit Statement setting out the level of benefits that have been built up, along with a forecast of benefits at retirement.

- **Internet**
  The Pension Fund website provides information about Scheme benefits. Scheme members may also have access to information about their pension benefits by subscribing to an on-line service.

- **Information Letters**
  Information about changes in regulations is provided to employees via their employers in a range of media, including email and letter.

- **Payslips**
  All pensioners receive at least three payslips each year and messages are included whenever there is new information to be communicated.

- **Newsletter for Pensioners**
  An annual newsletter is mailed to pensioners and two in-year newsletters are published and are accessible from the Pension Fund website.

Prospective Scheme Members

The methods used to ensure that prospective members are aware of the Scheme and its benefits are:

- **Job Advertisements**
  Many employers advertise the benefits of the Scheme in their job advertisements.

- **Scheme Booklet**
  All new starters in the employing organisations in the Pension Fund are provided with a Scheme booklet which summarises the benefits available from the Scheme.

- **Induction Sessions**
  Employers in the Pension Fund are encouraged to include pensions in their induction sessions for new starters.

6. Actuarial Valuation Report

The Pension Fund is financed by contributions from employees and employers and by investment income earned on accumulated funds not immediately required for the payment of benefits and expenses. The Pension Fund Actuary reports periodically to the County Council on the Pension Fund's solvency and to identify the contributions payable by employers to the Pension Fund in the future to meet the funding objectives of the Pension Fund.

The Pension Fund has published a Funding Strategy Statement (see page 68), which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment. The Pension Fund Actuary takes account of the Funding Strategy Statement when advising on the level of employer contributions to be paid.

Actuarial Statement for 2014/15
Provided by Hymans Robertson LLP

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement, dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Pension Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/ dependants' benefits as they fall due for payment;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- 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 Pension Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. This will also minimise the costs to be borne by Council taxpayers;
- to reflect the different characteristics of different employers in determining contribution rates. This requires that the Pension Fund has a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer 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 20 years 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 better than 50 to 60% chance that the Fund will return to full funding over 20 years.

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 £2,908 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 £617 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Pension 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 2013 Valuation Report dated 28 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	
	% per annum Nominal	% per annum Real
Discount rate	4.8%	2.3%
Pay increases	3.8%	1.3%
Price inflation/Pension increases	2.5%	0

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Pension 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:

	Males	Females
Current Pensioners	22.3 years	24.5 years
Future Pensioners	24.3 years	26.7 years

Copies of the 2013 Valuation Report and the FSS are accessible from the Pension Fund website, www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

Experience over the period since April 2013

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

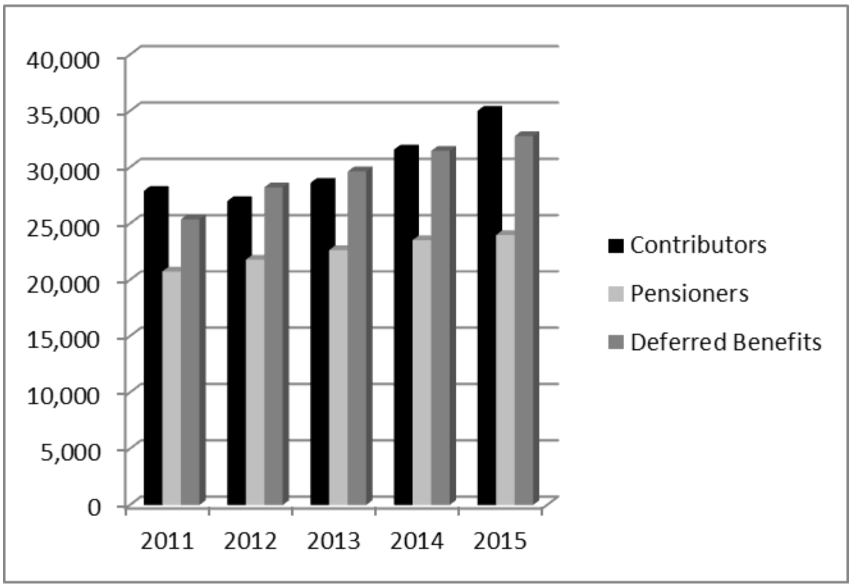
The next actuarial valuation will be carried out as at 31 March 2016. The FSS will also be reviewed at that time.

Barry McKay FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
27 May 2015

Hymans Robertson LLP
20 Waterloo Street
Glasgow

7. Membership

The following graph shows the changes in membership over the last five years and the following table analyses the membership between member groups along with comparative figures for 2014.



31 March 2014		31 March 2015
31,575	Contributors	35,007
23,521	Pensioners	23,972
31,443	Deferred benefits (former contributors)	32,759
86,539	**Total Members**	**91,738**

The 2013/14 membership figures have been updated from those published in the 2013/14 Annual Report following late notifications of changes of membership. This is to ensure that the most accurate figures available are reported.

Changes in contributor members during the year	
Admissions	7,376
Retirements	591
Other leavers	3,353
Total movement	**11,320**

The table below shows an analysis of the membership of the Pension Fund between the Administering Authority, admitted bodies and other employers at 31 March 2015.

	Contributors	Pensioners	Deferred Benefits
Administering Authority	20,207	12,757	21,467
Admitted Bodies	2,295	1,833	1,340
Other scheduled bodies	12,505	9,392	9,952
Total	**35,007**	**23,972**	**32,759**

1. Statement of Responsibilities

Hertfordshire County Council's Responsibilities
Hertfordshire County Council is the Administering Authority of the Pension Fund. The Administering Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that one of its officers has responsibility for the administration of those affairs. In this Administering Authority that officer is the Chief Finance Officer;

- manage the affairs of the Pension Fund to secure economic, efficient and effective use of the Pension Fund's resources and safeguard its assets; and

- approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities
The Chief Finance Officer is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

2. Independent Auditor's Report to the Members of Hertfordshire County Council on the Pension Fund's financial statements

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes 6.1 to 6.21.

This report is made solely to the members of Hertfordshire County Council as a body, in accordance with Part II of the Audit Commission Act 1998 (as transitionally saved) 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 Finance Officer and the auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 19, the Chief Finance 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 Hertfordshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 only of the Introduction, Scheme Administration Report, Administering Authority Report, Investment Report and Appendices.

We conducted our work in accordance with guidance issued by the Audit Commission. 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 Hertfordshire County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Baldeep Singh
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading

23 September 2015

3. Fund Account

2013/14				2014/15	
£000s	£000s		Note	£000s	£000s
30,605		Contributions receivable from members	6.1	32,999	
136,585		Contributions receivable from employers	6.1	123,533	
7,423		Transfers in from other schemes	6.2	6,897	
6		Other income		3	
	174,619	**Additions from dealings with those directly involved in the Scheme**			**163,432**
(105,425)		Pensions		(110,232)	
(22,656)		Commutation of pensions and lump sum retirement benefits		(22,656)	
(2,037)		Lump sum death benefits		(1,957)	
	(130,118)	**Benefits payable to members**	6.3		**(134,845)**
(12)		Refunds of contributions		(108)	
(6)		State scheme premiums		(64)	
(5,437)		Transfers out to other schemes	6.4	(46,953)	
	(5,455)	**Payments to and on account of leavers**			**(47,125)**
	39,046	**Net additions / (withdrawals) from dealings with those directly involved in the Scheme**			**(18,538)**
(1,390)		Administrative costs		(1,396)	
(1,085)		Oversight and governance costs		(777)	
(14,038)		Investment management expenses		(13,991)	
	(16,513)	**Management expenses**	6.5		**(16,164)**
68,832		Investment Income	6.6	51,402	
(2,765)		Taxes on income		(2,609)	
179,279		Profits and losses on disposals of investments and changes in value of investments	6.7	391,165	
	245,346	**Net return on investments**			**439,958**
	267,879	**Net increase / (decrease) in the net assets available for benefits during the year**			**405,256**

4. Net Assets Statement

31 March 2014			Note	31 March 2015	
£000s	£000s			£000s	£000s
		Fixed interest securities			
15		Public sector fixed interest securities		0	
0		Other fixed interest securities		0	
		Equities			
706,244		UK Equities		654,690	
726,995		Overseas Equities		719,844	
		Pooled investment vehicles			
202,546		Property		248,294	
1,036,505		Unit trusts		1,351,041	
412,911		Other managed funds		447,386	
		Derivatives			
221		Forward foreign exchange contracts	6.9	472	
199,939		Cash deposits		135,154	
10,914		Other investment balances		11,049	
	3,296,290	**Total investment assets**	6.8a		**3,567,930**
		Derivatives			
(192)		Forward foreign exchange contracts	6.9	(59)	
(138,560)		Other investment balances		(7,687)	
	(138,752)	**Total investment liabilities**			**(7,746)**
	3,157,538	**Total investment assets and liabilities**	6.8a		**3,560,184**
4,622		Long term assets	6.10	3,727	
	4,622	**Total non current assets and liabilities**			**3,727**
17,962		Current assets	6.11	22,779	
(4,339)		Current liabilities	6.12	(5,651)	
	13,623	**Total current assets and liabilities**			**17,128**
	3,175,783	**Net assets of the Scheme available to fund benefits as at 31 March**			**3,581,039**

C Cook
Assistant Director - Finance

5. Statement of Accounting Policies

Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards, as amended for the UK public sector.

The accounts summarise the transactions and net assets of the Pension Fund. 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 at the Net Assets Statement date is detailed in section 6.15.

Valuation of Assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net asset statement on the date the Pension Fund becomes party to the contractual acquisition of the asset or to the liability. From this date, any gains or losses arising from changes in the fair value of the asset or liability are recognised in the Fund Account. The values on investments as shown in the net assets statement have been determined as follows:

- Market-quoted securities for which there is a readily available market price, are valued at bid price at the close of business on the net asset date.
- Fixed interest securities are recorded at net market value based on their current yields.
- Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are quoted by the respective Investment Managers. If only a single price is quoted, investments are valued at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- Unquoted investments for which market quotations are not readily available are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Indirect private equity investments are interests in limited partnerships and are stated at the partnership's estimate of fair value. Investments are valued based on the Pension Fund's share of the net assets of the private equity fund. For private equity limited partnerships there is usually a time delay in receiving information from the private equity Investment Managers. The valuations shown in the Net Assets Statement for these investments are the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date.
- Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract.
- Investment assets and liabilities include cash balances held by the Investment Managers and debtor and creditor balances in respect of investment activities as these form part of the net assets available for investment.
- Rights issues are processed on ex date. If the value of the rights on ex date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

Cash and Cash Equivalents

Cash is cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than 24 hours. Cash equivalents comprise investments that are held to meet short-term liabilities rather than for investment or other purposes. Bank overdrafts, repayable on demand and which form an integral part of the County Council's treasury management function, are also included as a component of cash and cash equivalents.

Foreign Currency Translation

All investments are shown in sterling. Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rate at the date of transaction. End of year spot market exchange rates are used to value foreign currency cash balances, market values of overseas investments and purchases and sales outstanding at the net asset date.

Gains and losses on exchange arising from foreign currency investment and cash balances are included within the Fund Account for the year.

Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), allows the Administering Authority to charge directly to the Pension Fund any costs or expenses incurred in administering it. Management expenses are accounted for on an accruals basis and disclosed in accordance with the 2014 CIPFA guidance 'Accounting for Local Government Pension Scheme Management costs' and analysed between administrative costs, oversight and governance costs and investment management expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management. Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2014/15, £760,922 was based on such estimates.

Investment management expenses include transaction costs relating to the purchase and sale of investments.

VAT
The Pension Fund is exempt from VAT and is therefore able to recover such deductions. Investment management and administrative expenses are therefore recognised net of any recoverable VAT.

Benefits Payable
Pension and lump sum benefits payable include all amounts known to be due as 31 March 2015. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Contributions
Normal contributions both from members and employers are accounted for on an accruals basis, as the percentage rate certified by the Pension Fund Actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on an accruals basis in accordance with the period to which they relate or are due or on a cash basis if the payment is an additional contribution in excess of the minimum required by the Pension Fund Actuary in the Rates and Adjustments Certificate.

Pension strain contributions and employers' augmentation contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset. Any amount not due to be received within 12 months is shown as a long term asset in the Net Assets Statement.

Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have joined or left the Pension Fund during the financial year and are calculated in accordance with Scheme regulations. Transfer values are treated on a cash basis when they are paid or received, 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 to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income
Investment income earned by the Pension Fund on its investments are recognised as follows:
- 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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- 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 under other investment balances.
- Investment income earned on pooled investment vehicles that are accumulation funds, where income is retained and automatically reinvested, are shown as changes in the value of investments in the Fund Account.
- Income from private equity investments are reported on the quarterly valuations provided by the private equity Investment Managers. Income is recognised in the period in which the valuation is received.
- Distributions from other pooled investment vehicles are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.
- Changes in the value of investment income are accounted for as income and comprise all realised and unrealised profits and losses during the year.

Taxation
The Pension 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. Tax is deducted from dividends paid on UK equities, which is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Provision is made for the estimated sums to be recovered and income grossed up accordingly. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

.

Security Lending

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) permit the Pension Fund to lend up to 35% of its securities from its portfolio of stocks to third parties in return for collateral. The Pension Fund has set a limit of 20% of the total Fund value. The securities on loan are included in the Net Assets Statement to reflect the Pension Fund's continuing economic interest of a proprietorial nature in these securities.

Additional Voluntary Contribution Investments

The County Council has arrangements with the Standard Life Assurance Company and the Equitable Life Assurance Society to enable employees to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. AVCs are invested separately from the Pension Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. As these contributions do not form part of the Pension Fund's investments, the value of AVC investments are excluded from the Pension Fund's Net Assets Statement in accordance with regulation 4(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

Events after the Net Asset Statement date

During 2015/16, a bulk transfer to the Bedfordshire Pension Fund will be made in respect of 40 staff from the Hertfordshire Police and Crime Commissioner who transferred during 2014/15. This is reported as a non-adjusting post balance sheet event. The bulk transfer value is in the process of being agreed by the actuaries.

Prior period adjustments

There were no material prior period adjustments in 2014/15 that require disclosure.

Restatements

<u>Fund Account</u>
The comparative Fund Account has been restated for the following:

- Expenses have been restated to comply with the CIPFA guidance on Accounting for Local Government Pension Scheme Management costs. Investment management expenses, reported under 'net return on investments' in the 2013/14 Fund Account have been consolidated with administrative expenses and other payments and reported as management expenses in the Fund Account. Management expenses have been further analysed between administrative costs, oversight and governance costs and investment management expenses in the Fund Account and note 6.5 in the notes to the accounts.
- Investment management expenses have been restated to include transaction costs associated with the acquisition, issue or disposal of Fund assets and associated financial instruments. These were previously included in the cost of purchases or sale proceeds and accounted for as a change in market value of investments.
- Investment management expenses on pooled investment vehicles that are deducted from the pool at source, have been shown in the Fund account as investment management expenses.

The impact of these restatements on the key sections of the Fund Account are shown in the table below.

	2013/14	Consolidation of management expenses	Expense of transaction costs	Investment management fees - pooled funds	2013/14 Restated
	£000s	£000s	£000s	£000s	£000s
Net additions/(withdrawals) from dealings with those directly involved in the Scheme	36,975	2,071	0	0	39,046
Management expenses	0	(14,006)	(2,181)	(326)	(16,513)
Net return on investments	230,904	11,935	2,181	326	245,346
Net increase/(decrease) in the net assets available for benefits during the year	**267,879**	**0**	**0**	**0**	**267,879**

Net Asset Statement

The comparative Net Asset Statement has been restated due to the reclassification of securities by the Pension Fund's Custodian. These restatements had an impact on UK and Overseas Equities as shown in the table below.

	2013/14 £000s	Reclassification Of securities £000s	2013/14 Restated £000s
UK Equities	704,934	1,310	706,244
Overseas Equities	728,305	(1,310)	726,995
Total	**1,433,239**	**0**	**1,433,239**

Critical judgements in applying accounting policies and significant estimation techniques

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the net asset date and the amounts reported for revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those assumptions and estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Valuation of private equity investments:** The valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date. This may result in a variance between the valuation included in the Financial Statements and the actual value of the Pension Fund's investments as at 31 March 2015 issued by each of the private equity Investment Managers. At 31 March 2015 private equity investments totalled £144.3 million (including private equity investments held within the Global Alternatives Fund).

- **Contractual commitments:** Commitments to the private equity funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each private equity fund at 31 March 2015 has been converted to base currency, based on exchange rates applicable at the net asset date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be different from the estimates.

- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits is included in section 6.15.

- **Provision for doubtful debt:** In 2014/15 a provision for doubtful debt was made of £71,894. The provision was created for all invoiced debt at 31 March 2015 (£281,440). The provision is based on the County Council's Income Collection and Debt Management Policy for providing for doubtful debt as follows:

Age of debt at 31 March 2015	Provision created
0 – 274 days	0%
275 – 456 days	35%
457 – 639 days	50%
Over 639 days	100%

6. Notes to the Accounts

6.1 Contributions Receivable

2013/14			2014/15	
£000s	£000s		£000s	£000s
		Members		
30,198		Normal	32,545	
407		Additional	454	
	30,605	**Total members**		**32,999**
		Employers		
80,291		Normal	94,764	
53,364		Deficit funding	27,865	
2,930		Augmentation and early retirement strain costs	904	
	136,585	**Total employers**		**123,533**
	167,190	**Total contributions receivable**		**156,532**

Members' additional contributions represent contributions from members to purchase additional years of membership or pension in the Scheme.

Employers' normal contributions represent the ongoing contributions paid into the Pension Fund by employers in accordance with the Rates and Adjustments Certificate, issued by the Pension Fund Actuary. These reflect the cost of benefits accrued by current members over the year.

Employers' deficit funding includes:

- £25,376,714 (£27,866,712 in 2013/14) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's service contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement on page 68 and accessible from www.yourpension.org.uk/agencies/HCC/.
- £2,467,874 (£25,497,642 in 2013/14) paid by employers in excess of the minimum contribution levels required by the Pension Fund Actuary in the Rates and Adjustments Certificate.
- £20,000 (£nil in 2013/14) termination payments where an employer had ceased to be a participating employer in the Pension Fund.

Contributions received are further analysed in the table below by type of employer.

2013/14			2014/15	
Employee	Employer		Employee	Employer
£000s	£000s		£000s	£000s
13,011	59,571	Administering Authority	13,799	50,085
14,905	63,173	Other Scheduled Bodies	16,071	60,515
2,689	13,841	Admitted Bodies	3,129	12,933
30,605	**136,585**	**Total contributions receivable**	**32,999**	**123,533**

6.2 Transfers In from Other Schemes

The Pension Fund received £6,897,332 (£7,422,790 in 2013/14) in relation to individual members' transfers of benefits into the Pension Fund). No amounts were received during the year for group transfers from other schemes.

Transfers are shown on a cash basis, in accordance with the accounting policy.

6.3 Benefits Payable

2013/14 £000s		2014/15 £000s
58,112	Administering Authority	58,535
60,761	Other Scheduled Bodies	63,366
11,245	Admitted Bodies	12,944
130,118	**Total benefits payable**	**134,845**

6.4 Transfers Out to Other Schemes

The Pension Fund paid £7,930,767 (£5,436,978 in 2013/14) in relation to individual members' transfers of benefits out of the Pension Fund. Transfers are shown on a cash basis, in accordance with the accounting policy.

£39,021,812 was transferred to the Greater Manchester Pension Fund during 2014/15 in respect of the bulk transfer of probation staff to the Greater Manchester Pension Fund, transferred as £4,687,781 of cash and £34,334,031 of equity unit trusts.

6.5 Management Expenses

a) Administrative costs

2013/14 £000s		2014/15 £000s
1,195	Administration and processing	1,268
173	Interest	120
22	Bad debts and change in provision for doubtful debts	8
1,390		**1,396**

b) Oversight and governance costs

2013/14 £000s		2014/15 £000s
172	Actuarial services	79
24	Audit fees	25
47	Performance measurement services	44
357	Investment consultancy	102
485	Other oversight and governance costs	527
1,085		**777**

c) Investment management expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of assets under management. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target, set out in Appendix C to the Statement of Investment Principles.

Investment management expenses include transaction costs associated with the acquisition, issue or disposal of Pension Fund assets and associated financial instruments. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments set out in note 6.7.

The Pension Fund's assets are held in custody by an independent custodian. The Custodian is responsible for the safekeeping of the Pension Fund's financial assets, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.

The Pension Fund's performance measurement service is provided by BNY Mellon. An analysis of the Pension Fund's performance is shown in the Investment Performance section on pages 59-63.

2013/14 £000s		2014/15 £000s
11,417	Management fees	12,281
2,182	Transaction costs	1,505
439	Custody fees	205
14,038	**Total investment management expenses**	**13,991**

6.6 Investment Income

a) Analysis of investment income

2013/14 £000s		2014/15 £000s
	Income from fixed interest securities	
4,931	Public Sector	(3)
10,219	Other	0
	Dividends from equities	
23,315	UK	20,126
15,504	Overseas	15,893
	Income from index linked securities	
2,844	Public Sector	0
413	Other	0
	Income from pooled investment vehicles	
9,675	Property	12,024
1,401	Other managed funds	2,736
263	Interest on cash deposits	238
	Other investment income	
160	Securities lending	259
66	Class action proceeds	117
42	Underwriting commission	12
(1)	Other	0
68,832	**Total investment income**	**51,402**

An analysis of investment income accrued during 2013/14 and 2014/15 is shown in the following table.

2013/14					2014/15			
UK £000s	Overseas £000s	Global £000s	Total £000s		UK £000s	Overseas £000s	Global £000s	Total £000s
23,315	15,504	0	38,819	Equities	20,146	15,893	0	36,039
15,646	2,761	0	18,407	Bonds	(2)	(1)	0	(3)
8,226	2,102	748	11,076	Alternatives	8,872	3,348	2,520	14,740
262	1	0	263	Cash and cash equivalents	238	0	0	238
94	173	0	267	Other	100	288	0	388
47,543	**20,541**	**748**	**68,832**	**Total investment income**	**29,354**	**19,528**	**2,520**	**51,402**

b) Securities lending

The Pension Fund has an arrangement with its Custodian to lend securities from within its portfolio of stocks to third parties in return for collateral. Collateralised lending generated income of £259,462 for 2014/15 (£160,222 for 2013/14). This is included within investment income in the Fund Account.

The Pension Fund obtains collateral at 102% of the market value of securities loaned for collateral denominated in the same currency as that of the loans, or 105% in the case of cross-currency collateral. The market value of securities on loan and collateral held at 31 March 2015 and 2014 is shown in the table below, analysed by collateral type.

2013/14			2014/15	
Market value of securities on loan £000s	Collateral held £000s		Market value of securities on loan £000s	Collateral held £000s
49,127	52,348	Government debt and Supranationals	70,109	75,209
839	862	US Government debt (Bilateral)	0	0
157	174	UK Gilt DBV	0	0
0	0	UK Equity DBV	1,369	1,437
0	0	G10 debt	470	495
50,123	**53,384**	**Total**	**71,948**	**77,141**

6.7 Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

Value at 31 March 2013 £000s		Purchases at cost and derivative payments £000s	Sale proceeds and derivative receipts £000s	Profits and losses on disposals and change in value of investments £000s	Value at 31 March 2014 £000s
	Fixed interest securities				
192,840	Public Sector	510,633	(692,019)	(11,439)	15
229,915	Other	127,433	(349,239)	(8,109)	0
	Equities				
684,348	UK	254,554	(302,773)	70,115	706,244
664,108	Overseas	557,848	(542,093)	47,132	726,995
	Index linked securities				
106,767	Public Sector	56,978	(156,056)	(7,689)	0
12,430	Other	13,008	(24,361)	(1,077)	0
	Pooled investment vehicles				
154,785	Property	90,259	(46,552)	4,054	202,546
427,218	Unit trusts	688,687	(135,217)	55,817	1,036,505
339,739	Other managed funds	91,147	(37,059)	19,084	412,911
	Derivatives				
1,440	Net forward foreign exchange*	8,926	(22,601)	12,264	29
88,402	Cash deposits	112,410	0	(873)	199,939
2,901,992	**Subtotal**	**2,511,883**	**(2,307,970)**	**179,279**	**3,285,184**
(20,580)	**Net other investment balances****				**(127,646)**
2,881,412	**Total investments assets / (liabilities)**				**3,157,538**

* Net forward foreign exchange assets/liabilities (see note 6.8a)
** Net other investment balances assets/liabilities (see note 6.8a)

Value at 31 March 2014 £000s		Purchases at cost and derivative payments £000s	Sale proceeds and derivative receipts £000s	Profits and losses on disposals and change in value of investments £000s	Value at 31 March 2015 £000s
	Fixed interest securities				
15	Public Sector	0	(15)	0	0
	Equities				
706,244	UK	87,117	(177,578)	38,907	654,690
726,995	Overseas	417,948	(538,706)	113,607	719,844
	Pooled investment vehicles				
202,546	Property	24,776	(7,346)	28,318	248,294
1,036,505	Unit trusts	183,153	(37,367)	168,750	1,351,041
412,911	Other managed funds	34,176	(41,252)	41,551	447,386
	Derivatives				
29	Net forward foreign exchange*	7,692	(6,654)	(654)	413
199,939	Cash deposits	0	(65,471)	686	135,154
3,285,184	**Subtotal**	**754,862**	**(874,389)**	**391,165**	**3,556,822**
(127,646)	**Net other investment balances****				**3,362**
3,157,538	**Total investments assets / (liabilities)**				**3,560,184**

* Net forward foreign exchange assets/liabilities (see note 6.8a)
** Net other investment balances assets/liabilities (see note 6.8a)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments correspond to the sterling equivalent amount of forward foreign exchange settled during the year. The sale proceeds for cash deposits represent the net movement in cash held by the Investment Managers during the year. The change in market value of cash results from gains and losses on foreign currency cash transactions.

6.8 Investment Analysis

a) Analysis of investment assets at market value

2013/14			2014/15	
£000s	£000s		£000s	£000s
		Investment assets		
		Fixed interest securities		
15		UK Public Sector	0	
	15	**Total fixed interest securities**		**0**
		Equities		
706,244		UK quoted	654,690	
726,995		Overseas quoted	719,844	
	1,433,239	**Total equities**		**1,374,534**
		Pooled investment vehicles		
135,513		UK property	158,265	
5,390		Overseas property	2,794	
61,643		Global property	87,235	
202,546		**Property**	**248,294**	
69,786		UK equity unit trusts	104,357	
278,171		Overseas equity unit trusts	377,973	
295,994		UK Index Linked Gilts Fund	376,890	
262,554		Global Core Plus Bond Fund	330,579	
130,000		Global Absolute Return Bond Fund	161,242	
1,036,505		**Unit trusts**	**1,351,041**	
226		UK private equity	68	
16,271		UK other managed funds	13,987	
117,411		Overseas private equity	117,864	
278,988		Global Alternatives Fund	315,451	
15		Overseas other managed funds	16	
412,911		**Other managed funds**	**447,386**	
	1,651,962	**Total pooled investment vehicles**		**2,046,721**
		Derivatives		
221		Forward foreign exchange	472	
	221	**Total derivatives**		**472**
		Cash		
199,939		Cash deposits	135,154	
	199,939	**Total Cash**		**135,154**
		Other investment balances		
6,559		Amounts receivable from the sale of investments	6,657	
4,355		Investment income due	4,392	
	10,914	**Total other investment balances**		**11,049**
	3,296,290	**Total investment assets**		**3,567,930**

Table continues overleaf

2013/14			2014/15	
£000s	£000s		£000s	£000s
		Investment liabilities		
		Derivative contracts		
(192)		Forward foreign exchange contracts	(59)	
	(192)	**Total derivatives contracts**		**(59)**
		Other investment balances		
(138.329)		Amounts payable for the purchase of investments	(7,429)	
(231)		Non recoverable tax payable	(258)	
	(138,560)	**Total other investment balances**		**(7,687)**
	(138,752)	**Total investment liabilities**		**(7,746)**
	3,157,538	**Total investment assets and liabilities at market value**		**3,560,184**

Two individual holdings exceeded 5% of the total investment assets and liabilities available to fund benefits at 31 March 2015. These were LGT Capital Partners – Crown Phoenix (Global Alternatives Fund) and Legal and General Index Linked Gilts Fund.

Four pooled funds exceeded 5% of their asset class at 31 March 2015. These were LGT Capital Partners – Crown Phoenix (Global Alternatives Fund), Legal and General Index Linked Gilts Fund, Royal London Core Plus Bond Fund and Henderson Absolute Return Bond Fund.

Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

Investment assets and liabilities at the Net Asset date are further analysed by asset class in the following table.

2013/14					2014/15			
UK £000s	Overseas £000s	Global £000s	Total £000s		UK £000s	Overseas £000s	Global £000s	Total £000s
792,301	1,005,181	0	1,797,482	Equities	773,034	1,097,833	0	1,870,867
296,009	0	392,554	688,563	Bonds	376,890	0	491,821	868,711
135,739	122,801	340,631	599,171	Alternatives	158,333	120,658	402,686	681,677
187,381	12,553	5	199,939	Cash and cash equivalents	121,729	13,428	(3)	135,154
913	1,440	(129,970)	(127,617)	Other	1,520	1,842	413	3,775
1,412,343	**1,141,975**	**603,220**	**3,157,538**	**Total assets and liabilities**	**1,431,506**	**1,233,761**	**894,917**	**3,560,184**

b) Analysis by Investment Manager

The value of investments held by each Investment Manager on 31 March were:

31 March 2014			31 March 2015	
£000s	%		£000s	%
303,259	9.6	Allianz Global Investors Europe GmbH	361,060	10.1
379,484	12.0	Baillie Gifford & Co.	341,221	9.6
130,236	4.1	BlackRock Investment Management (UK) Ltd.	0	0
225,908	7.2	CBRE Global Collective Investors (UK) Ltd.	265,111	7.5
296,670	9.4	Global Thematic Partners, LLC	276,721	7.8
77,850	2.5	HarbourVest Partners, LLC	90,722	2.5
0	0	Henderson Global Investors Ltd.	161,242	4.5
205,442	6.5	JP Morgan Asset Management (UK) Ltd.	148,317	4.2
308,650	9.8	Jupiter Asset Management Ltd.	305,406	8.6
637,589	20.2	Legal & General Assurance (Pensions Management) Limited	852,059	23.9
278,988	8.8	LGT Capital Partners (Ireland) Ltd	383,451	10.8
0	0	Pantheon Ventures	624	0
1,299	0	Permira Advisers LLP	1,347	0
262,554	8.3	Royal London Asset Management Ltd.	330,580	9.3
49,121	1.6	Standard Life Investments Ltd.	42,123	1.2
217	0	TTP Venture Managers Ltd.	59	0
271	0	Residual funds from previous portfolios	141	0
3,157,538	**100**	**Funds externally managed**	**3,560,184**	**100**
18,245		**Funds held at Hertfordshire County Council and non-investment balances**	**20,855**	
3,175.783		**Net Assets of the Scheme**	**3,581,039**	

The market values in the table 6.8(b) include the value of investments, cash and net current assets held by each Investment Manager at 31 March 2015. The funds held by Hertfordshire County Council include net current assets, long term assets and cash required to manage the cash flow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by the outgoing Investment Managers following the review of the Pension Fund’s Investment Strategy. BlackRock Investment Management (UK) Limited ceased to be an Investment Manager for the Pension Fund during 2013/14 and the funds in relation to this manager represent investment income and cash holdings transferred to the new bond Investment Managers in April 2014. At 31 March 2014, Henderson Global Investors Limited made a pre-investment of £130 million and while awaiting settlement, the cash was held by BlackRock Investment Management (UK) Limited.

c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund’s assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

6.9 Derivatives

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

Forward foreign exchange contracts
Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties and are used to hedge against foreign currency movements. Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

The counterparties at 31 March 2014 and 31 March 2015 were UK and overseas investment banks and the contracts held with these investment banks are analysed in the following table by duration.

2013/14				Duration	2014/15			
Currency Payable £000s	Currency Receivable £000s	Fair Value Asset £000s	Fair Value Liability £000s		Currency Payable £'000	Currency Receivable £000s	Fair Value Asset £000s	Fair Value Liability £000s
(133)	133	0	0	Within 1 month	(280)	280	0	0
(65,766)	65,795	221	(192)	1-3 months	0	0	0	0
0	0	0	0	3-6 months	(79,679)	80,092	472	(59)
(65,899)	**65,928**	**221**	**(192)**	**Total**	**(79,959)**	**80,372**	**472**	**(59)**

6.10 Long Term Assets

Long term assets of £3,727,084 (£4,621,666 in 2013/14) in the Net Assets Statement includes £3,695,000 in respect of the bulk transfer of Magistrates Court staff to the civil service pension scheme in 2005 in accordance with the terms of transfer agreement and £32,084 for early retirement strain costs.

6.11 Current Assets

2013/14 £000s		2014/15 £000s
12,949	Contributions due from employers	13,541
4,460	Cash and cash equivalents	8,662
367	VAT due from HMRC	42
261	Other debtors and prepayments	606
(75)	Provision for doubtful debt	(72)
17,962	**Total current assets**	**22,779**

Cash and cash equivalents represent investments in money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

Current assets are further analysed by type of debtor organisation.

2013/14			2014/15	
£000s	£000s		£000s	£000s
469		Central government bodies	45	
7,431		Other local authorities	7,892	
15		NHS bodies	7	
5,662		Other entities and individuals	6,245	
	13,577	**Total debtors**		**14,189**
(75)		Provision for doubtful debt	(72)	
4,460		Cash and cash equivalents	8,662	
	4,385	**Total cash balances**		**8,590**
	17,962	**Total current assets**		**22,779**

6.12 Current Liabilities

2013/14 £000s		2014/15 £000s
1,100	Tax payable to HMRC	1,196
1,624	Investment management fees	1,557
547	Other creditors	444
854	Unpaid benefits	2,362
214	Cash and cash equivalents	92
4,339	**Total current liabilities**	**5,651**

Cash balances in the table above include cash balances less cash in transit in the form of unpresented cheques and payments committed by BACs at the net asset date.

Current liabilities are further analysed by type of creditor organisation.

2013/14 £000s		2014/15 £000s
1,100	Central government bodies	1,196
3,025	Other entities and individuals	4,363
214	Cash and cash equivalents	92
4,339	**Total current liabilities**	**5,651**

6.13 Financial Instruments

a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. All financial instruments are carried in the balance sheet at their fair value. The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

31 March 2014				31 March 2015		
Fair value through profit and loss £000s	Loans and receivables £000s	Financial liabilities at amortised cost £000s		Fair value through profit and loss £000s	Loans and receivables £000s	Financial liabilities at amortised cost £000s
15	0	0	Fixed interest securities	0	0	0
1,433,239	0	0	Equities	1,374,534	0	0
202,546	0	0	Property	248,294	0	0
1,036,505	0	0	Unit trusts	1,351,041	0	0
398,502	14,409	0	Managed funds	444,506	2,880	0
221	0	0	Derivatives	472	0	0
0	199,939	0	Cash deposits	0	135,154	0
10,914	0	0	Other investment balances	11,049	0	0
0	4,622	0	Long term assets	0	3,727	0
0	17,962	0	Current assets	0	22,779	0
3,081,942	**236,932**	**0**	**Total financial assets**	**3,429,896**	**164,540**	**0**
(192)	0	0	Derivatives	(59)	0	0
(138,560)	0	0	Other investment balances	(7,687)	0	0
0	0	(4,339)	Current liabilities	0	0	(5,651)
(138,752)	**0**	**(4,339)**	**Total financial liabilities**	**(7,746)**	**0**	**(5,651)**
2,943,190	**236,932**	**(4,339)**	**Total**	**3,422,150**	**164,540**	**(5,651)**

b) Net gains and losses on financial instruments

2013/14 £000s		2014/15 £000s
180,152	Fair value through profit and loss	390,479
(873)	Loans and receivables	686
0	Financial liabilities measured at amortised cost	0
179,279	**Total gains and losses**	**391,165**

c) 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 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed securities are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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

Level 3: Financial instruments where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following tables provides an analysis of the financial assets and liabilities of the Pension Fund analysed across levels 1 to 3, based on the level at which the fair value is observable, along with comparative figures for 2014.

	31 March 2015			
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets				
Fair value through profit and loss	3,043,203	242,356	144,337	3,429,896
Loans and receivables	164,540	0	0	164,540
Financial liabilities				
Fair value through profit and loss	(7,687)	(59)	0	(7,746)
Financial liabilities at amortised cost	(5,651)	0	0	(5,651)
Net financial assets	**3,194,405**	**242,297**	**144,337**	**3,581,039**

	31 March 2014			
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets				
Fair value through profit and loss	2,746,395	203,391	132,156	3,081,942
Loans and receivables	236,932	0	0	236,932
Financial liabilities				
Fair value through profit and loss	(138,560)	(192)	0	(138,752)
Financial liabilities at amortised cost	(4,339)	0	0	(4,339)
Net financial assets	**2,840,428**	**203,199**	**132,156**	**3,175,783**

6.14 Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

a) Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the pension fund. These regulations require the Pension Fund to formulate a policy for the investment of its Fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Further information can be found in the Statement of Investment Principles on pages 49-56.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by the County Council.

b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition, the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Investment Managers' annual internal control reports. This is to ensure that Investment Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreements for the Pension Fund's bond managers prescribes the investment restrictions on the securities they can invest in, including the minimum acceptance criteria for investments. The Pension Fund's Custodian BNY Mellon provides exception reports to Officers to monitor the compliance of individual Investment Managers with their respective Investment Management Agreements.

Credit risk also arises through the Pension Fund's deposits with banks and financial instruments. For cash managed by the Administering Authority, the Pension Fund's Treasury Management Strategy for 2014/15 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

The credit ratings and amounts held in money market funds, call accounts and cash/current accounts at 31 March are shown in the table below.

2013/14			2014/15	
£000s	**Credit rating**		**£000s**	**Credit rating**
		Cash managed by Administering Authority		
(214)	A	Bank current account	(84)	A
3,900	A to AA-	Call accounts	3,984	A to AA-
560	AAA	Money market funds	4,670	AAA
		Cash managed by Custodian and Investment Managers		
19,835	A to A+	Bank current account	68,587	A to AA-
194,514	AAA	Money Market Funds	69,447	AAA
218,595		**Total cash and cash equivalents**	**146,604**	

c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March 2015 £8,570,094 (100%) of the cash and cash equivalents held by the Administering Authority was held in money market funds, call accounts and bank current accounts.

The Pension Fund has set a cap of £20 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers over their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assets as assets which can be converted into sterling cash within three months. At 31 March 2015 the value of illiquid assets was £392,631,172 (11% of total fund assets).

d) 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 Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £391,164,449.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details of these can be found in the Pension Fund's Statement of Investment Principles on pages 49-56.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

<u>Other price risk</u>

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 these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

The one year expected volatility in market prices are shown in the following table, along with the changes in the value of the Pension Fund's investment assets and liabilities if the market price of investments increase or decrease in line with these movements. The total fund volatility takes into account the expected interactions between the different asset classes, based on the underlying volatilities and correlations of the assets in line with mean variance portfolio theory.

Asset Class	Value as at 31 March 2015	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
UK Equities, Unit Trusts and Pooled Funds	777,896	17.0	910,138	645,654
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,092,972	20.1	1,312,659	873,284
Property	248,294	14.7	284,793	211,795
Corporate Bonds (short term)	161,242	7.1	172,690	149,794
Corporate Bonds (medium term)	367,798	9.5	402,739	332,858
Index-Linked gilts (medium term)	376,890	8.6	409,302	344,477
Private Equity	144,321	28.6	185,597	103,045
Commodities	14,728	13.8	16,761	12,696
High yield debt/convertible bonds/insurance linked securities	83,059	13.4	94,189	71,929
Overseas Real Estate Investment Trusts	11,069	13.3	12,542	9,597
Infrastructure	3,742	15.9	4,337	3,147
Absolute return/Diversified Growth	142,774	12.0	159,906	125,641
Cash, other investment balances and forward foreign exchange contracts	135,399	0.6	136,212	134,587
Total Fund	3,560,184	11.2	3,958,925	3,161,444

Asset Class	Value as at 31 March 2014	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
UK Equities, Unit Trusts and Pooled Funds	792,301	16.6	923,824	660,780
Global equities, Unit Trusts and Pooled Funds (ex UK)	1,005,181	19.4	1,200,186	810,175
Property	202,546	14.7	232,320	172,772
Corporate Bonds (short term)	130,000	7.2	139,360	120,640
Corporate Bonds (medium term)	295,269	9.6	323,614	266,923
UK fixed gilts (medium term)	15	6.9	16	14
UK Index-Linked gilts (medium term)	295,994	8.5	321,153	270,834
Private Equity	132,141	28.4	169,670	94,614
Commodities	13,582	13.7	15,442	11,721
High yield debt/convertible bonds/insurance linked securities	71,468	13.2	80,902	62,034
Overseas Real Estate Investment Trusts	9,613	13.2	10,882	8,344
Absolute return/Diversified Growth	122,074	11.8	136,478	107,669
Cash, other investment balances and forward foreign exchange contracts	87,354	0.6	87,879	86,830
Total Fund	3,157,538	10.3	3,482,764	2,832,312

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates has been advised by the Pension Fund Actuary, as a sensible level to indicate interest rate sensitivity.

The analysis in the following table assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits, of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates. Direct bond holdings of £14,841 at 31 March 2014 have been excluded from the 2013/14 analysis as these relate to residual holdings held by Blackrock Investment Management (UK) Limited which were sold shortly after year end.

Value at 31 March 2014	Increase 100 BPS	Decrease 100 BPS	Asset Class	Value at 31 March 2015	Increase 100 BPS	Decrease 100 BPS
£000s	£000s	£000s		£000s	£000s	£000s
214,349	0	0	Cash at Custodian and held by Investment Managers	138,034	0	0
4,246	0	0	Cash held by Administering Authority	8,570	0	0
766,194	(106,468)	106,468	Bond (pooled funds)	950,958	(119,384)	119,384
984,789	**(106,468)**	**106,468**	**Total**	**1,097,562**	**(119,384)**	**119,384**

Value at 31 March 2014	Increase 100 BPS	Decrease 100 BPS	Income source	Value at 31 March 2015	Increase 100 BPS	Decrease 100 BPS
£000s	£000s	£000s		£000s	£000s	£000s
218	2	(2)	Cash at Custodian and held by Investment Managers	179	2	(2)
45	1	(1)	Cash held by Administering Authority	59	1	(1)
18,407	0	0	Bond (pooled funds)	0	0	0
18,671	**3**	**(3)**	**Total**	**238**	**3**	**(3)**

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

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2015, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £1,738,394,071 and £14,894,829 cash denominated in currencies other than sterling.

The Pension Fund Actuary has advised that the one year expected standard deviation for an individual currency at the 31 March 2015 is 13%. This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Pension Fund is given in the following table together with the prior year comparator.

Asset Class	Value as at 31 March 2015	Increase 13%	Decrease 13%
	£000s	£000s	£000s
Overseas Equity	719,844	93,580	(93,580)
Overseas property	84,359	10,967	(10,967)
Overseas unit trusts	500,860	65,112	(65,112)
Overseas managed funds	433,331	56,333	(56,333)
Foreign currencies	14,895	1,936	(1,936)
Total	**1,753,289**	**227,928**	**(227,928)**

Asset Class	Value as at 31 March 2014	Increase 13%	Decrease 13%
	£000s	£000s	£000s
Overseas Equity	726,995	94,509	(94,509)
Overseas property	67,033	8,714	(8,714)
Overseas unit trusts	408,171	53,062	(53,062)
Overseas managed funds	396,414	51,534	(51,534)
Foreign currencies	26,968	3,506	(3,506)
Total	**1,625,581**	**211,325**	**(211,325)**

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. See section 6.9 for further information.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

6.15 Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2015 and 31 March 2014 are set out in the following table. This is the underlying commitment of the Pension Fund in the long term to pay retirement benefits to its active (employee members), deferred and pensioner members.

31 March 2014 £m		31 March 2015 £m
4,247	Present value of promised retirement benefits	5,047

Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2013. The liability at 31 March 2015 is estimated to comprise of £2,323 million with respect to employee members, £1,025 million with respect to deferred members and £1,699 million with respect to pensioners. The principal assumptions used by the Pension Fund Actuary were:

31 March 2014		31 March 2015
	Financial assumptions	
2.8% per annum	Inflation/pension increase rate	2.4% per annum
4.1% per annum	Salary increase rate	3.8% per annum
4.3% per annum	Discount rate	3.2% per annum
	Mortality assumptions	
	Longevity at 65 for current pensioners:	
22.3	• Men	22.3
24.5	• Women	24.5
	Longevity at 65 for future pensioners:	
24.3	• Men	24.3
26.7	• Women	26.7

Allowance has been made for future pensioners to elect to exchange 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.

The actuarial present value of promised retirement benefits is sensitive to changes in actuarial assumptions. The significant changes and their impact on the value of the Pension Fund's liabilities between 31 March 2014 and 31 March 2015 were:

Actuarial assumption	£m	%
Pensions increase rate	(280)	(5.5)
Salary increase rate	(92)	(1.8)
Discount rate	1,020	20.2
Total increase in liabilities due to changes in assumptions	**648**	**12.8**

The assumptions used by the Pension Fund Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice on Local Authority Accounting 2014/15. The liability set out in the table above is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in section 6.16.

6.16 Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years. The last actuarial valuation of the Pension Fund was carried out as at 31 March 2013 to determine contribution rates for the financial years 2014/15 to 2016/17, with the new rates effective from 1 April 2014.

The market value of the Pension Fund's assets at the valuation date was £2,908 million and represented 82.5% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities. The contribution rates were calculated using the projected unit actuarial method (or the attained age method for employers closed to new entrants) and the main actuarial assumptions were as follows:

Discount rate	4.8%
Salary increases	3.8%
Price inflation/pension increases	2.5%

Further information can be found in the Funding Strategy Statement on page 68 and the Actuarial Valuation report on page 16.

6.17 Additional Voluntary Contributions (AVCs)

Scheme members have the option to make AVCs to enhance their pension benefits. These contributions are invested separately from the Pension Fund's assets, with either the Standard Life Assurance Company or the Equitable Life Assurance Society.

2013/14							2014/15					
Standard Life		Equitable Life		Total AVCs			Standard Life		Equitable Life		Total AVCs	
£000s	£000s	£000s	£000s	£000s	£000s		£000s	£000s	£000s	£000s	£000s	£000s
	5,086		**1,788**		**6,874**	**Value at 1 April**		**5,059**		**1,550**		**6,609**
						Income						
218		4		222		Contributions received	226		4		230	
57		0		57		Transfer values received	0		0		0	
	275		**4**		**279**	**Total Income**		**226**		**4**		**230**
						Expenditure						
(485)		(203)		(688)		Retirement benefits	(612)		(83)		(695)	
(163)		(108)		(271)		Transfer values paid	(4)		(1)		(5)	
0		0		0		Lump sum death benefit	(2)		0		(2)	
	(648)		**(311)**		**(959)**	**Total Expenditure**		**(618)**		**(84)**		**(702)**
	346		**69**		**415**	**Change in market value**		**494**		**82**		**576**
	5,059		**1,550**		**6,609**	**Value at 31 March**		**5,161**		**1,552**		**6,713**

6.18 Related Parties

a) Hertfordshire County Council

The County Council incurred costs of £432,432 in relation to the management of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. The County Council also contributed £50,078,790 to the Pension Fund in 2014/15.

b) Pensions Committee

Nine members of the County Council Pensions Committee were councillor members of the Hertfordshire Local Government Pension Scheme during 2014/15.

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

c) Key Management Personnel

The Administering Authority disclosure of senior officer remuneration includes the Deputy Chief Executive who has responsibility under S151 of the Local Government Act 1972, for the proper financial administration of the Pension Fund. The disclosure for 2013/14 includes the Assistant Director of Finance who assumed acting S151 Officer Responsibility from 1 February 2013 to 30 April 2013. Both officers are members of the Hertfordshire Local Government Pension Scheme.

The Deputy Chief Executive was employed by the Administering Authority and spent a proportion of time on the financial management of the Pension Fund. These costs comprise an element of the remuneration from the Pension Fund to the County Council in 2014/15 of £432,432.

The remuneration paid by Hertfordshire County Council to key management personnel of the Pension Fund, apportioned for the proportion of time on the financial management of the Pension Fund, were:

Position	Note	Year	Apportioned salary	Apportioned benefits in kind	Total apportioned remuneration excluding pension contributions	Apportioned pension contributions	Total apportioned remuneration
			£	£	£	£	£
Deputy Chief Executive	1	2014/15	12,160	0	**12,160**	2,505	**14,665**
		2013/14	11,036	0	**11,036**	2,273	**13,309**
Assistant Director Finance	2	2014/15	0	0	**0**	0	**0**
		2013/14	666	4	**670**	137	**807**

6.19 Contingent Liabilities and Contractual Commitments
The Pension Fund had no contingent liabilities.

At 31 March 2015, the Pension Fund had a contractual commitment of a further £118.3 million (£101.5 million at 31 March 2014) to private equity limited partnerships and private equity funds within the Global Alternatives Fund, based on exchange rates applicable at the balance sheet date.

6.20 Contingent Assets

a) Withholding tax reclaims
The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in France and Germany.

The Pension Fund's claims are set out in the following table in both euros and sterling (calculated using exchange rates as at 31 March 2015). The claims are subject to legal processes and based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

Country	Euro Value at 31 March 2015	Sterling Value at 31 March 2015
	€ 000s	£ 000s
Germany	148	107
France	191	138
Total	**339**	**245**

b) Bonds
32 admitted bodies in the Pension Fund held bonds as surety to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

6.21 Statement of Investment Principles
Regulation 12.1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) requires the Pension Fund to publish a Statement of Investment Principles. This is set out on pages 49-56.

1. Investment Management

Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund.

These regulations permit a range of investments, subject to specific restrictions. Investments may be made:

- in any security on any recognised stock exchange (no single holding to exceed 10% of the value of all investments);
- in unlisted securities (subject to a maximum of 10% of the total value of investments);
- in Unit Trusts and other Managed Funds subject to a maximum of 25% of the total value of investments with any one Investment Manager;
- by deposit with any bank (subject to a maximum of 10% of the value of all investments to any one bank, excepting National Savings Bank) or local authority (the total of such deposits not to exceed 10% of the total value of all investments).

The regulations require that the administering authority's investment policy must be formulated with a view to:

- the advisability of investing pension fund money in a wide variety of investments;
- the suitability of particular investments and types of investments;
- obtaining proper advice at reasonable intervals about their investments.

A local authority may elect to impose its own restrictions in addition to the legal restraints laid down in the regulations. The additional limits which have been determined by the County Council are set out in the Pension Fund's Statement of Investment Principles on pages 49-56.

Responsibility for Investing the Pension Fund's Assets

The Pensions Committee of the County Council is responsible for setting the overall investment strategy of the Pension Fund and monitoring investment performance. During 2010/11 the Pensions Committee set up a sub-committee to review the investment strategy.

The majority of the Pension Fund's investments are managed by external Investment Managers, who have substantial discretionary powers regarding their individual portfolios. The split of the Pension Fund between these managers at 31 March 2015 is shown in the following table.

Investment Manager	Pension Fund %
Allianz Global Investors Europe GmbH	10.1
Baillie Gifford & Co.	9.6
CBRE Global Collective Investors (UK) Ltd	7.5
Global Thematic Partners, LLC	7.8
Henderson Global Investors Ltd	4.5
Jupiter Asset Management Ltd	8.6
JPMorgan Asset Management (UK) Ltd	4.2
Legal & General Assurance (Pensions Management) Limited	23.9
LGT Capital Partners (Ireland) Ltd	10.8
Royal London Asset management Ltd	9.3
Private Equity	3.7

An amount of cash is held by the County Council in order to manage the payment of members' pension benefits and the collection of contributions. This is invested in accordance with the Pension Fund's Treasury Management Strategy which is reviewed and approved annually by the Pensions Committee. The 2014/15 Treasury Management Strategy was approved by the Pensions Committee on 28 February 2014.

The Statement of Investment Principles details the extent to which the Administering Authority complies with principles of good governance and investment practice, set out in the Myners review of Institutional Investment in the UK.

2. Statement of Investment Principles 2015

1. Introduction

1.1 The County Council is responsible for the administration of the Pension Fund. The County Council has a statutory duty to ensure that any funds not immediately required to pay pension benefits, are suitably invested.

1.2 As required by statute, the County Council has approved a Statement of Investment Principles ("Statement") which is applied to the management of the Pension Fund's investments. The latest Statement will be presented for approval by the Pensions Committee on 12 June 2015.

1.3 In accordance with government guidelines, the extent to which the Pension Fund complies with the statutory guidance "Investment decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" is set out at Appendix A to this Statement.

2. Who Makes the Investment Decisions?

2.1 The strategic management of the assets is the responsibility of the Pensions Committee. The committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 6. The Pensions Committee is responsible for monitoring the performance of the Investment Managers and the investments made, reviewing asset allocation decisions and the performance objectives for the Pension Fund. In addition the Pensions Committee can appoint (and, when necessary, dismiss) Investment Managers.

2.2 Day to day operational decisions are delegated to the County Council's Chief Finance Officer, the Deputy Chief Executive.

2.3 The Pension Fund's governance arrangements are set out in full in the Governance Policy and Compliance Statement which is accessible from the Pension Fund website www.yourpension.org.uk/agencies/HCC/

3. What are the Investment Objectives of the Pension Fund?

3.1 To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), specifically to ensure that all:

- funds are suitably invested;
- investments are diversified;
- relevant investment limits are not exceeded;
- investments and investment arrangements are regularly monitored and reviewed.

3.2 To ensure that the Pension Fund has sufficient assets to pay Scheme benefits.

3.3 To achieve a long term rate of return on the invested funds (both capital gains and income) which assists in controlling the level of employers' contributions to the Pension Fund and also the cost of the pensions to the local taxpayers where appropriate by:

i) as a minimum, matching the Pension Fund Actuary's rate of return assumptions made when assessing the Pension Fund's level of funding; and

ii) exceeding the Pension Fund's benchmark by 1% measured over three year rolling periods.

3.4 The Statement of Investment Principles is linked to the Funding Strategy Statement, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund while not unnecessarily restraining the investment strategy set out in this document. The two strategies set out the common objective of the Pension Fund to maximise returns on investments to control the level of employers' contributions.

4. Achieving the Investment Objectives

4.1 The Pension Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Pension Fund's liability structure and its investment objectives. This strategy is reviewed at a minimum every three years after each actuarial valuation but is monitored on an ongoing basis to assess any necessary changes.

4.2 The Pensions Committee having taken appropriate professional advice, has made the arrangements set out below to reduce the risk that one or more of the investment objectives for the Pension Fund are not achieved over the long term.

1. Suitable Investments

The Pensions Committee considers that the following types of investments, within specific limits, are suitable for the purposes of a pension fund:

- cash, bank deposits and other short term money market investments;
- quoted fixed interest securities, individual securities and pooled investment vehicles;
- quoted equity investments, individual securities and pooled investment vehicles;
- property unit trusts;
- derivative instruments, but not to be used for speculative purposes;
- alternative asset classes including commodities and absolute return strategies;
- unquoted equity investments and private equity pooled vehicles.

2. Pension Fund Benchmark and Asset Allocation

The Pension Fund has adopted a specific benchmark which has been approved by the Pensions Committee, following appropriate professional advice from the Investment Consultant, Investment Managers and the performance measurement consultant. The composition of the Pension Fund benchmark is set out at Appendix B to this Statement.

The weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. The asset allocation set out in the benchmark is designed to spread the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

3. Investment Management Choice

The main choices when selecting a fund management style are:

- Active or passive – making independent decisions when buying or selling investments ("active") or buying stocks to replicate a specific index ("passive").
- Multi-asset or specialist – investing across a broad range of asset classes ("multi-asset") or in a narrow, specific asset class ("specialist").

The Pension Fund currently uses "active, specialist", "active, multi-asset" and "passive, specialist" Investment Managers only on the advice of the Investment Consultant to increase the potential return of the Pension Fund.

The number of Investment Managers and the share of the Pension Fund by type as at 31 March 2015 are shown in the following table, along with comparative figures for 31 March 2014.

Share of Total Pension Fund 31 March 2014			Share of Total Pension Fund 31 March 2015	
%	Number of Investment Managers		%	Number of Investment Managers
66.9	9	External, active, specialist	61.6	8
8.8	1	External, active, multi-asset	10.8	1
20.2	1	External, passive, multi-asset	23.9	1
4.1	4	Private Equity	3.7	5

The percentages in the table above are calculated using the value of investments, cash and net current assets held by each Investment Manager at 31 March. During 2014/15 the Pension Fund moved funds out of its equity mandate and into bonds as part of the strategy to move to a more defensive structure and to diversify the Pension Fund's investments. The Pension Fund also made a commitment to an Asia Private Equity Fund managed by Pantheon Ventures (UK) LP.

Full details of the Investment Managers, their mandates and fee basis are shown at Appendix C.

All the Investment Managers need the approval of the Chief Finance Officer, the Deputy Chief Executive, to acquire shares in any securities that are not listed on a recognised stock exchange.

4. Responsible Ownership including Social, Environmental and Ethical Considerations

Investment Managers are expected to apply their professional expertise to maintain suitably diversified portfolios for a pension fund. When making investment decisions, Investment Managers are expected to take account of what they reasonably believe are all relevant considerations.

The Pension Fund routinely votes on all matters raised by the largest 350 listed UK companies where it owns shares. The Pension Fund's voting policy is to vote in accordance with the current principles of corporate governance best practice, as advised by the ISS Governance, except when the advice of Investment Managers indicates such action would not be in the best financial interests of the Pension Fund.

Equity managers who are regulated by appropriate UK (or other relevant) authorities are expected to report on their adherence to the UK Stewardship Code on at least an annual basis.

Additionally, in monitoring the Pension Fund's Investment Managers, the Pensions Committee receives updates from the Investment Consultant on their research ratings, which include a rating for Environmental, Social and Corporate Governance ("ESG") issues. These ratings reflect the Investment Consultant's views on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the Investment Manager's strategy.

5. Investment Restrictions

The following investment restrictions apply to the funds under management:

i) all limits determined under the Local Government Pension Scheme Investment and Management of Funds) Regulations 2009 (as amended); and

ii) additional limits which have been determined by the County Council:

Private Equity	-	Total investments are not to exceed a maximum of 7.5% of the value of the Pension Fund. In general the Pensions Committee expects private equity to be no more than 5%. The 2.5% headroom allows for fluctuations in the value of other assets.
Options, futures and contracts for differences	-	A maximum of 25% of UK equity portfolio. Only to be used to protect against possible adverse fluctuations in the values of other investments or cash in the portfolio.
Insurance contracts	-	Any single insurance contracts are not to exceed a maximum of 35% of the value of the Pension Fund.
Individual equity holdings	-	The total holding in a single company is not to exceed 5% of the issued share capital.

Any breaches of the restrictions above are reported to the next available meeting of the Pensions Committee.

6. Investment Performance Management
The investment performance of Investment Managers is measured by an independent organisation. This service has been provided by the Pension Fund's Custodian, BNY Mellon Asset Servicing B.V. since January 2012. Quarterly reports are provided to the Chief Finance Officer, the Deputy Chief Executive and quarterly to the Pensions Committee.

7. Monitoring of Investment Managers
The Pensions Committee meets quarterly to review the performance of the Pension Fund's Investment Managers. The Investment Sub-Committee was set up by the Pensions Committee in 2010 and has been responsible for monitoring the performance of Investment Managers and the investments made by the managers until 30 June 2015. During this period the Investment Sub-Committee met quarterly and typically met each manager at least once a year. Following the implementation of the Pensions Board, responsibilities for monitoring performance of Investments Managers and investments will be undertaken by the Pensions Committee from 1 July 2015.

8. Actuarial Valuation
The Pension Fund is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the Pension Fund Actuary to ensure that in the long term the Pension Fund's assets will match its liabilities. The framework for this is set out in the Funding Strategy Statement.

9. Stock Lending
The Pension Fund operates a stock lending programme through its custodian bank. The Pension Fund limits the lending to 20% of the total of its portfolios and ensures that the collateral is in cash or bonds and is valued on a daily basis to be on average 105% of the value of the stock which has been lent.

10. Custody Arrangements
The Pension Fund's assets are held in custody by an independent custodian, where reasonable controls have been certified by an appropriate auditor.

5. Compliance with this Statement

5.1 The Pension Fund will monitor compliance with this Statement in particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in this Statement, so far is reasonably practicable.

6. Compliance with Myners Principles

6.1 The Myners principles cover the arrangements for effective investment management decision making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

6.2 The Pension Fund supports the principles and complies with the principles as set out in appendix A to this Statement.

7. Review of this Statement

7.1 This Statement will be reviewed to respond to any material changes to any aspects of the Pension Fund, its liabilities, finances and its attitude to risk which it judges to have a bearing on the stated investment policy.

Appendix A to the Statement of Investment Principles 2015

<table>
<tr><th colspan="2">Compliance with Myners Principles</th></tr>
<tr><th>Principle</th><th>Current Position</th></tr>
<tr><td>1. Effective Decision Making</td><td></td></tr>
<tr><td>Administering authorities should ensure 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
• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</td><td>Day to day operational decisions are delegated to the County Council’s Chief Finance Officer, the Deputy Chief Executive, who, with relevant members of staff, regularly attends seminars and briefing sessions and access professional and other publications to maintain a high level of skills and knowledge in investment matters.

Members of the Pensions Committee act in the role of trustees for the Pension Fund. They attend training sessions organised by the County Council and receive quarterly workshops on investments and pension related issues.

Both Members and Officers involved with making investment decisions take advice from appropriately qualified professionals where appropriate.

The CIPFA Knowledge and Skills framework is available to all Members and Officers as a learning tool for the development of Member knowledge of pension investments and the regulatory background.

A medium term business plan for the Pension Fund is prepared annually and incorporated within Hertfordshire County Councils integrated plan,</td></tr>
<tr><td>2. Clear Objectives</td><td></td></tr>
<tr><td>An overall investment objective(s) 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 advisors and investment managers.</td><td>The Pension Fund’s main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund’s liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.

The Statement of Investment Principles is circulated to the Pension Fund’s advisors and Investment Managers and is published on the Pension Fund website.

The following investment objectives for the Pension Fund were agreed in 2011, following a comprehensive investment strategy review:
- Return objective: To achieve 100% funding on an ongoing basis over a 20 year period from 2011 (i.e. by 2031), with a probability of 67%.
- Risk objective: Limiting the likelihood of a fall in funding level to below 65% at the 2016 Actuarial Valuation to a one in ten probability.</td></tr>
<tr><td>3. Risk and Liabilities</td><td></td></tr>
<tr><td>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</td><td>The Pension Fund’s main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund’s liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.

The Pension Fund’s risk register sets out the key risks to the Pension Fund along with controls in place to manage those risks. Risks are monitored on a regular basis and a quarterly report presented to the Pensions Committee

The Pension Fund carries out employer risk monitoring exercises, including an annual employer covenant check. This facilitates early detection of issues that may impact on an employer’s ability to meet their liabilities to the Pension Fund.</td></tr>
</table>

Appendix A to the Statement of Investment Principles 2015 (continued)

Principle	Current Position
4. Performance Assessment	
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. *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 Pensions Committee formally measures performance of Investment Managers and investments on a quarterly basis. Performance measurement services are provided by BNY Mellon, which includes daily exception reporting on Investment Manager compliance with their Investment Manager Agreements. **Development Areas** • Develop a framework to formally measure the performance of the Pension Fund's advisors. • Develop a framework to enable the Pensions Committee to make an assessment of their effectiveness.
5. Responsible ownership	
Administering authorities should: • *adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles 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's Investment Managers have adopted the Institutional Shareholders' Committee Statement of Principles. A statement regarding responsible ownership is included in the Statement of Investment Principles, which is part of the Annual Report published on the Pension Fund website for all Scheme members to access.
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* • *provide regular communication to scheme members in the form they consider most appropriate.*	In addition to this Statement, the Pension Fund communicates with its stakeholders through the publication of the following documents which are all accessible from the Pension Fund website: • Governance Statement • Annual report • Communication Statement In addition a monthly newsletter is published and accessible from the Pension Fund website and an annual meeting is held for all employers. Communication with Scheme members is through the website, periodic mailings and through the Pension Fund employers.

Appendix B to the Statement of Investment Principles 2015

Asset Class	Allocation %	Benchmark
UK Equity	10.0	FTSE All-Share Index
UK Equity smaller cap	6.0	FTSE All-Share Index ex-top 20 stocks
Overseas Equity	13.2	Composite of FTSE indices
Global Equity	21.0	MSCI AC World Index (NDR)
Absolute Return Bonds	5.0	3 month sterling LIBOR
Sterling Corporate Bonds	10.0	50% iBoxx Non Gilt All Maturities Index/50% FTSE A All Maturities Gilts Index
Index-Linked Gilts	10.0	FTA A Over 5 Year Index-Linked Gilts Index
Property	8.0	IPD UK All Balanced Funds Index IPD Adjusted Global Index
Alternatives	10.8	3 month sterling LIBOR
Private Equity	5.0	FTSE All-Share Index
Cash	1.0	7 Day Sterling LIBID
Total	**100.0**	

Appendix C to the Statement of Investment Principles 2015

Pension Fund Investment Managers at 31 March 2015				
Investment Manager	**Value of Portfolio at 31/03/2015 £m**	**Type of Mandate**	**Performance Target % above benchmark**	**Fee Type**
Allianz Global Investors Europe GmbH	361.1	Active, Specialist, Global Equities	3% - 4%	Ad valorem
Baillie Gifford & Co.	341.2	Active, Specialist, UK Equities	1.25%	Fixed fee
CBRE Global Collective Investors (UK) Ltd.	265.1	Active, Specialist Property	1.0%	Performance related
Global Thematic Partners, LLC	276.7	Active, Specialist, Global Equities	3% - 5%	Ad valorem
HarbourVest Partners, LLC	90.7	Active, Specialist, Private Equity	Not applicable	Performance related
Henderson Global Investors Ltd.	161.2	Active, Specialist, Bonds	3%	Ad valorem
JP Morgan Asset Management (UK) Ltd.	148.3	Active, Specialist, Global Equities	4%	Performance related
Jupiter Asset Management Ltd.	305.4	Active, Specialist, UK Equities	2%	Performance related
Legal & General Assurance (Pensions Management) Ltd.	852.1	Active, Specialist, Multi-Asset Equities/Bonds	0%	Ad valorem
LGT Capital Partners (Ireland) Ltd.	383.5	Active, Multi-Asset Alternatives	4%	Ad valorem
Pantheon Ventures (UK) LLP	0.6	Active, Specialist, Private Equity	Not applicable	Performance related
Permira Advisers, LLP	1.3	Active, Specialist, Private Equity	Not applicable	Performance related
Royal London Asset Management Ltd.	330.6	Active, Specialist, Bonds	1.75%	Ad valorem
Standard Life Investments Ltd.	42.1	Active, Specialist, Private Equity	Not applicable	Performance related
TTP Venture Managers Ltd.	0.1	Active, Specialist Private Equity	Not applicable	Performance related

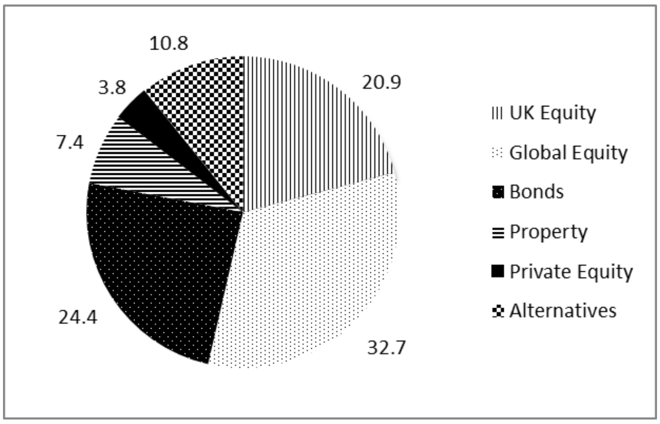
Fee types:
- **Fixed fee** - fee is fixed amount, indexed by RPI annually
- **Ad valorem** - based only on the value of the portfolio
- **Performance related** - additional fees payable where performance exceeds the target

3. Investment Policy

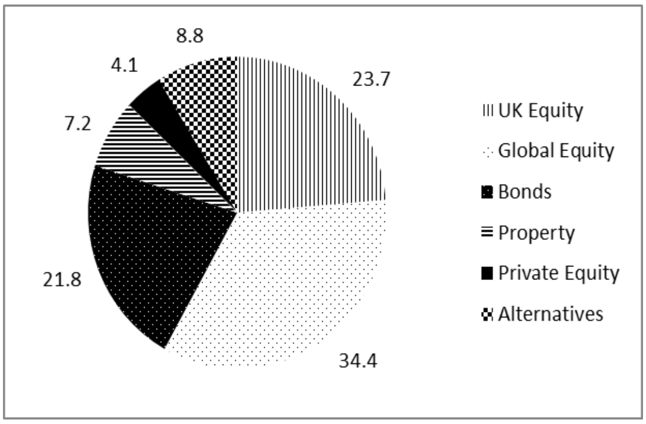
Appendix B of the Statement of Investment Principles on page 55 sets out the target asset allocation of the Pension Fund for 2014/15, in line with the Pension Fund's specific benchmark.

The actual distribution of the Pension Fund's assets across the main asset classes as at 31 March 2015 (and as at 31 March 2014 for comparison) are shown below:

Distribution of Pension Fund at 31 March 2015



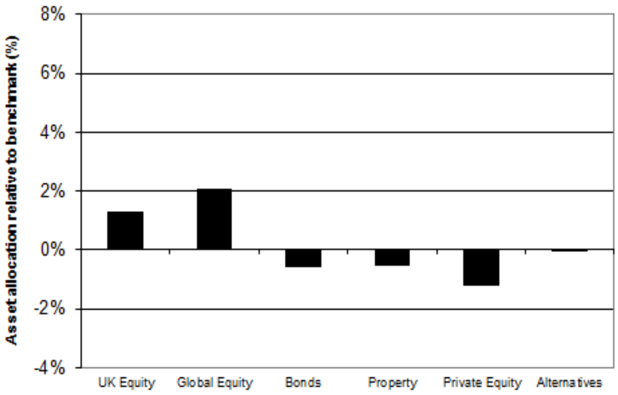
Distribution of Pension Fund at 31 March 2014



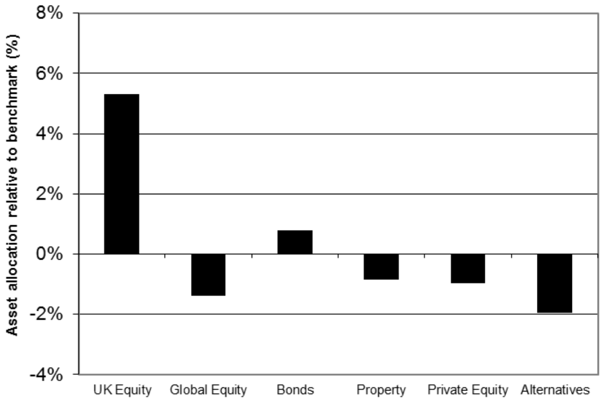
The change in the asset distribution over the period reflects a gradual switching out of equities and into lower risk asset classes.

The actual asset allocation of the Pension Fund's relative to the benchmark allocation at 31 March 2015 (with 31 March 2014 for comparison) is shown in the following tables:

Actual asset allocation relative to benchmark allocation as at 31 March 2015



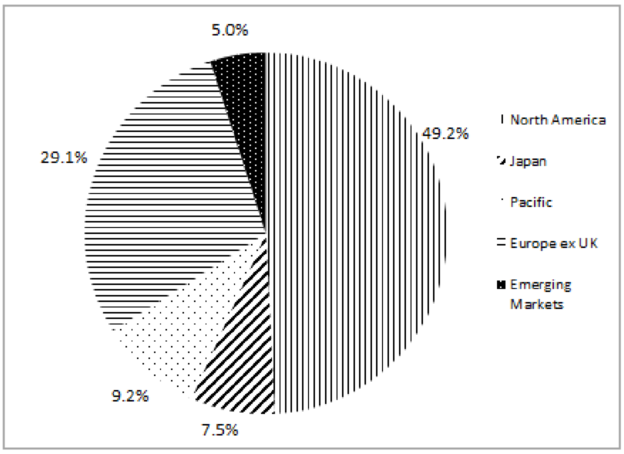
Actual asset allocation relative to benchmark allocation as at 31 March 2014



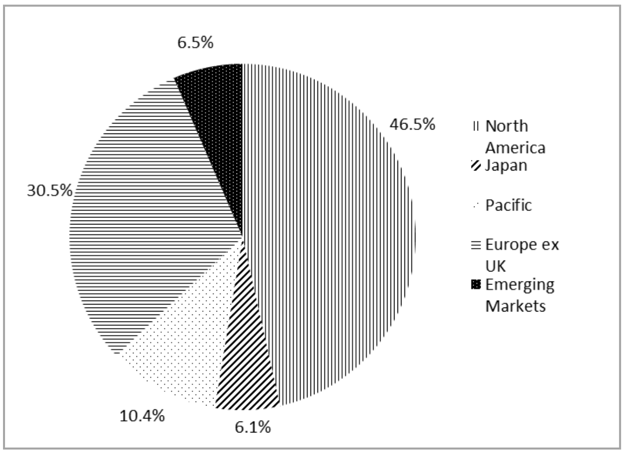
As at 31 March 2015, the Pension Fund's allocation to UK equities and global equities were overweight relative to the benchmark allocation, with all other allocations underweight.

The regional distribution of the Pension Fund's overseas equity investments as at 31 March 2015 (and as at 31 March 2014 for comparison) is shown below:

Distribution of Pension Fund's overseas equity investments at 31 March 2015



Distribution of Pension Fund's overseas equity investments at 31 March 2014



The top ten largest equity holdings of the Pension Fund as at 31 March 2015 (and as at 31 March 2014 for comparison) are shown in the following tables.

Ten Largest Equity Holdings at 31 March 2015	Market Value £m	% of Total Investments
Legal & General Group	23.0	0.6
Bunzl	17.3	0.5
Reed Elsevier	16.7	0.5
Ashtead Group	15.1	0.4
Roche	15.0	0.4
Microsoft	13.6	0.4
Rolls-Royce	13.6	0.4
Adidas	13.6	0.4
Prudential	13.5	0.4
Citigroup	13.1	0.4

Ten Largest Equity Holdings at 31 March 2014	Market Value £m	% of Total Investments
Bunzl	21.4	0.7
Legal & General Group	20.9	0.7
Reed Elsevier	17.0	0.5
Imperial Tobacco Group	16.7	0.5
Ashtead Group	15.6	0.5
British American Tobacco	14.9	0.5
Apple Inc	14.5	0.5
Roche	14.3	0.5
BT Group	14.2	0.4
SABMiller	13.9	0.4

4. Review of World Markets (courtesy of LGT Capital Partners)

The year 2014/2015 was characterised by geopolitical conflicts, falling commodity prices and increasingly diverging regional monetary policy biases. Geopolitical tensions in the chronically unstable Middle East, where the ISIS movement increasingly gained traction, had dominated headlines since last summer and temporarily weighed on investor sentiment. Far more important for the real economy and especially for the financial markets, however, was the ongoing conflict between Russia and Ukraine (supported by the NATO). The retaliatory sanctions by Russia in response to actions by the West negatively impacted the already battered European economy not only directly, but also indirectly via dampened consumer sentiment.

China's economy, which had been the biggest contributor to global growth over the past few years, continued to slow down during the period under review. Its President Xi Jingping's attempt at rebalancing the economy from an investment-driven approach towards a consumption-driven growth model may be supportive of its long-term economic perspectives, but the rebalancing process is weighing on global growth and commodity prices. The US economy, on the contrary, and also the UK, were able to recover significantly during the past year, which was particularly important for the global economy given the absence of positive momentum from Europe and China.

Oil prices took a hard hit during the second half of 2014, as the oil price halved in value due to a supply-demand imbalance driven by politics, US shale gas factors and anaemic global demand. Raw material prices, on the other hand, continued to suffer from China's structural slowdown and global production overcapacities over the course of the year.

While the global economy expanded by only roughly 3%, the divergence in economic dynamics had grown over the year, increasingly also being reflected in a monetary decoupling. The US Federal Reserve slowed down and ended its asset purchases ("Quantitative Easing III") during Q3 2014. The European Central Bank, on the other hand, not only had to further cut interest rates over the course of the year but also launched an asset purchase programme for covered bonds, asset backed securities and later also for sovereign bonds. Only the Bank of Japan was even more accommodative. The diverging real economies and the monetary policy decoupling had extraordinarily large impacts on currency markets. The main beneficiary was the US Dollar, which appreciated on a broad basis, but particularly strongly versus the weak Euro (by 22%). Sterling was also rather strong but began to weaken around mid-2014 as the prospects of a first interest rate hike by the BoE became increasingly slimmer, with inflation rates falling to well below the Bank of England's target level and remaining at 0% in March 2015.

As commodity prices weakened across the board, inflation rates also decreased in most other countries. This pushed a broad number of central banks to further ease monetary policy in order to fight deflation and/or to support growth directly or indirectly via a weakening currency. In Switzerland, the central bank even decreased its policy rate to -0.75% after abolishing the exchange rate floor to the Euro, and the Danish central bank also cut its deposit rate to well below zero to fight the appreciation pressure on its currency. All this put downward pressure on bond yields globally, and in Europe an increasing number of sovereign bonds were trading at negative yields, pushing investors into credit and stock markets.

The ongoing economic recovery in the US/UK and the very accommodative global monetary policy also supported stock and property markets which gained significantly over the period under review, both in the UK and globally. Regionally, the US and the Japanese stock market benefited most, while Eurozone stocks only started to rally towards year end in anticipation of the European Central Bank's sovereign bond purchase programme. Emerging stock markets have continued to underperform, as both weak commodity prices and the strong US dollar weighed on the asset class.

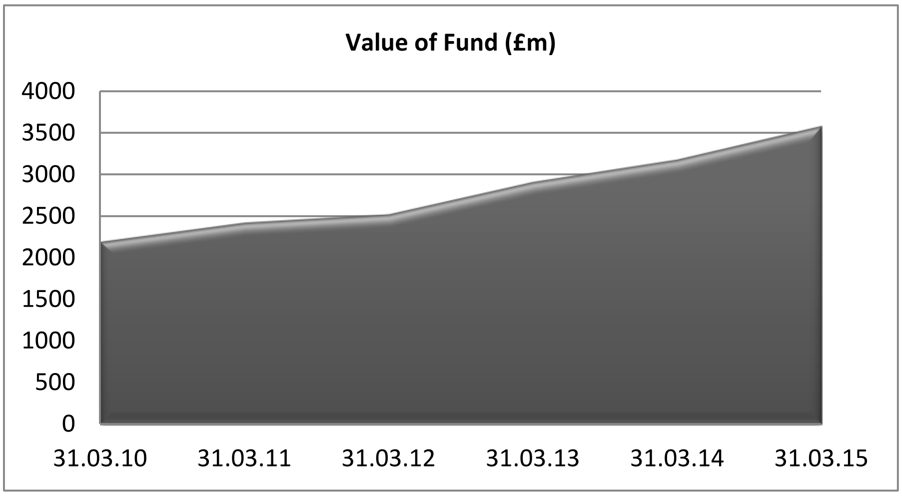
5. Investment Performance

In order to monitor the performance of the Investment Managers, the Pension Fund participates in performance measurement services. In 2014/15 these services were provided by BNY Mellon Asset Servicing B.V. and Mercer. The performance of the Investment Managers is reported to the Pensions Committee on a quarterly basis.

Over the twelve months to 31 March 2015 the Pension Fund return was 13.7%.

Change in the Pension Fund's Total Assets

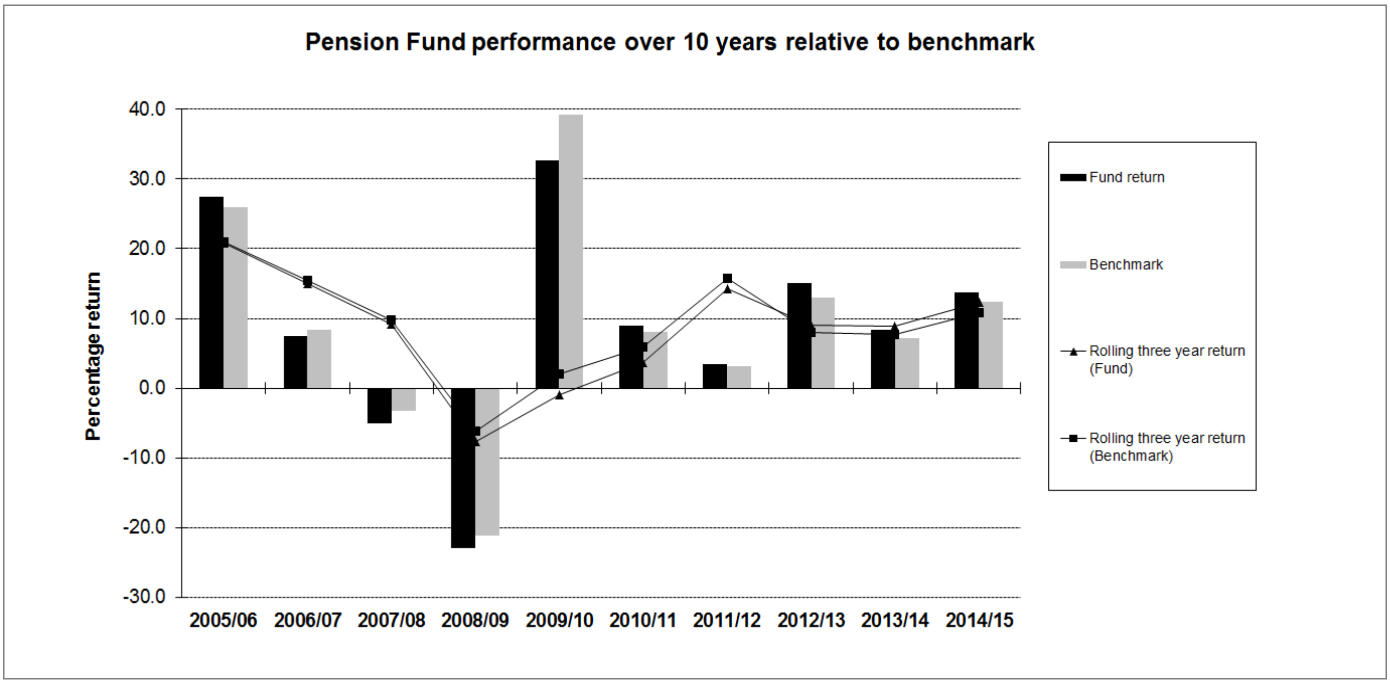
The change in the value of the Pension Fund's invested assets over the five years to 2014/15 is shown below rising by £1,393 million from £2,188 million at 31 March 2010 to £3,581 million at 31 March 2015.



Comparison with the Pension Fund's Benchmark

The Pension Fund's performance is analysed against a customised benchmark, as set out in the Statement of Investment Principles on pages 49-56. The following graph shows the annual investment returns of the Pension Fund compared to the benchmark over the last ten years. This shows that the Pension Fund has performed above benchmark in every year in the last five years.

Overlaid on the chart is a rolling three year annualised return on the Pension Fund's assets compared with the equivalent figures for the benchmark.



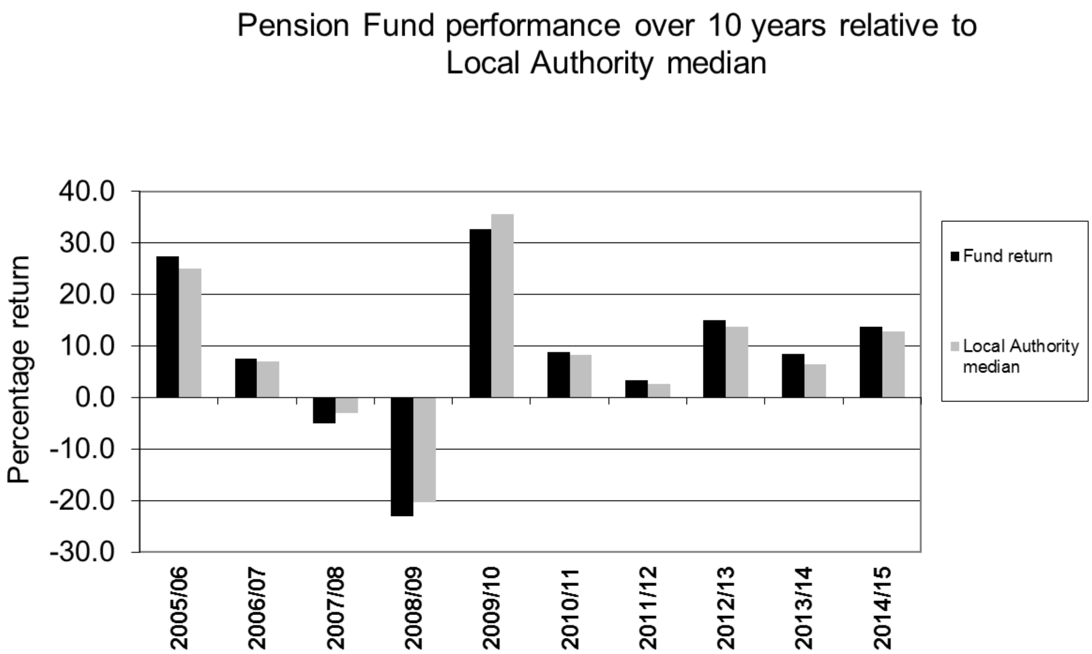
The table below shows the long term performance of the Pension Fund against the benchmark.

	Pension Fund	Benchmark	Relative Performance
3 year % per annum	12.4	10.8	1.5
5 year % per annum	9.8	8.7	1.1
10 year % per annum	7.8	8.2	(0.4)

Performance Comparisons

The following graph shows the performance of the Pension Fund over the last ten financial years relative to the median (or middle) fund in the Local Authority list.

It should however be noted that each local authority pension scheme has their own objectives, relating to their specific liability profiles (the nature and term of the pensions due to be paid out) and the asset classes held by their Fund. Whilst the following analysis highlights the performance of the Pension Fund relative to other local authorities, each pension scheme will have their own methods to analyse performance and have different requirements on the returns they are expecting to achieve in practice.

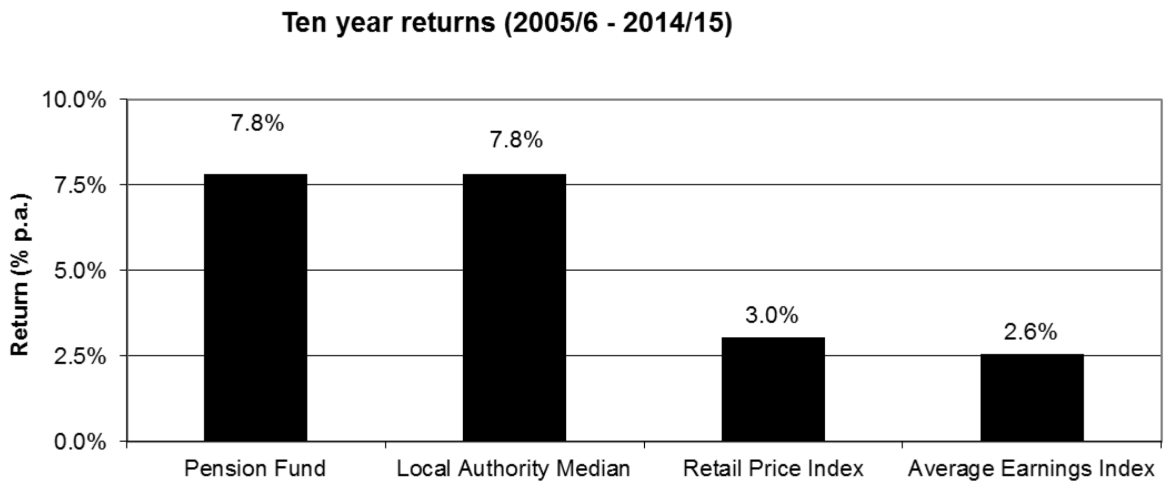


The following table shows the long term performance of the Pension Fund against the Local Authority median.

	Pension Fund	Local Authority median	Relative Performance
3 year % per annum	12.4	11.1	1.4
5 year % per annum	9.8	8.7	1.1
10 year % per annum	7.8	7.8	0.0

Long Term Returns

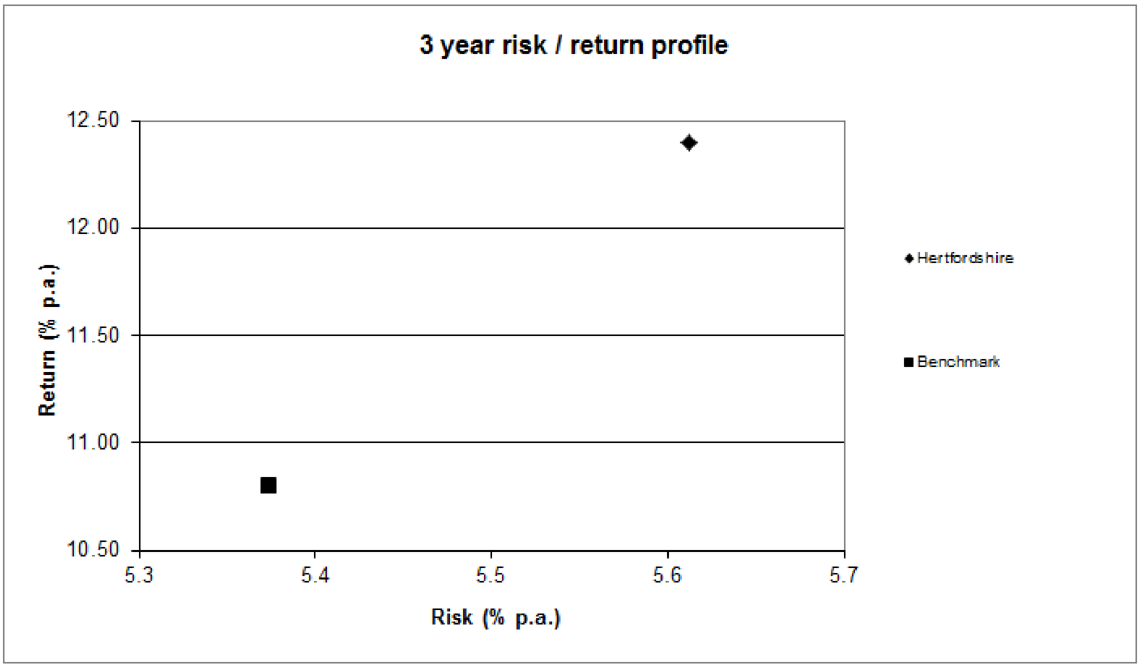
The ten year returns from 2005/06 to 2014/15 are shown in the following chart below:



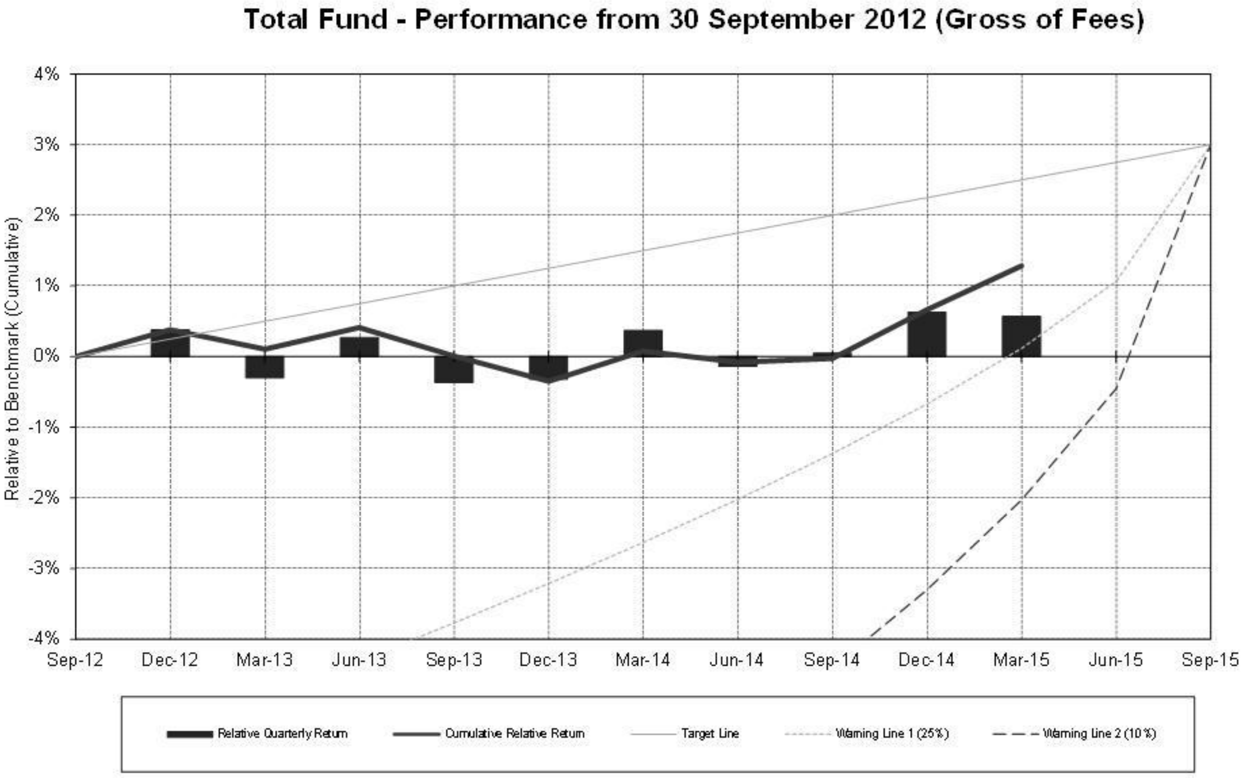
The chart above shows that over the last ten financial years, the Pension Fund's performance outperformed retail price inflation and average earnings.

Risk Comparisons

The chart below highlights the risk and return profile of Pension Fund relative to its benchmark over the last 3 years. Risk is defined as the volatility or annualised standard deviation of quarterly returns.



This highlights that the risk profile of the Pension Fund is marginally higher than the benchmark and that higher returns were generated compared to the benchmark over this period.



The lines on the charts are as follows:

The Benchmark Return
This is the horizontal line, at point 0%, representing the benchmark return. If an Investment Manager's performance were exactly in line with the benchmark return, the performance line would follow this horizontal line exactly.

Relative Quarterly Return
The bars represent the deviation of the Pension Fund's investment returns over each quarterly relative to each Investment Manager's benchmark. A positive bar (above zero) represents positive performance, a negative bar (below zero) represents negative performance.

Cumulative Relative Return
This solid line represents the cumulative performance achieved relative to the benchmark return. Because active investment management produces uneven returns, the performance line will not exactly follow the target line. Instead the performance will fluctuate with the expectation that the performance line will meet or exceed the target line by the end of the period.

The Target Line
This is a simplistic representation of cumulative added value over the period. If, for example, a Investment Manager has a target to achieve a return of 0.5% p.a. in excess of the benchmark return, the graph will show the target of 1.5% added value by the end of the three year period. This is shown as a thin black line.

The Warning Line 1 (25%)
Investment Managers operate with different styles and the degree of volatility experienced during their progress towards the target will vary between Investment Managers. In order to give an indication of an "acceptable" level of volatility a warning line (25%) has been included. This line is drawn in such a way that it is not expected that variations in cumulative performance not to bring the performance line below the warning line under normal circumstances.

The warning line is plotted such that at any point above the line there is a better than a one in four chance (this level of chance is thought to be appropriate) of the target being reached within the time frame, while below the line the chance is less than one in four.

The Warning Line 2 (10%)
The warning line (10%) is similar to the warning line (25%) but the chance of meeting the original target at this level is much lower – one in ten.

ACTIVE EMPLOYERS

Scheduled Bodies

Councils and other bodies whose employees have a statutory right to be in the Scheme

Hertfordshire County Council (including schools)
Broxbourne Borough Council
Dacorum Borough Council
East Hertfordshire District Council
Hertsmere Borough Council
North Herts District Council
St Albans District Council
Stevenage Borough Council
Three Rivers District Council
Watford Borough Council
Welwyn Hatfield District Council
Hertford Regional College
Hertfordshire Valuation Tribunal
North Hertfordshire College
Oakland's College
Police and Crime Commissioner
University of Hertfordshire
West Herts College
West Hertfordshire Crematorium Joint Committee

Academies, Free Schools, Studio Schools and Technical Schools

Adeyfield School
Alban City Free School
Applecroft Primary School
Beaumont School
Berrygrove
Birchwood High School
Bishop Hatfield Girls School
Bovingdon Primary Academy
Broxbourne Academy
Bushey Academy
Bushey Meads School
Chaulden Junior School
Chauncy School
Christchurch CofE School
Countess Anne Academy
Crabtree Infants School
Crabtree Junior School
Da Vinci Studio School
Dame Alice Owen's School
Elstree UTC
Flamstead End Academy
Fleetville Infants
Fleetville Juniors
Francis Combe Academy
Freman College
Garden City Academy (GCA)
Goffs School
Greneway School
Hammond Academy
Hatfield Community Free School
Heathlands Academy
Herts & Essex Academy
Hertswood Lower School
Highfield School
Hitchin Boys School
Hitchin Girls School
John Henry Newman School
John Warner School
Kings Langley School
Knights Templar School
Knightsfield
Leventhorpe School
Links ESC
Little Reddings JMI
Longdean School
Loretto College
Mandeville Primary School
Marlborough School
Meridian School
Monkswalk School
Mount Grace School
Nicholas Breakspear School
Northgate Primary School
Onslow St Audrey's School
Our Lady Catholic School
Parmiters School
Pinewood School
Presdales School
Queens' School
Ralph Sadleir
Reach Free School
Richard Hale School
Rickmansworth School
Roundwood Park School
Roysia Middle School
Samuel Ryder Academy
Sandringham School
Sele School
Simon Balle
Sir John Lawes School

Academies, Free Schools, Studio Schools and Technical Schools continued

St. Albans Girls' School
St. Catherine of Siena
St. Clement Danes School
St. George's School
St. John of Arc Catholic School
St. John's Catholic Primary
St. Lukes Academy
St. Mary's CofE High School
St. Mary's RC Primary
St. Michael's Catholic High School
St Thomas More
Stanborough School
Summercroft Primary School
Thomas Alleyne
Tring School
Verulam School
Watford Boys
Watford Girls
Westfield CTC
Wilshere Dacre Junior Academy
Woolgrove School
Wroxham School
Yavneh College

Employers who can designate their employees to be in the Scheme

Abbots Langley Parish Council
Aldenham Parish Council
Berkhamsted Town Council
Bishops Stortford Town Council
Buntingford Town Council
Chorleywood Parish Council
Codicote Parish Council
Colney Heath Parish Council
Croxley Green Parish Council
E2BN
Elstree and Borehamwood Town Council
Harpenden Town Council
Hatfield Town Council
Hertford Town Council
Kimpton Parish Council
Kings Langley Parish Council
Knebworth Parish Council
London Colney Parish Council
Markyate Parish Council
Nash Mills Parish Council
North Mymms Parish Council
Redbourn Parish Council
Royston Town Council
Sandridge Parish Council
Sawbridgeworth Town
St Stephens Parish Council
Stanstead Abbotts Parish Council
Tring Town Council
Universitybus Ltd
Walkern Parish Council
Ware Town Council
Watford Rural Parish Council
Welwyn Parish Council
Wheathampstead Parish Council
Woolmer Green Parish Council

Admitted Bodies (employers who participate by virtue of an admission agreement)

ABM Catering Ltd
Age UK
Amey Services
B3 Living
Balfour Beatty Limited
Capita
Churchill Contract Services *
Citizens Advice Bureau in Hertsmere
Citizens Advice Service in Three Rivers
CP Plus
Crime Reduction Initiative
Cucina *
Dacorum Sports Trust
Edwards and Blake Limited *
Elstree Film Studios
Evergreen, The Cleaning Company Limited
Exemplas
Fusion Lifestyle
Goldsborough Home Care
Haywards Services *
Herts Catering Ltd *
Hertfordshire Action on Disability
Hertfordshire Association of Parish and Town Councils
Hertfordshire Community Meals *
Herts for Learning
Hertfordshire Partnership NHS Foundation Trust
Hertsmere Leisure Trust *
Highfield Park Trust
Hitchin Markets Ltd
John O'Conner (Grounds Maintenance) Ltd
Letchworth Garden City Heritage Foundation
Mears Building Contactors Ltd
National Car Parks Limited
North Herts Homes
Northgate Information Solutions UK *
NSL Limited
Office and General Environmental Services Limited
Opus (UK) Ltd
Osborne Ltd
Pre School Learning Alliance *
Principle Cleaning *
Quantum Care Ltd
Radlett Centre Trust
Ringway Infrastructure Service
Serco *
Sports and Leisure Management Ltd *
St Mary's Trading Ltd (Allsorts)
Steria Services Ltd
Stevenage Leisure *
The Fairway Public House Limited
Thrive Homes
Updata Infrastructure UK Ltd
Veolia ES (UK) PLC *
Watford and District YMCA
Watford Community Housing Trust
Watford Council for Voluntary Services
Welwyn and Hatfield Community Housing Trust
Welwyn Hatfield Leisure Limited
Welwyn Hatfield Sports Centre Trust Limited

* Employer with more than one admission agreement relative to the service contracts they have with Scheduled Bodies

CEASED EMPLOYERS

Employers with no active members but with some outstanding liabilities whose pensioners are or will be paid from the Pension Fund

Scheduled Bodies

Hertfordshire Magistrates Courts Committee
Hertfordshire Probation Trust
Letchworth Garden City Council
Shenley Parish Council

Admitted Bodies

Action for Children
Affinity Sutton
Aldenham Renaissance Ltd
Apcoa Parking Services UK Ltd
ARP Trading Ltd
Art Cafe
Aspire Leisure Trust
Association of Charity Officers
Caterplus
Chauncy Housing Association
Colne Valley Water Company
Colosseum Theatre
Commission for the New Towns
DC Leisure Management Ltd
Dacorum Council for Voluntary Service
Department of Transport
Department of Education & Science
Digica FMS
East Herts Citizens Advice Bureau
East of England IDB Limited
Europa Services Ltd
Group for the Rootless of Watford
Hemel Hempstead Day Centre Limited
Hertford Museum Trust
Hertfordshire Care Trust
Hertfordshire Careers Service
Herts Carers
Herts E-Learning Partnership
Hertfordshire Family Mediation Service
Kameleon 4 Ltd (formerly Dorchester Solutions)
Lee Valley Water Company
Leonard Cheshire
Mace
Mitie Property Services
North Herts Hospice Care Association
Offley Place Ltd
Pro-Action Herts
Rhodes Museum Foundation
Rickmansworth and Uxbridge Valley Water Co
Riversmead Housing Association
Shenley Park Trust
Society of Education Officers
St Albans Citizens Advice Bureau
St Albans Diocesan Board for Social Responsibility
St Albans Society for the Deaf
Stevenage Homes
Superclean Services Wolthorpe Ltd
Thames Water Authority
TSG Mechanical Ltd
Watford Sheltered Workshop
Watford Town Centre Partnership Ltd
Wellfield Trust
West Hertfordshire Computer Consortium
Weston Voluntary Nursery
Woman’s Royal Voluntary Society

Appendix 2: Funding Strategy Statement 2014

1 Introduction

This is the Funding Strategy Statement (FSS) of the Hertfordshire Pension Fund ("the Pension Fund"), which is administered by Hertfordshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Pension Fund's actuary, Hymans Robertson LLP, and after consultation with the Pension Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 31 March 2014.

1.1 Navigation around this document

Section 2 describes the purpose and regulatory framework for the FSS and outlines how it operates in Hertfordshire.

Section 3 provides a brief introduction to some of the main principles behind funding and the application of these.

Section 4 provides an overview of the different types of employers in the Pension Fund and a general outline about managing contribution levels.

Section 5 outlines issues affecting specific types of employers in the Pension Fund.

Section 6 shows how the FSS is linked with the Pension Fund's Investment Strategy.

The Appendices provide further details on the following matters:

A. The responsibilities of key parties
B. Actuarial assumptions adopted
C. Key risks and controls
D. Glossary of key terms

2 Funding Strategy Statement

2.1 Regulatory framework

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. The regulations state that in publishing the FSS the Administering Authority must 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.

The FSS is not an exhaustive statement of policy on all issues and forms part of a framework which includes:

- the Local Government Pension Scheme Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the three years) which is appended to the formal valuation report issued after each Triennial Valuation;
- the Pension Fund's policies on admissions and cessations
- The Pension Fund's Governance Strategy and Compliance Statement and Communication Strategy Statement;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Pension Fund's Statement of Investment Principles (see Section 6).

This is the framework within which the Pension Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, for example, when employers join or leave the Pension Fund. The FSS applies to all employers participating in the Pension Fund and the roles and responsibilities of the key parties involved in the management of the Pension Fund are summarised in Appendix A.

Further details on the Pension Fund's policies and strategies can be found on the Pension Fund website at http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

2.2 Purpose of the 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."

The FSS 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.

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.

Local Government Pension Scheme (the "Scheme") members' benefits are guaranteed by the LGPS (Benefits, Membership & Contribution) Regulations 2007 (as amended), and do not change as a result of changes in the market value of investments or employer contributions. Scheme members' contributions are also fixed in LGPS Regulations, at a level which covers only part of the cost of the benefits.

Investment returns will help pay for only some of the benefits. Therefore employers pay the balance of the cost of delivering the benefits to members and their dependants.

2.3 Objectives of the FSS

The FSS sets out the Pension Fund's objectives:

- to ensure the long-term solvency of the Pension Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/ dependants' benefits as they fall due for payment;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- 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 Pension Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. This will also minimise the costs to be borne by Council taxpayers;
- to reflect the different characteristics of different employers in determining contribution rates. This requires that the Pension Fund has a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from an employer defaulting on its pension obligations.

2.4 Consultation and review

The Pension Fund reviews the FSS in detail at least every three years as part of the Triennial Valuation. The Administering Authority will consult with all employers and relevant interested parties when preparing and publishing its FSS, in accordance with LGPS regulations and CIPFA guidance.

This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next Valuation in 2016.

The FSS may be amended before the next Valuation to reflect any regulatory changes, or alterations to the way the Pension Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be notified to all employers in the monthly Pension Fund Newsletter;
- amendments affecting only one class of employer would be consulted on with specific employers affected by the amendment;
- other more significant amendments would be subject to full consultation with all employers and relevant interested parties.

Any amendments to the FSS are approved by the Pensions Committee and would be reported at the next Committee meeting for consideration and approval.

If you have any other queries on the FSS please contact Patrick Towey in the first instance at e-mail address pensions.team@hertfordshire.gov.uk.

3 General Funding Principles

This section provides an introduction to the main principles behind funding and how contribution rates are calculated. These calculations involve actuarial assumptions about future experience which are described in more detail in Appendix B.

3.1 Calculation of contribution rates

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 then the past service adjustment will increase the employer's total contribution; if there is a surplus then 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").

The Pension Fund's actuary is required by the LGPS (Administration) Regulations 2008 (as amended) to report the **Common Contribution Rate**, for all employers collectively at each Triennial Valuation, combining items 3.1 (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Pension Fund in the future, as outlined in Appendix B.

The Pension Fund's actuary is also required to adjust the **Common Contribution Rate** for circumstances specific to each individual employer. It is this adjusted contribution rate which the employer is required to pay. The rates for all employers are shown in the Pension Fund's Rates and Adjustments Certificate which is published with the formal valuation report after each Triennial Valuation.

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 Triennial Valuation as at 31 March 2013 can be found in the formal valuation report, including an analysis at Pension Fund Level of the **Common Contribution Rate**. The formal valuation report also includes details of individual employer contribution rates. The formal report is accessible from http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

3.2 Calculation of the future service rate

The future service element of the employer contribution rate is calculated aiming to ensure that the contributions will meet benefits accrued by members in the future in the Pension 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 other than those employers within a Pool. A Pool is a group of employers that have common characteristics who are grouped together largely for risk sharing (see section 3.10 for further details). Employers within a Pool will pay the contribution rate applicable to the Pool as a whole.

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 Pension Fund, depending on the terms of their Admission Agreements and employment contracts. The definition of different types of employers is provided in section 4.

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, or outsourcing decisions) 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 Pension Fund, and include allowances for benefits payable on death in service and ill health retirement.

3.3 Calculation of the deficit or surplus

The Pension Fund's actuary is required to report on the "solvency" of the whole Pension Fund in a Valuation. As part of this Valuation, the actuary will calculate the solvency position of each employer.

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

- the market value of the employer's share of assets (see section 3.4),

  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 Pension Fund's actuary agrees with the Administering Authority the assumptions to be used in calculating this value. 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 amount of deficit or shortfall is the difference between the asset value and the liabilities 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.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer contribution will be lower than if it was spread over a shorter period. However, deferring payment over a longer period will lead to higher contributions in the long term as a lower annual cost will incur a greater amount of interest on the deficit as the employer will lose out on investment returns generated by the Pension Fund assets.

The Pension Fund generally operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis. For more mature employers or those closed to new entrants the Pension Fund may target a funding level on a more prudent basis.

3.4 Calculation of each employer's asset share and liabilities

The Administering Authority does not account for each employer's assets separately. Instead, at each Triennial Valuation, the Pension Fund's actuary is required to apportion the assets of the whole Pension Fund between the employers.

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

The Pension Fund’s actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.
The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Pension Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Pension Fund’s actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.5 Calculating contributions for individual employers

Over the period between each Triennial Valuation, the results of the calculations for setting contribution rates 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.

Actual investment returns achieved on the Pension 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 Pension Fund occur automatically within this process, with a sum broadly equivalent to the value of the pension reserve in respect of the transferring member(s), being exchanged between the two employers.

Employer covenant, and likely term of membership will also affect the contribution rate. If an employer is approaching the end of its participation in the Pension Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Pension Fund when its participation ends.

3.6 Methods for setting contribution rates

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 Pension Fund. With this in mind, there are a number of methods which the Administering Authority may permit, to improve the stability of employer contributions. Where circumstances permit these include:

- 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; and
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

The above issues are discussed in more detail in sections 3.7 to 3.11.

Section 3.12 to 3.17 provides details of other factors that could have an impact on an employer's contribution rate and funding position.

Employers that 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 method adopted;
- lower contributions in the short term will 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.

The Administering Authority recognises that there may be particular circumstances affecting individual employers that are not easily managed within the conditions and policies set out in the FSS. Therefore the Administering Authority may direct the actuary to adopt alternative funding approaches but this will be at its sole discretion and on a case by case basis.

3.7 Stabilisation

Stabilisation is a mechanism where year on year variations in the employer contribution rate are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. The Administering Authority, on the advice of the Fund's Actuary, believes that the stabilised contributions can be viewed as a prudent long term approach.

It is at the Administering Authority's discretion whether to allow an employer in the Fund to stabilise their Contribution rate. In general, stabilisation has only been appropriate for those employers with tax raising powers. In particular, stabilisation would only be considered for an employer when the employer is open to new entrants, have a long term time horizon in the Fund, and be deemed to have a strong covenant to protect the Fund and the other employers in the Fund against the risk of the employer defaulting in relation to its liabilities. The Administering Authority also has the discretion to stop any contribution stabilisation if they become concerned about the security and covenant of a stabilised employer. In this instance, a revised contribution rate plan would be calculated and paid by the Employer.

3.8 Deficit recovery periods and payments

When calculating contributions, the Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers. The deficit recovery period starts at the commencement of the revised contribution rate and for the 2013 Triennial Valuation this is 1 April 2014. The Administering Authority would normally expect the same approach to be used at successive Triennial Valuations, but reserves the right to propose alternative spreading periods.

For the 2013 Valuation, the following alternative spreading periods are in operation and further arrangements will be considered:

- where an employer has no new entrants to the Scheme then the deficit would be recovered by a fixed monetary amount over a period to be agreed with the employing body or its successor, not to exceed 10 years;
- where stabilisation applies, the resulting employer contribution rate will be amended to comply with the stabilisation mechanism;
- where stabilisation does not apply, the deficit recovery payments for each employer covering the three year period until the next Valuation will sometimes be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between Valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate where its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Scheme to new entrants.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below:

Type of employer [1]	**Maximum length of deficit recovery**	**Payment method**
Local Authorities	20 years	% of payroll or monetary amount
Other Public Bodies e.g. Police, Fire, Colleges	20 years	% of payroll or monetary amount
Maintained schools and Academies	20 years	% of payroll
Community Admission Bodies and Designating employers **open** to new entrants	Future working lifetime of the remaining scheme members allowing for expected leavers, to a maximum 20 years	% of payroll or monetary amount
Community Admission Bodies and Designating employers **closed** to new entrants	Future working lifetime of the remaining scheme members allowing for expected leavers	Monetary amount
Transferee Admission Bodies	Outstanding contract term	% of payroll or monetary amount

[1] See Section 4 for a definition and characteristics of types of employers.

3.9 Phasing in of contribution changes

All phasing is subject to the Administering Authority being satisfied about the strength of the employer's covenant. For employers where stabilisation does not apply, phasing will not be permitted over periods greater than three years.

Transferee Admission Bodies and employers which have no active members at this valuation will not be allowed to phase in contribution changes.

3.10 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics 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. This will always be in line with its broader funding strategy.

The exceptions are Transferee Admission Bodies and Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants.

Employers, who participate in a pool, will be required to comply with the conditions and requirements set out in the pooling policy applicable to that Pool. These employers will not normally be advised of their individual contribution rate unless agreed by the Administering Authority and where the employer agrees to pay the additional actuarial fees for calculation of an individual contribution rate.

The following pooling arrangements are in operation for the 2013 Valuation:

- Hertfordshire maintained schools, academies, free schools, university technical colleges and studio schools; and
- Town and Parish Councils.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.11 Additional flexibility in return for added security

At its discretion, the Administering Authority may permit greater flexibility when setting the employer's contributions if the employer provides added security. Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a Pool with another body.

Suitable 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.

3.12 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). Following the benefit regulation changes from April 2008 and April 2014, the relevant age may be different for different periods of service.

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. Effective from 1 April 2013 employers have been required to pay any new early retirement strains in the year of retirement. Arrangements to pay for previously incurred early retirements over a phased period have been agreed on a case by case basis.

The Pension Fund's actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.13 Ill health early retirement costs

Employers in the Pension Fund will usually have an 'ill health allowance' which is an assumed level of ill health retirements within a financial year. The Pension Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance determined at the previous Valuation, the employer will be charged additional contributions on the same basis as applies for non ill-health cases.

3.14 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 Pension Fund each year is reduced by the amount equivalent to the value of that year's insurance premium, so that the total contribution is unchanged, and
- monitoring of allowances will not be required.

The employer must confirm each year that they have renewed the policy and must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.15 Employers with no remaining active members

Under the LGPS Regulations, once an employer has no active members then this would trigger a cessation valuation to determine the employer's funding position. Where the employer is in a deficit funding position, then the employer will either be required to make an immediate payment of any deficit calculated, or an alternative payment plan will be agreed at the sole discretion of the Administering Authority (see Section 4 for more detail). On payment of the cessation amount, this would extinguish the employer's obligations to the Pension Fund.

Once a cessation payment has been made, this may give rise to the following situations:

- the employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the liability will fall to all Pension Fund employers and will be taken into consideration at successive formal Valuations. The Pension Fund's actuary will apportion the remaining liabilities to all employers on a pro-rata basis when calculating review contribution rates;
- the last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the Pension Fund's actuary will apportion the remaining assets to all employers on a pro-rata basis when calculating revised contribution rates at successive formal Valuations.

In exceptional circumstances the Pension Fund may permit an employer with no remaining active members to continue contributing to the Pension Fund rather than carrying out a cessation valuation. The Administering Authority may need to seek legal advice in such cases. Any agreed arrangement would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Pension Fund would reserve the right to invoke the cessation requirements in the future.

3.16 Policies on bulk transfers

The Pension Fund will consider bulk transfers on a case by case basis, but in general the Pension Fund:

- will not pay bulk transfers that exceed the lesser of (a) the asset share of the transferring employer in the Pension Fund, and (b) the value of the past service liabilities of the transferring members;
- will not grant added benefits to members bringing in entitlements from another Pension Fund unless the asset transfer is sufficient to meet the added liabilities;
- may permit shortfalls to arise on bulk transfers if the Pension Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between Valuations.

3.17 Review of contribution rates

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between Valuations.

Such reviews may be triggered by significant events including but not limited to:

- a substantial reduction in payroll;
- pay awards in excess of the assumptions used in the last Valuation;
- altered employer circumstances;
- Government restructuring affecting the employer's business;
- contract terminating;
- failure to pay contributions;
- failure to arrange appropriate security as required by the Administering Authority.

The outcome of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

4 Employer Bodies and Contributions

This section provides an overview of the different types of employers in the Pension Fund and a general outline about managing contribution levels. This should be read in conjunction with the general principles outlined in section 3 and section 5 which discusses specific issues for the different groups of employing bodies.

4.1 Types of employers participating in the Pension 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 has been a large increase in the number of employers in the Pension Fund which is largely the result of schools transferring to academy status and services being outsourced from scheme employers such as Councils.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. The majority of members will be employees of local authority employers (and ex-employees) and the majority of participating employers are those providing services in place of (or alongside) local authority services.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies
This category includes Councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS for their employees who are not eligible to join another public sector scheme (such as the Teachers Pensions Scheme). These employers are specified in a schedule to the LGPS Regulations.

It is now possible for Local Authority maintained schools to convert to academy status, and for other forms of school (such as free schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Pension Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over their admission to the Pension Fund, and the academy has no discretion over allowing its non-teaching staff to join the Pension Fund.

Designating employers
Employers such as Town and Parish Councils are able to participate in the LGPS by passing a resolution at their management meeting and the Pension Fund cannot refuse them entry where the resolution is passed. These employers can designate which of their employees are eligible to join the LGPS.

Community and transferee admission bodies
Other employers are able to participate in the Pension 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 called a **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer called a **transferee admission bodies** (“TAB”). CABs will include housing associations and charities and TABs will generally be contractors. The Pension Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Pension Fund’s admissions and indemnity policy are not met.

4.2 Balancing the cost of contributions
The Administering Authority and the Pension Fund’s actuary acknowledge that higher contributions required to be paid to the Pension Fund will mean less cash available for the employer to spend on the provision of services. However, this is balanced against the following considerations:

- The Pension Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Pension Fund must have the assets available to meet retirement and death benefits, which in turn means that the various employers must each make appropriate contributions. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Pension Fund for 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 Pension Fund;
- The Pension Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Pension Fund wishes to avoid the situation where an employer falls so far behind managing its funding shortfall that its deficit becomes unmanageable in practice. Such a situation may lead to employer insolvency and the resulting deficit falling to other employers of the Pension Fund. In that situation, those employers’ services would in turn suffer as a result;

- Council contributions to the Pension Fund should be at a suitable level, to protect the interests of different generations of Council taxpayers. 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 taxpayers in one period are in effect benefiting at the expense of those paying in a different period.

Overall there is clearly a balance to be struck between the Pension Fund's need for maintaining prudent funding levels, and employers' need to allocate their resources appropriately. The Pension Fund achieves this through various techniques which affect contribution increases to various degrees, as discussed in section 3. In deciding which of these techniques to apply to any given employer, the Pension 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 Pension Fund establish a picture of the financial standing or covenant of the employer, i.e. its ability to meet its long term Pension Fund commitments. To ensure that the information is kept up-to-date, Pension Fund employers are required to complete an annual declaration form to confirm the accuracy of information held on the database.

Where an employer is considered relatively low risk then the Pension Fund will permit greater flexibility (such as stabilisation or a longer deficit recovery period relative to other employers). This may temporarily produce lower contribution levels than would otherwise have applied. This is permitted on the expectation that the employer will still be able to meet its obligations for many years to come.

An employer whose risk assessment indicates a less strong covenant or whose participation in the Scheme is limited, will generally be required to pay higher contributions. This is because there is a higher probability that at some point it will fail or be unable to meet its pension contributions resulting in its deficit in the Pension Fund then falling to other Pension Fund employers, or because the employer has less time to meet its obligations to the Pension Fund.

5. Specific Issues for Individual Employer Bodies

This section outlines issues affecting specific groups of employers in the Pension Fund and should be read in conjunction with sections 3 and 4 above.

5.1 Scheduled bodies

5.1.1 Stabilisation

Stabilisation is a mechanism where the 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 Pension Fund's actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" may, therefore, be paying less than their theoretical contribution rate and should be aware of the risks of this approach. Employers should consider making additional payments to the Pension Fund to improve their funding position.

The stabilisation mechanism allows short term investment market volatility to be managed so that this does not cause volatility in employer contribution rates. This is on the basis that a long term view can be taken on net cash inflow, investment returns and strength of the employer covenant since Scheduled Bodies are expected to be in the Scheme for the long term.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see section 3.7) 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, the stabilisation parameters have been set taking into account each employer's individual characteristics and membership profile while considering employer security and other factors. The stabilisation parameters have been set allowing for annual increases of around 1-3% of pay. These parameters and the approach will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017.

5.1.2 New academy employers

At the effective date of this FSS, the Pension Fund's policies on academies' funding issues are as follows:

a) A new academy will be regarded as a separate employer in its own right and will have the option to either join the Schools and Academies Pool or remain as a separate employer. For further information please see the Pension Fund's "Schools and Academies Pooling Arrangement Policy" at http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

b) Where an academy is part of a Multi Academy Trust (MAT) the academy's figures will be calculated as outlined in sections c – e below, but can be combined with those of the other academies in the MAT;

c) The new academies past service liabilities on conversion will be calculated based on its active Pension Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those active members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status which remain with the ceding council;

d) The new academy will be allocated an initial asset share from the ceding Council's assets in the Pension 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 any ex-employees of the school that have deferred and pensioner status. The asset allocation will be based on market conditions and the academy's active Pension Fund membership on the day prior to conversion;

e) The new academy's initial contribution rate will be calculated using market conditions, the Council funding position and, membership data, all as at the day prior to conversion.

The Pension Fund's current pooling arrangement for academies is subject to change in light of any amendments to DCLG guidance or any other regulations affecting academies. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (c), (d) and (e) above will be reconsidered at each Valuation.

5.1.3 Treatment of surplus

For employers where stabilisation applies, any funding surplus will be covered by the stabilisation arrangement. Where stabilisation does not apply, the Administering Authority's preferred approach is for contributions to be kept at the future service rate, although reductions may be permitted by the Administering Authority.

5.1.4 Cessation

Since scheduled bodies are legally obliged to participate in the LGPS, scheduled bodies may not choose to cease participation in the Scheme. In the rare event of a cessation occurring, for example due to government changes, the Administering Authority will instruct the Pension Fund actuary to carry out a cessation valuation to determine the funding position of the scheduled body. Where there is a deficit, payment of this amount in full would normally be sought from the scheduled body; where there is a surplus current legislation does not permit a refund payment to the scheduled body.

To the extent reasonably practicable, the actuary will adopt an approach which protects the other employers from the likelihood of any material loss emerging in the future. This will include the following methods:

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 <ins>Appendix </ins>B;

b) Alternatively, it may be possible to simply transfer the former scheduled 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 the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment out-performance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation liabilities.

Under (a) and (c), any shortfall would usually be levied on the departing scheduled body as a single lump sum payment. If this is not possible then the Pension Fund would drawdown on any guarantee in place for the employer.

In the event that the Pension Fund is not able to recover the required payment in full either from the scheduled body or guarantor, then the unpaid amounts will be shared amongst all of the other employers in the Pension Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Pension Fund, or alternatively, this will be reflected in the contribution rates set at the next formal Valuation following the cessation date.

Further details can be found in the Pension Fund's Cessation Policy, accessible from http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

5.1.5 Outsourcing Services

Scheduled bodies that have outsourced services to a contractor will be liable for any unpaid deficit of the contractor on cessation. Additionally, scheduled bodies will be liable for any future deficits and contributions arising after cessation relating to the contractor's participation in the Pension Fund.

5.2 Community admission bodies and designating employers

5.2.1 New community admission bodies

With effect from 1 October 2012, the Local Government Pension Scheme Miscellaneous Regulations 2012 introduced mandatory new requirements for all admission bodies admitted to the Pension Fund. Under these regulations, all new admission bodies will be required to provide some form of security, such as a guarantee from the outsourcing 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 Pension Fund;
- the current deficit.

Any security must be to the satisfaction of the Administering Authority and will be reassessed on an annual basis.

The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Pension Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and supplemented by the provision of a form of security as above.

The above approaches reduce the risk to other employers in the Pension Fund, sharing any shortfall for admission bodies ceasing with unpaid liabilities.

5.2.2 Basis for community admitted bodies and designating employers open to new entrants

In the circumstances where:

- the employer is a CAB or designating employer, and
- the employer is open to new entrants, and

the Administering Authority will normally target a funding level of 100% of accrued liabilities over the future working lifetime of the remaining scheme members, valued on an ongoing basis.

The Administering Authority reserves the right to vary the discount rate used to set the employer contribution rate to protect other employers in the Pension Fund; in particular where the designating employers and admission bodies has no guarantor or where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

5.2.3 Basis for community admitted bodies and designating employers closed to new entrants

In the circumstances where:

- the employer is a CAB or designating employer, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer contribution rate in order to protect other employers in the Pension Fund. In particular, contributions may be set on a more prudent basis for an employer to achieve full funding by the time the agreement terminates or the last active member leaves (e.g. using a discount rate set equal to gilt yields). 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.

5.2.4 Treatment of surplus

The Administering Authority's preferred approach is for contributions to be kept at the future service rate, although reductions may be permitted by the Administering Authority.

5.2.5 Cessation

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 Pension Fund;
- the insolvency, winding up or liquidation of the CAB or designating employer;
- 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 Pension Fund;
- a failure by the admission body to pay any sums due to the Pension Fund within the period required; 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 Pension Fund.

On cessation of a CAB or designatory employer, the Administering Authority will instruct the Pension Fund's actuary to carry out a cessation valuation to determine the funding level on cessation. Where there is a deficit, payment of this amount in full would normally be sought from the employer; where there is a surplus it should be noted that current legislation does not permit a refund payment to the employer.

For an employer whose participation is voluntarily ended either by themselves or the Pension 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 the future. This will include the following methods

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 B;

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 Pension Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment out-performance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation liabilities.

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 Pension Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Pension Fund is not able to recover the required payment in full either from the admission body or guarantor, then the unpaid amounts will be shared amongst all of the other employers in the Pension Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Pension Fund, or alternatively will 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 Pension Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing admission body. Under this agreement the Pension Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each Triennial Valuation. The Pension Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

Further details can be found in the Pension Fund’s cessation policy, accessible from http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

5.3 Transferee admission bodies

5.3.1 New transferee admission bodies

A new TAB usually joins the Pension Fund as a result of the outsourcing of some services from an existing employer (normally a Scheduled Body such as a Council, school or academy) to another organisation (a “contractor”). This normally involves the TUPE transfer of some staff from the outsourcing employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Pension Fund to enable TUPE transferred employees to continue to have access to LGPS membership. At the end of the contract the employees revert to the outsourcing employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Pension 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’ Pension Fund benefits i.e. the TAB will be set up on a ‘Fully Funded’ basis. The expectation is that the contractor will then be fully funded at the end of the contract.

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three routes that such employers may wish to adopt but it must be appreciated that the risk ultimately resides with the employer letting the contract. Any arrangement will have to be agreed between the outsourcing employer and the contractor. The options are:

a) **Pooling**
Under this option the contractor is pooled with the outsourcing employer and will pay the same rate as the outsourcing employer, which may be under the stabilisation approach.

b) **Outsourcing employer retains pre-contract risks**
Under this option the outsourcing employer would retain responsibility for assets and liabilities for service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue after the contract commencement date for transferred staff. The contractor’s contribution rate could vary from one Valuation to the next and the contractor would be liable for any deficit at the end of the contract term for assets and liabilities attributable to service accrued during the contract term.

c) **Fixed contribution rate agreed**
Under this option the contractor pays a fixed contribution rate during the term of the contract and doesn’t pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions as it is unfair to burden the outsourcing employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (b) above;
- redundancy and early retirement decisions.

d) Theoretical contribution rate
Under this option the Pension Fund actuary will calculate the theoretical contribution rate for the contractor based on the finalised transferring membership and market conditions as at the date the contractor joins the Pension Fund. This rate will then be payable until the next formal Valuation when it will be reassessed and adjusted. The contractor would be liable for any deficit at the end of the contract term attributable to service accrued before the transfer and during the contract term.

5.3.2 Indemnity
With effect from 1 October 2012, the Local Government Pension Scheme Miscellaneous Regulations 2012 introduced mandatory new requirements for all admission bodies admitted to the Pension Fund. Under these Regulations, all new admission bodies are required to provide some form of security, such as a guarantee from the outsourcing 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 Pension Fund;
- the current deficit.

For all new TABs, 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.

These approaches reduce the risk to other employers in the Pension Fund sharing any shortfall for admission bodies ceasing with an unpaid liabilities.

5.3.3 Treatment of surplus
Where a transferee admission body is found to be in surplus at the valuation, contributions may be reduced by spreading the surplus over the remaining contract term.

5.3.4 Transferee 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 Pension Fund;
- the insolvency, winding up or liquidation of the Admission Body;
- any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Pension Fund;
- a failure by the Admission Body to pay any sums due to the Fund within the period required by the Pension 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 Pension Fund.

Participation is assumed to expire at the end of the contract.

On cessation, the Administering Authority will instruct the Pension Fund actuary to carry out a cessation valuation to determine the funding level on cessation. 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 is noted that current legislation does not permit a refund payment to the Admission Body.

Where a contract has ceased, 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 is appropriate to the circumstances of cessation and 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 B;

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 Pension Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment out-performance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation liabilities.

Under (a) and (c), any shortfall would usually be levied on the ceasing admission body as a single lump sum payment. If this is not possible then the Pension Fund would drawdown on any bond, indemnity or guarantee in place for the employer.

If the Pension Fund is not able to recover the required payment in full either from the admission body or guarantor, then the unpaid amounts will be shared amongst all of the other employers in the Pension Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Pension Fund, or alternatively will 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, in exceptional circumstances, the Pension Fund reserves the right to enter into an agreement with the ceasing Admission Body. Under such an agreement the Pension Fund would accept an appropriate alternative security to be held against any liabilities, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation liability. This approach would be monitored and reviewed at each Triennial Valuation. The Pension Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the admission body would have no contributing members.

Further details can be found in the Pension Fund's Cessation Policy, accessible from http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

6 Funding Strategy and Links to the Investment Strategy

6.1 The Pension Fund's Investment Strategy

The Pension 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, and this is done through the Pension Fund's Investment Strategy.

The Investment Strategy is set by the Administering Authority, after taking investment advice from the Pension Fund's investment consultant, Mercers. The precise mix, investment manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is accessible from the Pension Fund website http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

A full review of the Investment Strategy is carried out after each Triennial Valuation, and the Investment Strategy is kept under review on an annual basis to ensure that it remains appropriate to the Pension Fund's liability profile. The Investment Strategy is applied to all employers.

6.2 Link between the Funding Strategy Statement and the Investment Strategy

The Pension Fund must be able to meet all benefit payments when they fall due. These payments will be met by contributions (resulting from the FSS) 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. The funding and investment strategies are, therefore, inextricably linked.

6.3 Compatibility of the Pension Fund's Funding Strategy Statement and Investment Strategy

In the opinion of the Pension Fund's actuary, the current FSS is consistent with the current Investment Strategy of the Pension Fund. The asset out-performance assumption contained in the discount rate (see Section 3 of Appendix B) is within a range that is considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government. However, in the short term, such as the formal Triennial Valuations, there is scope for volatility and there is a material chance that in the short term and medium term, asset returns will fall short of this target. The stability measures described in section 3 will mitigate, but not remove, the effect on employers' contributions.

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

6.4 Impact of the strategies on the stabilisation mechanism

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

- **Prudence** – the Pension Fund should have a reasonable expectation of being fully funded in the long term;
- **Affordability** – how much can employers afford;
- **Stewardship** – actuarial 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 changes in their contribution rates from one year to the next to help to provide a more stable budgeting environment.

The key issue is that the main 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, the yield on equities are very volatile, 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 Pension Fund's actuary, to model the range of potential future solvency levels and contribution rates.
The actuary modelled the impact of these four key areas, for the purpose of setting a stabilisation approach (see Section 5.1.1). The modelling demonstrated that retaining the present Investment Strategy, coupled with constraining employer contribution rate changes as described in 5.1.1, struck an appropriate balance between the objectives above. 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 Pension Fund.

The current stabilisation mechanism is to remain in place until 2017 and will be reviewed as part of the 2016 Valuation.

6.5 Monitoring of the Pension Fund's overall funding position

The Administering Authority monitors the relative funding position of the overall fund, i.e. changes in the relationship between asset values and the liabilities value, on a quarterly basis and reports this to the Pension Committee.

Appendix A: Responsibilities of Key Parties

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

A1 The Administering Authority should:

- operate the Pension Fund in accordance with the relevant LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Pension Fund employer;
- collect employer and employee contributions, investment income and other amounts due to the Pension Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Pension Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income that are not immediately required to pay benefits) in accordance with the Pension Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Pension Fund;
- take appropriate measures to safeguard the Pension Fund against the consequences of employer default;
- manage the Triennial Valuation process in consultation with the Pension Fund's actuary;
- prepare and maintain a Funding Strategy Statement and a SIP, after consultation;
- notify the Pension Fund's actuary of material changes that could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the Pension Fund's performance and funding and amend the FSS and SIP as appropriate.

A2 The individual employer should:

- deduct contributions from employees' salary correctly;
- pay all contributions promptly by the due date and as determined by the actuary,;
- establish and exercise a discretions policy 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.

A3 The Pension Fund's actuary should:

- prepare Triennial 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 Pension 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 Triennial Valuations, where circumstances suggest this may be necessary;
- advise on the termination of admission bodies' participation in the Pension Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:

- investment advisers (either internal or external) should ensure the Pension Fund's SIP remains appropriate and consistent with this FSS;
- investment managers, custodians and bankers should ensure effective investment (and dis-investment) of Pension Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure the Pension Fund's 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 Pension Fund;
- legal advisers (either internal or external) should ensure the Pension Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix B: Actuarial Assumptions

B1 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 only impact on the pace of funding and will not of course affect the actual benefits payable by the Pension Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns ("the 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.

B2 What basis is used by the Pension Fund?

The Pension 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 in B3 below. It anticipates employers remaining in the Pension Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Pension Fund long term, a more prudent basis applies: see section 5.2.2 and 5.3.4.

B3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Pension Fund's investments. This is known as the discount rate and this assumption makes allowance for an anticipated out-performance of Pension Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Pension 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 Valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Pension Fund's actuary has assumed that future investment returns earned by the Pension Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the Valuation. In the opinion of the Pension Fund's actuary, based on the current Investment Strategy, this asset out-performance assumption is within a prudent range that would be considered acceptable for the purposes of the funding valuation.

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 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

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. The basis of such increases is set by the Government, and is not under the control of the Pension 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 the 2013 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 Pension 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 Pension Fund. These are based on past experience of LGPS funds which participate in Club Vita which is the longevity analytics service used by the Pension Fund, and endorsed by the actuary.

The longevity assumptions 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 Pension Fund. These curves are based on the data provided by the Pension 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 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 the 2010 Valuation.

The combined effect of the above changes from the 2010 Valuation approach, is to deduct around 1 year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Pension Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in sections 3.5 to 3.10 and section 5, these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, vary by type of member and so reflect the different membership profiles of employers.

Appendix C: Key Risks and Controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. Key risks are incorporated in the Pension Fund's Risk Register and this is monitored on an ongoing basis and performance is reported to the Pensions Committee on a quarterly basis.

Risk	Summary of Control Mechanisms
The Pension Fund Investment Strategy does not deliver the long term projected investments returns and/or does not comply with legislation	Ensure the strategy complies with the Local Government Pension Scheme regulations, Statement of Investment Principles and Investment Management Agreements.
	Set the Investment Strategy in light of the risk and return objectives of the Pension Fund and review at regular intervals to ensure the Strategy is still appropriate
	Diversify investment across asset classes and markets to reduce the impact of financial market volatility including setting a limit for the proportion of the Pension Fund's assets held in illiquid asset classes such as private equity and property.
	Monitor and provide a quarterly report to the Pensions Committee on Investment Managers' performance against benchmark.
	Monitor Investment Managers' compliance with the investment restrictions and limits laid out in the Pension Fund's Statement of Investment Principles and Investment Managers' Agreements and report any cases of non- compliance
The funding level of the Pension Fund deteriorates	Set investment out-performance targets at the triennial valuation with reference to the Pension Fund's current Investment Strategy and on a relatively prudent basis to reduce the risk of under-performance against anticipated returns. At the same time, review and agree the other actuarial assumptions such as salary increases, discount rates, longevity etc.
	Provide the Pensions Committee with quarterly actuarial reports that monitor the funding position of the Pension Fund and the sensitivity of this to changes in general market conditions.
	Undertake annual data validation checks to identify any discrepancies or errors in the data with the Pension Fund's third party pension's administration service.
	Monitor and ensure scheme employers pay the extra capital/strain cost of non ill-health retirements following each individual decision and in the year the decision is made.
	Monitor each scheme employer's ill-health experience on an ongoing basis against the "ill health budget" set for each employer at the triennial valuation and require them to make additional contributions to the Pension Fund where budgets are exceeded.
	Monitor cash flows at a whole Pension Fund level and an individual scheme employer level and certify cash deficit contributions for those with reducing payrolls as identified at the triennial valuation.
	At each triennial valuation, assign any liabilities relating to ceased transferee admission bodies to the original ceding scheme employer.
	Monitor the 'characteristics' and individual funding position of pool members to ensure pooling is still appropriate. Require members of the Schools or Parish and Town Councils Pools to sign a pooling agreement which sets certain conditions and requirements for scheme employers' participation in the pool.
	Set deficit recovery plans after taking into account the particular characteristics of each type of scheme employer and the future working lifetime of its employees. Use shorter deficit recovery periods for organisations with a limited "life" in the Pension Fund or without statutory tax raising powers.
	Monitor the covenant of scheme employers and review their ability to meet ongoing liabilities,

Risk	Summary of Control Mechanisms
Scheme employers default on meeting their obligations to the Pension Fund and LGPS	Develop further data quality controls with the Pension Fund's third party pension's administration service to monitor membership data submitted by scheme employers to ensure it is accurate and up to date.
	Develop a risk evaluation approach to identify covenant risk, categorising scheme employers as low, medium or high. Establish a set of risk criteria and monitor scheme employers against this. Engage with scheme employers at an early stage to address funding issues.
	Monitor contributions to ensure that scheme employers are paying the correct employer contribution rate.
	Do not allow unsupported employers to be admitted to the Pension Fund. Require all community admission bodies and transferee admission bodies to obtain a bond or guarantor from a scheme employer. Revalue bonds every three years to ensure the risk cover is still appropriate.
	Carry out regular financial checks on participating scheme employers, especially non-tax raising bodies.
	Carry out an annual employer survey to identify any changes in funding stream for scheme employers.
	Pool the contributions for scheme employers with similar characteristics to allow sharing of risk amongst scheme employers.
	Carry out cessation valuations on a more prudent gilts basis to ensure the payment calculated when a scheme employer's liabilities are crystallised is sufficient to meet the future payment of benefits made by the Pension Fund.
The Pension Fund and its third party providers do not comply with regulations, statute or procedure	Review the Custodian's and Investment Managers' internal control reports to identify any concerns over controls and processes in place
	Ensure the Custodian undertakes monthly reconciliations with the Pension Fund's Investment Managers to ensure all assets are correctly accounted for and holdings are agreed.
	Require all large employers in the Pension Fund to provide an Annual Assurance Certification that payroll systems are compliant and have been tested by the scheme employers' internal auditors
	Engage internal and external audit reports to regularly test that appropriate controls are in place over the payment of benefits and expenses and collection of contributions and that they are working effectively. Implement any recommendations resulting from both these audits.
	Work in conjunction with the Strategic Procurement Group to ensure all procurements are carried out in accordance with HCC contract and EU regulations.
	Review the Pension Fund SORP in preparing the Statement of Accounts to ensure compliance and engage external audit to review the Pension Fund accounts each year.
	Manage performance of the Pension Fund's third party pension's administration service through a service level agreement and monitor against Key Performance Indicators.
	Work closely with the Pension Fund's third party pension's administration service to ensure it complies with current regulations and is alert to and can implement any changes to scheme benefits.
	Ensure the Pension Fund's third party pension's administration service has a robust programme in place to test controls on the membership benefit system and that they are fully compliant and up to date.

Appendix D: Glossary

Actuarial assumptions/ basis	The combined set of assumptions made by the Pension Fund's actuary, about 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.
Administering Authority	The County Council has a statutory responsibility for running the Pension Fund and is, in effect, the Pension Fund's "trustees" who are Members of Hertfordshire County Council.
Admission Bodies	Employers which voluntarily participate in the Pension Fund, so that their employees and ex-employees are LGPS members. There will be an Admission Agreement setting out the employer's obligations. For more details (see Section 4.1).
Common contribution rate	The Pension 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.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the 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).
Deficit repair/ recovery period	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.
Designating Employer	Employers such as Town and Parish Councils that are able to participate in the LGPS via a resolution passed by their Board. These employers can designate which of their employees are eligible to join the LGPS.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Pension 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.
Employer	An individual participating body in the Pension Fund, which employs (or used to employ) members of the Pension Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each Valuation.
Funding level	The ratio of assets value to liabilities value: for further details (see Section 3.3).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Pension Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital according to 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 Pension Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Pension Fund can consider the employer's covenant to be as strong as its guarantor's.
Outsourcing employer	An employer which has outsourced or transferred 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 outsourcing employer. An outsourcing employer will usually be a Council or other Scheduled Body, including academies.
Liabilities	The actuarially calculated present value of all pension entitlements of all members of the Pension Fund, built up to date. This is compared with the present market value of Pension Fund's assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.

LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. The LGPS Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Pension Funds throughout the UK. Each LGPS Pension Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Pension Fund (or an employer's position within a Pension 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, the Funding Strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Pension Fund. They are divided into actives (current employee members), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service deficit repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates. 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 Pension Fund's current pooling policy (see Section 3.10).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs. their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at 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 Pension Fund for the three year period until the next valuation is completed. The Rates and Adjustments Certificate is appended to the formal Valuation Report issued following each Triennial Valuation.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Pension 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).
Solvency	In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large, stable and long term employers in the Pension Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	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.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Pension Fund, and usually individual employers. This is normally carried out in full every three years , 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.

Glossary to the Annual Report and Accounts

Actuary	An independent qualified consultant who advises on the financial position of the Pension Fund. Every three years the Actuary reviews the assets and liabilities of the Pension Fund and produces the actuarial valuation which recommends the employer contribution rates.
Administering Authority	A local authority required to maintain a pension fund under the Local Government Pension Scheme regulations. Within the geographical boundary of Hertfordshire, the Administering Authority is Hertfordshire County Council.
Admission agreement	A contract between an administering authority, admitted body and if applicable, the outsourcing Scheme employer.
Augmentation	Additional membership awarded to a member by their employer, to a maximum of ten years.
Benchmark	A notional fund which is developed to provide a standard against which an Investment Manager's performance is measured.
Bonds	A certificate of debt issued by a company, government or other institution. A bondholder is a creditor of the issuer and usually receives interest at a fixed rate. Also referred to as fixed interest securities.
Chief Finance Officer	An officer of that has delegated responsibility to manage the financial arrangements for an organisation. Hertfordshire County Council delegates these responsibilities to the post of Deputy Chief Executive.
Communication Policy Statement	A statement of policy on communications with members and employers including the provision of information about the Scheme, the format, frequency and method of distributing such information and the promotion of the Scheme to prospective members.
Custody/Custodian	The safe-keeping of securities by a financial institution. The Custodian is responsible for maintaining investment records, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.
Deferred members	Members who leave their employment or opt out of the Scheme and have their benefits deferred until retirement or until they request a transfer to another pension scheme.
Defined benefit final salary scheme	A scheme where the scheme rules define the benefits independently of the contributions paid by the members and employer. Members' benefits are a specified fraction of a scheme member's final pay.
Equities	Shares in UK and overseas companies.
Ex-officio	A member of a body (a board, committee, council, etc.) who is part of it by virtue of holding another office.
Final pensionable pay	The figure used to calculate a member's pension benefits and is normally a members pay in the last year before they retire. A member's benefits could also be calculated on one of the previous two years pay if that amount is higher, or the average of any three consecutive years in the last ten years if the member has had a downgrade in the last ten years or pay has been restricted in that period.
Fixed interest securities	Investments which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange until this time. Also known as bonds.
Forward foreign exchange contract	An agreement between two parties to exchange one currency for another at a forward or future date.
Funded scheme	A pension scheme that has available assets to cover all liabilities, including the obligation of future payments to retirees.
Funding Strategy Statement	A statement of the Pension Fund's strategy for meeting employers' pension liabilities.
Futures	Contracts to buy or sell specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.
Governance Policy and Compliance Statement	A statement of the governance arrangements of the Pension Fund including the delegation of responsibility, terms of reference, representation and compliance with statutory guidelines.
Hertfordshire Local Government Association	A voluntary organisation, acting on behalf of the local government sector in Hertfordshire.
Index linked	Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in inflation.
Investment Consultant	A professionally qualified individual or company who provides objective, impartial investment advice to the Pension Fund.

Glossary to the Annual Report and Accounts

Investment Manager	An organisation that specialises in the investment of a portfolio of securities on behalf of an organisation subject to the guidelines and directions of the investor.
Lien	A form of security interest granted over an asset to secure the payment of a debt or performance of some other obligation.
Mandate	A set of instructions given to an investment manager as to how a fund is to be managed. Targets for performance against a benchmark or limits on investing in certain stocks or sectors may be set. This is formalised within an investment manager agreement between a pension fund and investment manager.
Pooled investment vehicles	An investment which allows investors' money to be pooled and used by investment managers to buy a variety of securities, thereby giving investors a stake in a diversified portfolio of securities.
Private equity	An asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange.
Quoted securities	Shares with prices quoted on a recognised stock exchange.
Rates and Adjustments Certificate	A certificate issued by the Pension Fund Actuary setting out the contribution rates payable by participating employers
Scheme Administrator	An organisation responsible for the administration of the benefits of the Pension Fund, including the payment of benefits and maintenance of membership records. This is contracted out to Serco Solutions in Hertfordshire.
Spot market exchange rate	A spot exchange rate refers to the current exchange rate.
Statement of Investment Principles	A formal policy on how a pension fund will invest its assets including the types in investments to be held, the balance between different types of investments and risk.
Transfer values	A capital value transferred to or from a pension scheme in respect of a contributor's previous periods of pensionable employment.
Transferee admission bodies	An external body contracted to provide services or assets in connection with the exercise of a function of the local authority.
Unit Trust	A pooled fund in which investors can buy or sell units on an ongoing basis.
Unquoted securities	Shares which are dealt in the investment market but which are not listed on a recognised stock exchange.
VitaCurves	Bespoke analysis of the longevity of the Pension Fund's members.
Whole time equivalent salary	The pay a part-time member would receive if they worked full time.