

# SOUTH YORKSHIRE PASSENGER TRANSPORT PENSION FUND

## FUND ACCOUNT

2016/17	7 months to 31 October 2017	Note
£'000	£'000	£'000
<b>Dealings with members, employers and others directly involved in the Fund</b>		
6,735 Contributions receivable	755	7
13 Transfers in from other pension funds	29	8
6,748	784	
(11,396) Benefits payable	(6,687)	9
(-) Payments to and on account of leavers	(-)	10
(11,396)	(6,687)	
<b>(4,648) Net additions/(withdrawals) from dealing with members</b>	<b>(5,903)</b>	
(952) Management expenses	(726)	11
<b>Returns on investments</b>		
5,206 Investment income	3,080	12
35,691 Profit and losses on disposal of investments and changes in value of investments	3,797	13a
(32) Taxes on income	(15)	12
40,865 <b>Net return on investments</b>	6,862	
<b>35,265 Net increase (decrease) in the net assets available for benefits during the year</b>	<b>233</b>	
<b>204,310 Net assets of the Fund at 1 April</b>	<b>239,575</b>	
<b>239,575 Net assets of the Fund at 31 October</b>	<b>239,808</b>	

## **NET ASSETS STATEMENT**

31 March 2017 £'000	31 October 2017 £'000	£'000	Note
<b>Investment assets</b>			
38,224	Fixed Interest Securities	35,322	
93,207	Equities	92,963	
103,388	Index-Linked Securities	104,834	
118	Pooled Investment Vehicles	9	
692	Cash - Foreign currency	519	
924	Cash - Sterling	107	
1,344	Other investment balances	1,081	
<u>237,897</u>		234,835	
<b>Investment liabilities</b>			
(-)	Other investment liabilities	(-)	
<u>(-)</u>		(-)	
<u>237,897</u>	<b>Net investment assets</b>	<u>234,835</u>	13
1,795	<b>Current assets</b>	5,476	
-	<b>Long Term Debtors</b>	-	
<u>1,795</u>		<u>5,476</u>	19
(117)	<b>Current liabilities</b>	<u>(503)</u>	20
<u><b>239,575</b></u>	<b>Net assets of the Fund available to fund benefits at period end</b>	<u><b>239,808</b></u>	

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. Description of the Fund

### a) General

The South Yorkshire Passenger Transport Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme.

Each constituent LGPS fund is managed by an administering authority: in this case it is the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority, known as the Sheffield City Region Combined Authority ("the Authority").

The Authority has appointed South Yorkshire Pensions Authority (SYPA) to manage the day-to-day affairs of the Fund. This includes all aspects of pensions administration, including the calculation and payment of benefits, and the overall management of the Fund. The Authority has, in addition to SYPA, appointed Old Mutual Global Investors as an investment manager. More information is shown in Note 13b. Barnett Waddingham LLP is the Fund's retained actuary and Eric Lambert has been employed as an independent investment advisor. All of these appointments are governed by management agreements in accordance with LGPS Regulations and are kept under review.

The Authority has delegated its administering authority duties and responsibilities to a specialist Committee of six Authority councillors (South Yorkshire Passenger Transport Pension Fund Committee). Committee meetings are held at least quarterly and Authority and SYPA officers and independent advisors usually attend.

In accordance with sections 5(1) and (2) of the Public Service Pensions Act 2013 the Authority created a Local Pension Board. The Secretary of State granted the two South Yorkshire LGPS funds the power to establish a Joint Local Pension Board and this held its first meeting in July 2015.

The Fund has only one contributing employer, First South Yorkshire Limited, and 2,077 members (see note 1b).

The Fund's Investment Strategy Statement (ISS) was reviewed during the year and is available on the Fund's website ([www.sypensions.org.uk](http://www.sypensions.org.uk)).

This set of accounts covers the period 1 April 2017 to 31 October 2017 as the Authority ceased to be the Administering Authority for the Fund on 1 November 2017 (see note 6).

### b) Membership

The following summarises the position with regard to membership as at the period end:

	31 October 2017	31 March 2017
Active Contributors	135	152
Pensioners and Dependents	1,589	1,565
Deferred Pensions	<u>353</u>	<u>369</u>
<b>Total</b>	<b>2,077</b>	<b>2,086</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the period ending 31 October 2017.

Employee contributions are matched by employer's contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016 and the Employer's contribution rate required to cover the cost of accruing benefits and expenses is 29.5% of pensionable pay from 1 April 2017, 30.5% from 1 April 2018 and 31.5% from 1 April 2019. Deficit payments of £3.25m on 31 March 2018 and 3.5M on 31 March 2019 and 2020 are also due.

Contributions of 29.5% of pensionable pay were paid during the 7 months to 31 October 2017 and no deficit payments were made.

### d) Benefits

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

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of  $1/49^{\text{th}}$ . Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details please refer to the LGPS website.

### e) Investment Performance

The Fund's market value increased slightly during the period and closed at £239.8m (£239.5m in 2016/17) producing an overall return for the 6 months to 30 September of 1.3% (19.9% in 2016/17). The Fund's benchmark return over the same period was 0.2% (17.6% in 2016/17).

Global equities continued their gains with solid economic data providing momentum and with European markets being the stand out performer. UK Government bonds sold-off sharply in September as members if the MPC started discussing the possibility of rate rises given the above target inflation data.

Emerging markets were generally strong as US dollar weakness, continued momentum in the Chinese economy and a pick-up in commodity prices provided support.

The Fund's tactical strategy remained largely unchanged during the year being overweight in international equities and relatively light in UK equities and corporate bonds. It was necessary to

trim this position during the year as the Fund's customised benchmark changed and also to meet cash-flow requirements. Monies were switched into both index-linked gilts and corporate bonds.

Overall the Fund produced a return of 1.3% compared to the benchmark return of 0.2%. This continues the strong long term track record with the Fund also outperforming its benchmark by 9.9%p.a versus 8.6%p.a. over three years.

## **2. Basis of preparation**

The Statement of Accounts summarises the Fund's transactions for the 7 month period ending 31 October 2017 and its position at the period end of 31 October 2017. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

## **3. Accounting policies**

### **Fund account – revenue recognition**

#### **a) Contributions income**

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

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

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

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see Notes 8 and 10).

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### **c) Investment Income**

#### **i. Interest income**

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

#### **ii. Dividend income**

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

#### **iii. Distributions from pooled funds**

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

#### **iv. Movement in the net market value of investments**

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

### **Fund account – expense items**

#### **d) Benefits payable**

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

#### **e) Taxation**

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

#### **f) Management expenses**

The code does not require any breakdown of pension fund administration expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016).

##### **Administration expenses**

All administration expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of administration expenses are charged directly to the Fund.

##### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of oversight and governance are charged directly to the Fund.

## Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the overseas equity portfolio manager are fixed, however the Authority has negotiated that an element of their fee be performance related. All costs incurred by SYPA (the Fund Manager) in respect of investment management expenses are also charged directly to the Fund.

## Net assets statement

### **g) Financial assets**

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

### **h) Foreign Currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses arising on conversion or translation are dealt with as part of the change in market value.

### **i) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **j) Financial liabilities**

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

### **k) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed at the period end using a roll forward of the results of the triennial valuation (as at 31 March 2016) allowing for the different financial assumptions required under IAS19.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to these accounts (Note 18).

### **l) Additional Voluntary Contributions (AVCs)**

In accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 contributions to AVCs have not

been included in either the Authority's Fund Account or Net Assets Statement, as they are paid directly to the AVC providers by employers of contributors. AVCs are specifically for the provision of additional benefits for individual contributors. AVC funds returned to the scheme and benefits paid as a result of this are included in the Fund Account as part of transfer values received and benefits paid respectively.

Details of AVC investments are however shown in Note 21

#### **4. Critical Judgements in applying accounting policies**

##### **Pension Fund Liability**

The pension fund liability is calculated every three years by the Fund's actuary, Barnett Waddingham, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in Notes 17 and 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### **5. Assumptions made about the future and other major sources of estimation uncertainty**

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The one item in the Pension Fund Accounts at 31 October 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the fund with expert advice about the assumptions to be applied.	The funding level at the 2016 actuarial valuation was 89% ( a deficit of £24.888m) The effects on the funding level of changes in individual assumptions can be measured. For instance, no allowance for asset performance in excess of gilt yields increases the deficit by £27.507m. A 0.25% increase in mortality long term rate of improvement would increase the deficit by 2.696m. A 0.1% decrease in inflation rates would reduce the deficit by £2.704m

#### **6. Events after the Balance sheet date**

Pursuant to the issue of an order by DCLG on 4 August 2017 the Fund's administering authority changed to Tameside Metropolitan Borough Council with effect from 1 November 2017. All responsibility for member benefits transferred on that date. SYPA continued to manage the Fund assets which were then liquidated during December with cash being transferred to Greater Manchester Pension Fund.

A small residual balance will be transferred during February and this will complete the process.



## 7. Contributions receivable

Contributions represent the total amount receivable from First South Yorkshire Limited in respect of its own contributions and those of its pensionable employees.

When First South Yorkshire Limited (the Employer) retires staff early, on redundancy or efficiency grounds, a strain on the Fund is generated through the early payment of their benefits. The Authority requires the employer to reimburse the Fund for that strain by making capital injections over a phased period of up to 3 years. These capital injections are accounted for in full when they occur.

Analysis of contributions receivable:-

	7 mths to 31/10/17 £'000	2016/17 £'000
<b>Employers' contributions</b>		
Normal Contributions	619	966
Deficit Funding lump sums	-	5,500
Additional Capital contributions	-	-
Additional cost of early retirement	-	-
	<u>619</u>	<u>6,466</u>
<b>Employees' contributions</b>	<u>136</u>	<u>269</u>
	<u>755</u>	<u>6,735</u>

## 8. Transfers In

	7 mths to 31/10/17 £'000	2016/17 £'000
Group transfers in	-	-
Individual transfers in	<u>29</u>	<u>13</u>
	<u>29</u>	<u>13</u>

## 9. Benefits Payable

Analysis of benefits payable:-

	7 mths to 31/10/17 £'000	2016/17 £'000
Retirement Pensions	5,475	9,098
Commutation of benefits and lump sum retirement benefits	1,083	2,187
Lump sum death benefits	<u>129</u>	<u>111</u>
	<u>6,687</u>	<u>11,396</u>

## 10. Payments to and on account of leavers

	7 mths to 31/10/17 £'000	2016/17 £'000
Group transfers out	-	-
Individual transfers out	-	-
Refunds of Contributions	<u>-</u>	<u>-</u>
	<u>0</u>	<u>0</u>

## 11. Management Expenses

	7 mths to 31/10/17 £'000	2016/17 £'000
Administrative costs	53	36
Investment Management Expenses	577	752
Oversight and Governance	96	164
	<u>726</u>	<u>952</u>

This analysis of the costs of managing the South Yorkshire Passenger Transport Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Administration expenses were higher in the 7 months to 31 October 2017 due to costs of processing the transfer of membership data to GMPF.

Oversight and Governance stayed in line with the previous financial year.

Oversight and Governance costs includes fees payable to the Fund's auditor KPMG of £21,000 (£21,000 in 2016/17).

These management expenses include a total VAT liability of £33,282 (£68,613 in 2016/17)

### 11a. Investment Management Expenses

	7 mths to 31/10/17 £'000	2016/17 £'000
South Yorkshire Pensions Authority	105	176
Old Mutual	382	386
Custody	29	54
Transaction costs	42	78
Management fees deducted at source	-	1
VAT Liability	19	57
	<u>577</u>	<u>752</u>

The overseas portfolio manager fees include a performance-related fee of just over £0.372m (£0.339m in 2016/17)

In accordance with CIPFA guidance management fees deducted at source and transaction costs are now shown gross. Wherever possible these figures are based on actual costs disclosed by the manager, where this is not available, best estimates have been made using other available information.

It is important to note that this is a change in reporting only and does not represent an actual increase in costs, nor a decrease in the Fund's resources available to pay pension benefits.

## 12. Investment Income

	7 mths to 31/10/17 £'000	2016/17 £'000
Interest from fixed interest securities	977	1,640
Dividends from equities	1,453	2,457
Income from index linked securities	629	1,064
Income from pooled investment vehicles (property)	-	48
Interest on cash deposits	2	3
Other	19	(6)
	<u>3,080</u>	<u>5,206</u>
Irrecoverable withholding tax - equities	(15)	(32)
<b>Total Investment Income</b>	<u><b>3,065</b></u>	<u><b>5,174</b></u>

### 13. Net Investment Assets

	31/10/17 £'000	31/03/17 £'000
<b>Fixed Interest Securities</b>		
UK corporate bonds	35,322	38,224
<b>Equities</b>		
UK quoted	34,663	33,785
Overseas quoted	<u>58,300</u>	<u>59,422</u>
	92,963	93,207
<b>Index-Linked Securities</b>		
UK public sector quoted	104,417	85,008
UK corporate bonds	<u>417</u>	<u>18,380</u>
	104,834	103,388
<b>Pooled Investment Vehicles</b>		
UK Property	9	118
<b>Cash - Foreign currency</b>	519	692
<b>Cash - Sterling</b>	107	924
<b>Other investment assets (broker balances, outstanding dividend entitlement and recoverable withholding tax)</b>	1,081	1,344
<b>Other Investment liabilities (broker balances)</b>	-	-
<b>Total Investment Assets</b>	<b><u>234,835</u></b>	<b><u>237,897</u></b>

### 13a. Change in Market Value of Investments

The change in market value of investments during the period comprises all the increases and decreases in the market value of investments held at any time during the period, including all realised and unrealised profits and losses.

Indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

	Mkt Value at 1/4/17 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Mkt Value £'000	Mkt Value at 31/10/17 £'000
Fixed Interest Securities	38,224	3,206	(5,808)	(300)	35,322
Equities	93,207	54,613	(60,550)	5,693	92,963
Index-Linked Securities	103,388	43,315	(40,283)	(1,586)	104,834
Pooled Investment Vehicles	118	0	(115)	6	9
	<u>234,937</u>	<u>101,134</u>	<u>(106,756)</u>	3,813	233,128
Cash – Foreign currency	692			(16)	519
Cash - Sterling	924				107
Other investment assets	1,344				1,081
Other investment liabilities	-				-
<b>NET INVESTMENT ASSETS</b>	<b><u>237,897</u></b>			<b><u>3,797</u></b>	<b><u>234,835</u></b>

**Previous year comparative:**

	<b>Mkt Value at 1/4/16 £'000</b>	<b>Purchases at Cost £'000</b>	<b>Sale Proceeds £'000</b>	<b>Change in Mkt Value £'000</b>	<b>Mkt Value at 31/3/17 £'000</b>
Fixed Interest Securities	34,514	4,761	(3,365)	2,314	38,224
Equities	77,456	101,915	(107,211)	21,047	93,207
Index-Linked Securities	86,873	11,804	(7,865)	12,576	103,388
Pooled Investment Vehicles	2,872	4	(2,467)	(291)	118
	<b>201,715</b>	<b>118,484</b>	<b>(120,908)</b>	<b>35,646</b>	<b>234,937</b>
Cash – Foreign currency	514			45	692
Cash - Sterling	608				924
Other investment assets	1,296				1,344
Other investment liabilities	-				-
<b>NET INVESTMENT ASSETS</b>	<b>204,133</b>			<b>35,691</b>	<b>237,897</b>

**13b. Investments analysed by Fund Manager**

	<b>Market value 31 October 2017 £'000</b>	<b>%</b>	<b>Market value 31 March 2017 £'000</b>	<b>%</b>
South Yorkshire Pensions Authority	180,954	77.06	182,397	76.67
Old Mutual (overseas equities)	53,881	22.94	55,500	23.33
	<b>234,835</b>		<b>237,897</b>	

The Fund has one investment that represents more than 5% of the net assets of the Scheme:

<b>31/10/17 Security</b>	<b>Holding</b>	<b>Valuation £'000</b>	<b>% of total fund</b>
UK Treasury Index Linked 2020	4,308,000	15,808	6.7
<b>2016/17 Security</b>	<b>Holding</b>	<b>Valuation £'000</b>	<b>% of total fund</b>
UK Treasury Index Linked 2020	3,700,000	13,785	5.8

**14. Fair Value – Basis of valuation**

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published closing bid market price ruling on the final day of the accounting period	Not required	Not required
Bonds	Level 2	Average of broker prices Valued on a “clean” basis (not including accrued interest)	Composite prices/ Evaluated price feeds	Not required
Pooled investment vehicles – property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

#### 14a: 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. Transfers between levels are recognised in the year in which they occur.

##### Level 1

Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities.

Listed investments 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 at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. This includes composite prices for fixed income instruments and fund net asset value prices.

##### Level 3

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

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association or other professional bodies.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 October 2017	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss	94,044	140,165	-	234,209
<b>Net investment assets (excl cash)</b>	<b>94,044</b>	<b>140,165</b>	<b>-</b>	<b>234,209</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2017	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss	94,551	141,730	-	236,281
<b>Net investment assets (excl cash)</b>	<b>94,551</b>	<b>141,730</b>	<b>-</b>	<b>236,281</b>

## 15. Financial Instruments

The Fund's financial instruments are the investment assets and debtors and creditors, these are all disclosed on the Net Assets Statement. The assets and debtors are all carried at fair value. The creditors are carried at amortised cost.

### 15a: Classification of Financial Instruments

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	31 October 2017 £'000	31 March 2017 £'000
<b><u>Fair value through profit or loss</u></b>		
<b>Financial Assets</b>		
Fixed Interest Securities	35,322	38,224
Equities	92,963	93,207
Index-Linked Securities	104,834	103,388
Pooled Investment Vehicles	9	118
Other investment balances	1,081	1,344
<b>Total</b>	<b>234,209</b>	<b>236,281</b>
<b>Financial Liabilities</b>		
Other investment balances	(-)	(-)
<b>Total</b>	<b>(-)</b>	<b>(-)</b>
<b><u>Loans and receivables</u></b>		
<b>Financial Assets</b>		
Cash – Foreign currency	519	692
Cash - Sterling	107	924
Current assets	5,476	1,795
<b>Total</b>	<b>6,102</b>	<b>3,411</b>

**Financial Liabilities at amortised cost****Financial Liabilities**

Current liabilities	(503)	(117)
<b>Total</b>	<b>(503)</b>	<b>(117)</b>

See Note 14 re method of valuation of asset classes. Debtors and creditors are included at cost.

**15b: Net gains and losses on Financial Instruments**

	<b>31 October 2017</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>		
Fair value through profit and loss	3,813	35,646
Loans and receivables	(16)	45
<b>Financial liabilities</b>		
Fair value through profit and loss	-	-
Financial liabilities measured at amortised cost	-	-
<b>Total</b>	<b>3,797</b>	<b>35,691</b>

**16. Nature and Extent of risks arising from Financial Instruments****Risk and risk management**

The Fund's primary long-term risk is that its assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

The Fund's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Fund
- liquidity risk – the possibility that the Fund might not have funds available to meet its commitments to make payments

The management of risk is described within the Fund's ISS which is posted on the Fund's website ([www.sypensions.org.uk](http://www.sypensions.org.uk)). It centres upon the adoption of an investment strategy, as represented by the Fund's customised benchmark, which is appropriate to meet the objectives of the Funding Strategy Statement. It focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services.

The Fund Manager's (SYPA) treasury management activities are governed by the Local Government Act 2003 and the Fund has broadly adopted CIPFA's Treasury Management Code of Practice. The annual Treasury Management Strategy was approved by the Authority in March 2017.

As a pension fund the primary risks which affect it are market risk and credit risk.

## a. Market Risk

**Market Risk – Price Risk** – The Fund publishes its ISS which details how the real risk of negative returns due to price fluctuations is managed.

Because different asset classes have different risk and return characteristics they will react differently to external events and will not necessarily do so in a pre-determined or correlated manner to each other. No single asset class or market acts in isolation from other assets or markets. It is, therefore, extremely difficult to meaningfully estimate the consequences of a particular event in a particular asset on other asset classes. It is important to recognise that returns, volatility and risks vary over time.

In order to minimise the risks associated with market movements the Fund is well diversified across asset classes and within individual portfolios and constantly monitored and reviewed.

### Price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on the Fund's asset allocations. Based on this the following movements in market price risk are reasonably possible for the 7 months to 31 October reporting period.

Asset type	Potential market movements (+/-)
Bonds	5.22%
UK Equities	9.10%
Overseas Equities	10.15%
Index Linked securities	8.17%
Property (unit trusts) – only residual holding left	0%

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value as at 31 October 2017 £'000	Potential Market Movement £'000	Value on increase £'000	Value on decrease £'000
Bonds	35,322	1,844	37,166	33,478
UK Equities	34,663	3,154	37,817	31,509
Overseas equities	58,300	5,917	64,217	52,383
Index linked securities	104,834	8,565	113,399	96,269
Property (unit trusts)	9	0	9	9
Cash - Foreign currency	519	0	519	519
Cash - Sterling	107	0	107	107
Other investment assets	1,081	0	1,081	1,081
<b>Net investment assets</b>	<b>234,835</b>	<b>19,480</b>	<b>254,315</b>	<b>215,355</b>



<b>Asset type</b>	<b>Value as at 31 March 2017 £'000</b>	<b>Potential Market Movement £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
Bonds	38,224	1,934	40,158	36,290
UK Equities	33,785	3,061	36,846	30,724
Overseas equities	59,422	5,960	65,382	53,462
Index linked securities	103,388	8,075	111,463	95,313
Property (unit trusts)	118	0	118	118
Cash - Foreign currency	692	0	692	692
Cash - Sterling	924	0	924	924
Other investment assets	1,344	0	1,344	1,344
<b>Net investment assets</b>	<b>237,897</b>	<b>19,030</b>	<b>256,927</b>	<b>218,867</b>

### Market Risk – Interest Rate Risk

This primarily impacts upon the valuation of the Fund's bond holdings and, to a lesser degree, the return it receives on cash held. A rise in interest rates would lead to the income earned on variable rate investments increasing but would cause the value of fixed rate investments to fall. The Fund's correlation to interest rates will vary depending upon the profile of investments held. The Fund manages its cash investments with a view to obtaining the best returns possible whilst ensuring the security of the deposits. The Fund also holds foreign currency balances which could be affected by interest rate movements but are more sensitive to exchange rate movements (see Market risk – Currency risk).

The Fund's direct exposure to interest rate movements as at 31 October 2017 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>As at 31 October 2017 £'000</b>	<b>As at 31 March 2017 £'000</b>
Cash - Sterling	107	924
<b>Total</b>	<b>107</b>	<b>924</b>

### Interest rate risk – sensitivity analysis

The Authority recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets.

The one standard deviation of the 10 year government bond yield (annualised) amounts to 0.91%.

The following analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets of a +/- 0.91% change in interest rates:

Asset type	Carrying amount as at 31 October 2017	Potential movement on 0.93% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash - Sterling	107	1	108	106
<b>Total change in assets available</b>	<b>107</b>	<b>1</b>	<b>108</b>	<b>106</b>

Asset type	Carrying amount as at 31 March 2017	Potential movement on 0.91% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash - Sterling	924	8	932	916
<b>Total change in assets available</b>	<b>924</b>	<b>8</b>	<b>932</b>	<b>916</b>

**Market Risk – Currency Risk** – the Fund holds cash balances in foreign currency and has investments quoted in foreign currency. The risk of exchange rate movements is accepted as part of the overall management strategy of the Fund.

#### Currency risk – sensitivity analysis

The potential volatility of the aggregate currency exposure within the Fund based on historical data for the last 3 years associated with foreign exchange rate movements is 8.89%.

An 8.89% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets as follows:

Currency exposure – asset type	Asset value as at 31 October 2017	Potential Market Movement	Value on increase	Value on decrease
	£'000		£'000	£'000
Overseas quoted securities	58,300	5,183	63,483	53,117
Overseas property funds	-	-	-	-
Cash - Foreign currency	519	46	565	473
<b>Total change in assets available</b>	<b>58,819</b>	<b>5,229</b>	<b>64,048</b>	<b>53,590</b>

Currency exposure – asset type	Asset value as at 31 March 2017	Potential Market Movement	Value on increase	Value on decrease
	£'000		£'000	£'000
Overseas quoted securities	59,422	5,283	64,705	54,139
Overseas property funds	-	-	-	-
Cash - Foreign currency	692	61	753	631
<b>Total change in assets available</b>	<b>60,114</b>	<b>5,344</b>	<b>65,458</b>	<b>54,770</b>

## **b. Credit Risk**

**Credit Risk** - arises from deposits with banks and financial institutions, as well as credit exposures to the Fund's customers. The risk is minimised through the SYPA Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum criteria set by SYPA. The Treasury Management Strategy also imposes a maximum sum to be invested with each institution. In practice the Fund holds minimal cash balances. Counterparties must have a short term debt credit rating of F1 or better.

The Fund's benchmark allows for cash at 31 October 2017 to a maximum of 5% of the Fund (actual cash holdings were 0.05%).

Interest received on advances during the period to 31 October 2017 was £459 (£1,749 in 2016/17) at an average rate of 0.13% (0.25% in 2016/17) (as the Fund maintains short term deposits only, the rate of interest is aligned to the Bank of England base rate which reduced to 0.25% in August 2016, previously the rate had remained at 0.5% since March 2009). For illustration purposes an increase of 0.13% in interest rates achieved would have resulted in an increase of £459 (£1,749) in interest received provided that bank balances had remained the same.

## **c. Liquidity Risk**

**Liquidity Risk** – the Fund ensures it has adequate cash resources to meet its commitments. This is particularly the case for cash to meet pensioner payroll costs and investment commitments.

The Fund has immediate access to its cash holdings with a majority of cash being deposited for no longer than a week and no cash being deposited for more than a month. Also the Fund holds Government bonds amounting to £104.4m (£85.0m at 31 March 2017) which can be realised within a week in normal market conditions, if necessary, to meet expected or unexpected demands for cash.

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

## **17. Funding Arrangements**

In accordance with Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), Barnett Waddingham, the consulting actuary, carried out an examination of the financial position of the Fund as at 31 March 2016. The market value of the Fund's assets at the date of the valuation was £204.310m. The previous valuation had been completed as at 31 March 2013 (market value £194.220m).

The assumptions adopted are (2013 valuation assumptions shown in brackets):-

### **Financial assumptions:**

	(Non-pensioner/ pensioner)	
Price inflation RPI	2.7% / 2.15%	(3.6% / 3.4%)
Price inflation CPI	2.35% / 1.85%	(2.7% / 2.5%)
General earnings increases	3.25%	(3.6%)
Investment return - before retirement	5.8%	(6.6%)
- after retirement	2.7% / 2.15%	(3.6% / 2.8%)

## Demographic assumptions

Mortality table	120% S2PA	
Ill health mortality table	120% S2PA + 6 years	
Mortality projections	CMI_2015 long term rate of improvement 1.25% pa	(CMI_2012 long term rate of improvement 1.0% pa)
Allowance for cash commutation	70% of members elect to take maximum cash	

The funding objective is to ensure that the funding level is 100% and that the long term future contribution rate is relatively stable over time.

On an ongoing basis, the Fund had a valuation deficit in respect of past service rights of £24.88m at 31 March 2016 (£32.8m at 31 March 2013). This represents a funding level of 89% (86% at 31 March 2013).

The primary contribution rate payable by First South Yorkshire Limited has been calculated at 30.5% for the period to 31 March 2020 (23.1% in 2013 effective 1 April 14 to 31 March 2017). Additional deficit payments are also due over the same period.

## 18. Actuarial Present Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed. To assess the value of the liabilities as at 31 October 2017 the actuary has rolled forward the value calculated for the triennial valuation as at 31 March 2016 allowing for the different financial assumptions required under IAS19.

The financial assumptions used for the purposes of the calculations are shown in the table below:-

	31 October 2017	31 March 2017
CPI increases	2.6% p.a.	2.5% p.a.
Salary increases	3.5% p.a.	3.4% p.a.
Pension increases	2.6% p.a.	2.5% p.a.
Discount rate	2.6% p.a.	2.5% p.a.

It is not possible to assess the accuracy of the estimated liability as at 31 October 2017 without completing a full valuation. However the actuary is satisfied that the approach of rolling forward the previous valuation results to 31 October 2017 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence that this approach is not appropriate. On this basis, the value, for IAS26 purposes, of the Fund's promised retirement benefits as at 31 October 2017 was £246.513m (£248.667m as at 31 March 2017) giving a net liability of £6.705m (£9.092m as at 31 March 2017).

The Actuarial Present Value of Fund Obligation consists entirely of Vested Obligations.

**19. Current Assets**

**Debtors:**

	<b>31 October 2017 £'000</b>	<b>31 March 2017 £'000</b>
Contributions due - employers	21	13
Contributions due - employees	4	4
Additional cost of early retirement	-	-
Sundry debtors	<u>32</u>	<u>100</u>
	<b>57</b>	<b>117</b>
Cash at bank	<u>5,419</u>	<u>1,678</u>
	<b>5,476</b>	<b>1,795</b>

**Analysis of debtors:**

	<b>31 October 2017 £'000</b>	<b>31 March 2017 £'000</b>
Central government bodies	8	47
Other local authorities	6	5
Public corporations and trading funds	1	-
Other entities and individuals	<u>42</u>	<u>65</u>
	<b>57</b>	<b>117</b>
Cash at bank	5,419	1,678

There are no long term debtors.

**20. Current Liabilities**

**Creditors:**

	<b>31 October 2017 £'000</b>	<b>31 March 2017 £'000</b>
Benefits Payable	-	-
Sundry creditors	<u>503</u>	<u>117</u>
	<b>503</b>	<b>117</b>

**Analysis of creditors:**

	<b>31 October 2017 £'000</b>	<b>31 March 2017 £'000</b>
Other local authorities	70	66
Public corporations and trading funds	4	14
Other entities and individuals	<u>429</u>	<u>37</u>
	<b>503</b>	<b>117</b>

## 21. **Additional Voluntary Contributions**

Additional Voluntary Contributions (AVCs) made by pension fund contributors are managed by Equitable Life and Scottish Widows. The Fund value of AVCs with these managers and contributions received during the year are shown below:

	<b>Fund value</b>		<b>Contributions received</b>	
	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
Equitable Life	13	11	-	-
Scottish Widows	157	162	-	-

## 22. **Related Party Transactions**

There are no material transactions with related parties other than those which have been properly recorded and disclosed elsewhere in the accounts.

The employer, First South Yorkshire Limited, is a related party to the Fund and has material transactions with the Authority during the year in the form of contributions described elsewhere in the accounts.

The fund managers are related parties to the Fund and fees paid to them are included in Investment management expenses (see Note 11a).

## 23. **Compensation Payments**

The Fund makes compensation payments in respect of non-statutory pension benefits (e.g. 'added years'). These costs are not chargeable to the Fund, but are recovered from First South Yorkshire Limited.

During the 7 months to 31 October, the Fund made payments in respect of non-statutory pension benefits of £59,785 (£104,425 in 2016/17).