

**2013/2014**

Staffordshire Pension Fund  
**ANNUAL REPORT  
& ACCOUNTS**



**THEN  
& NOW**

**1990s**

**2000s**

**2010s**



**Staffordshire  
Pension Fund**  
Local Government Pension Scheme



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# Chairman's Report

**We are pleased to present Staffordshire Pension Fund's Annual Report for the year ending 31 March 2014. The Report highlights the important issues affecting the Fund over the last twelve months as well as providing general information about the Pension Scheme.**

The Fund was created on the reorganisation of local government in 1974 and Staffordshire County Council subsequently became the Administering Authority.

This report celebrates the 40 years since this point, looking not only at the changes that have taken place in the Local Government Pension Scheme (LGPS), but in the world as a whole.

During the last year the Staffordshire Pension Fund has continued to adapt to take advantage of new investment opportunities, and to meet changes in scheme regulations.

There has been a significant increase in the number of Employers during the year, predominantly due to the increase in the number of Academies in the Fund.

The Administration team have been working towards the introduction of a "new-look" Local Government Pension Scheme in April 2014. The Fund has played an active part in responding to the draft regulations, indicating wherever possible the feedback we have received from our members on these changes. Following the introduction of finalised regulations by the Department for Communities and Local Government (DCLG) the Administration team undertook to communicate the changes with scheme employers, employees and other interested stakeholders.

At 31 March 2014, the Fund was valued at £3,293.4m, which is an increase of over £240m from 31 March 2013. The good performance of the last year continues that of the previous two years, where the Fund has increased at an annual average rate of over 8%. This has been primarily driven by the increase in stock markets around the world, where the Fund is heavily invested.

If you wish to make a comment or if you have any questions, our contact details are given in the Report.

Finally we would like to thank the Director of Finance and Resources and his staff for their hard work over the last twelve months in providing members and other stakeholders in the Fund with a friendly and efficient service.



**Phillip E B Atkins**  
Chairman  
(Pensions Panel)



**Stephen Sweeney**  
Chairman  
(Pensions Committee)

## Governance

Staffordshire County Council is legally responsible for the Fund. Managing the Fund's affairs effectively is one of our main aims. As a result of the Local Government Act 2000, the County Council introduced a new set of rules known as the 'constitution'. Under the constitution, the Pensions Committee and Pensions Panel are delegated to look after the Fund as set out below.

## Pensions Committee

The main tasks of the Pensions Committee are to;

- decide the overall funding strategy
- decide how much of the Fund should be shared out between different types of assets and which countries they should be invested in
- make sure that the Fund invests in different kinds of assets to spread the risk
- review investments to make sure they are suitable for the needs of the Fund
- agree the terms under which bodies (for example, contractors) will be allowed to join the scheme
- decide how to use its discretionary powers
- approve the annual report and accounts
- monitor the overall administration of the scheme

## Pensions Committee council members at 31 March 2014



Margaret Astle



Phillip E B Atkins



Derek Davis OBE



Alan Dudson



Bob Fraser



Philip E Jones



Mike Lawrence



Shelagh McKiernan



Stephen Sweeney

## The Pensions Committee during 2013/2014:

- Reviewed and updated the Statement of Investment Principles and Risk Register.
- Received training on the triennial valuation process from the Actuary.
- Responded to various consultations including the 'call for evidence' by central government on the future structure of the LGPS.
- Approved the Pensions Business Plan for 2014/2015.

## Involving others in governance

As well as the nine members opposite, the Pensions Committee also has co-opted members. Co-opted members represent the Pensions Consultative Forum, which is made up of representatives from all organisations that are members of the Fund.

The co-opted members cannot vote at meetings and are shown below with who they represent. One member is from a trade union and represents employees, two are from other employers, and one represents pensioners.

- Steve Elsey (Employees)
- John Cox (Employers)
- David Loades (Employers)
- Eric Shaw (Pensioners)



15<sup>TH</sup> FEBRUARY

1971

The UK changes to the decimal system

1970

# Pensions Panel

The Pensions Panel helps the Pensions Committee. The Pensions Panel’s main tasks are to;

- decide the appropriate structure of investment management and appoint appropriate investment managers
- co-ordinate the activities of the various investment managers to reflect the overall aims of the Fund
- monitor how the investment managers perform against their investment targets.

The Director of Finance and Resources is responsible for managing the Fund’s investments from day to day, in line with the decisions of the Pensions Panel.

## Pensions Panel council members at 31 March 2014



Phillip Atkins



Derek Davis OBE



Michael Lawrence



Shelagh McKiernan



Stephen Sweeney

## The Pensions Panel during 2013/2014:

- Approved an annual investment strategy for managing the Pension Fund’s cash.
- Amended the Fund’s currency hedging programme from 80% to 50% of the Fund’s overseas equity exposure.
- Reviewed the Fund’s current strategic asset allocation and stock lending activity.

More details of the responsibilities of the Pensions Committee and Pensions Panel are set out in our Governance Policy Statement which is available on our website at [www.staffspf.org.uk](http://www.staffspf.org.uk). The Governance Policy Statement also contains the ‘Statement of Compliance’. This is our assessment of how the Fund’s governance arrangements compare to nine best practice principles set by the government.



## Attendance

The table below sets out the attendance at quarterly Pensions Committee and Pensions Panel meetings in 2013/2014.

Pensions Committee member	02/07/2013	25/10/2013	13/12/2013	21/03/2014
Margaret Astle	✗	✗	✓	✓
Phillip Atkins	✗	✗	✗	✓
Derek Davis OBE	✓	✓	✓	✓
Carol Dean	✗	✓	✗	n/a
Alan Dudson	n/a	n/a	n/a	✓
Bob Fraser	✓	✓	✓	✓
Phillip Jones	✓	✗	✓	✓
Mike Lawrence	✗	✓	✓	✓
Shelagh McKiernan	✓	✓	✓	✗
Stephen Sweeney	✓	✓	✓	✓
John Cox	✓	✓	✗	✓
Steve Elsey	✓	✓	✓	✓
Will Enes-Borlace	✓	n/a	n/a	n/a
David Loades	✓	✓	✓	✓
Eric Shaw	✓	✓	✓	✓

**n/a** = not a member of the committee at the time of meeting.

Pensions Panel member	21/05/2013	10/09/2013	03/12/2013	04/03/2014
Phillip Atkins	✓	✓	✓	✓
Derek Davis OBE	n/a	✗	✓	✓
Carol Dean	n/a	✓	✓	n/a
Mike Lawrence	✓	✓	✓	✓
Shelagh McKiernan	n/a	n/a	✓	✓
Stephen Sweeney	✓	✓	✓	✓



# The Public Services Pension Act 2013

During the last year the Staffordshire Pension Fund has been considering the requirements of The Public Service Pensions Act 2013, in particular the need to introduce a new local Pension Board to assist the Scheme Manager (i.e. Staffordshire County Council) in ensuring compliance with legislation and the Pension Regulator’s requirements.

It was on the 20 June 2013 that the proposed draft new governance arrangements were published for the Local Government Pension Scheme. This was followed by a consultation and the new regulations are expected to be in place by the autumn of 2014.

The new Pension Board will not replace our current governance arrangements, but as a Fund we will be considering their impact on our local arrangements, such as our Pensions Committee and Pensions Panel.

## Administration

The Director of Finance and Resources and his staff are responsible for the administration and accounting functions that relate to the investments of Fund. Details of all transactions carried out by the Fund’s investment managers are collected and examined.

The Director of Finance and Resources and his staff are also responsible for all administration related to recording each member’s years of service, working out benefits and paying pensions.

The Director of Law Democracy and Transformation is responsible for providing legal advice.

## Advice

The Pensions Committee and Pensions Panel take advice from the Director of Finance and Resources and consultants appointed by the Pensions Panel, including a main investment consultant and two independent consultants. The performance of the consultants is reviewed annually.

## Training

The Pensions Committee have adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework for training members and officers. The training addresses 6 areas of knowledge:

- Legislative and governance
- Accounting and auditing
- Financial Services, procurement, and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices



During the year the Pensions Committee received training on the triennial valuation process from the Actuary and the Pensions Panel received training on collective investment vehicles (CIV's) and private credit markets.

## Communication

The Fund produces a Communications Policy that it reviews annually and is available at [www.staffspf.org.uk](http://www.staffspf.org.uk).

Full details on how the Fund communicates with its members are available on page 30

**1973 THE UK JOINS THE EUROPEAN ECONOMIC COMMUNITY**

## Risk management

The primary objective of the Fund is 'to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment'. The Fund aims to do this by adopting an investment strategy that balances risk and return, therefore managing risk is very important to ensure the primary objective is always met.

Below and over the page are the largest risks the Fund has identified in meeting its primary objective, how they are managed and what alternative options are available.

Risk	Action	Alternative
Investment in equities	<p>A large proportion of the Fund is invested in equities which are expected to provide better returns than government bonds over the long term. The risk with this strategy is that equity values fall significantly in the short term and they fail to outperform bonds in the long term.</p> <p>This risk is managed through reliance on the funding strategy which details the positive cash flows of the Fund and the long term agreement of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities over time for them to deliver the expected returns.</p>	Reduce the investment in equities and diversify into other asset classes, such as government bonds. There may be a potential significant cost in terms of lost returns to the Fund.

Risk	Action	Alternative
Interest rates	<p>Changes in interest rates will affect the level of the Fund's liabilities and the value of the Fund's investment in bonds.</p> <p>Little can be done in relation to the change in liabilities; this is a fundamental part of having a pension fund. To mitigate the risk of capital loss on bonds from interest rate changes, the Fund's strategic asset allocation allows scope to adjust the bond exposure.</p>	Invest in assets which match the sensitivity of the liabilities to changes in interest rates (liability driven investment).
Inflation	<p>Increases in the rate of inflation increase the value of future payments the Fund has to make as they are linked to the level of inflation.</p> <p>The Fund invests in assets, such as index linked gilts, which are linked to inflation. This reduces risk as it matches the return on these assets to actual increases in inflation.</p>	Invest further in assets which match the sensitivity of the liabilities to changes in inflation (liability driven investment).
Longevity	<p>Future life expectancy is an area which is difficult to forecast accurately, but as people are living longer the cost to the Fund increases.</p> <p>The Fund has made assumptions on longevity with allowances for future increases. The Fund actuary also has access to information on the experiences of other local authority pension funds. A substantial portion of this risk has been transferred to employees under LGPS 2014, with the linking of the scheme retirement age to state pension age.</p>	Transfer pensioner longevity risk to a third party. This would come at a significant cost.
Pension Fund investment managers underperform benchmark	The risk is partially managed by keeping a substantial share of the Fund invested passively and by ensuring that the active managers have complementary styles allied to regular monitoring.	Replace investment managers who underperform. This can be a lengthy and costly process.
Changes in the maturity profile of the Fund	<p>The Fund will mature as the ratio of pensioners and deferred pensioners to active employees grows.</p> <p>This is growing as an issue as a result of structural changes affecting employers in the Fund. Over time it is possible to amend the investment strategy to better match this change but it will result in higher contribution rates for Fund employers.</p>	Transfer the whole pension liability to a third party (a 'buyout'). This would come at a significant cost.

To see more of the risks that we face and how we manage them, visit [www.staffspf.org.uk](http://www.staffspf.org.uk) to see our Funding Strategy Statement and Statement of Investment Principles.

# Scheme management and advisors

## Advisers

Carolan Dobson BSc, MSII  
David G Thomas BSc, FIA  
Hymans Robertson LLP

## Actuary

Hymans Robertson LLP

## Auditors

PricewaterhouseCoopers LLP

## AVC providers

Clerical Medical  
Standard Life Assurance Ltd  
The Equitable Life Assurance Society

## Bankers

The Co-operative Bank plc

## Custodian

The Northern Trust Company

## Investment managers

Aberdeen Asset Managers Limited  
Capital Dynamics Ltd  
Colliers International UK plc  
Goldman Sachs Asset Management  
Harbourvest Partners LLC  
Insight Investment

JP Morgan Asset Management  
Knightsbridge Advisors LLC  
Lazard Technology Partners LP  
Legal & General Investment Management  
Longview Partners Limited  
Morgan Stanley Investment Management Limited  
Partners Group LP  
Record Currency Management  
Russell Investments Limited  
Sarasin & Partners LLP  
Schroder Investment Management Limited  
Standard Life Investments Limited  
State Street Global Advisors Limited

## Legal adviser

John Tradewell, LLB, MBA  
Director of Democracy, Law and Transformation

## Official responsible for the Fund

Andrew Burns BSc (Hons), CPFA, MBA  
Director of Finance and Resources

## Performance measurement

Portfolio Evaluation Ltd

If you need more information, you can find contact names and phone numbers on page 69.

## Global economic review

Quantitative Easing (QE) was in the news early in 2013/2014 but unlike previous years, it was the indication that QE may be coming to an end which caused the market reaction. The US Federal Reserve had been buying \$80bn worth of assets per month to support the US economy and at their monthly meeting in June it was indicated that this rate would be reduced from late 2013. In reaction to this bonds were sold off and global equity markets fell.

In the UK, economic data remained generally positive and the service sector continued to grow in the early stages of 2013/2014. There were also signs that the property market was beginning to thaw outside of foreign-investor dominated central London.

Europe finally exited its recession over the summer of 2013 and confidence reached two year highs, however, this was having little impact on unemployment which was still at near record levels. The larger developments in Europe during this period were political with Angela Merkel being re-elected German Chancellor in September 2013.

The new Bank of England Governor, Mark Carney took up his role in July 2013 and immediately made an impact with the announcement of a Forward Guidance Policy. This was where Bank Rate would remain at 0.5% until unemployment fell below 7.0% (subject to other conditions being met). This policy was subsequently revised in February 2014 when unemployment levels fell much faster than the Bank of England had originally thought and the recovery was viewed as still too fragile to begin raising interest rates.

Global equity markets continued to rally over the second half of 2013 with the US posting the strongest performance. This was reinforced by higher than expected US GDP figures and the good reaction the market had when the Federal Reserve did decide to begin reducing its monthly asset purchases.

The UK economy continued to grow until the end of 2013 and unemployment was falling faster than expected. UK GDP growth for the calendar year 2013 was 1.9%, which was the highest annual growth figure since before the financial crises hit in 2007.

The US economy stuttered over the winter in the face of severe weather, first quarter GDP contracting by an annualised 2.9%, whilst Europe was continuing its slow journey back from recession. The fear in Europe over the first quarter of 2014 was that of deflation, as inflation rates continued to fall to near zero.

Tension between Russia and Ukraine dominated political news in early 2014, with sanctions imposed on Russia as a result of the annexation of Crimea. With Russia supplying 30% of European Gas, the fear was that an escalation in the conflict would have serious economic repercussions across Europe.

March 2014 saw the nature of the economic recovery in the UK attracting criticism, with the focus on the housing market through the Government backed Help to Buy scheme. The fear was that the UK was moving towards another housing bubble.

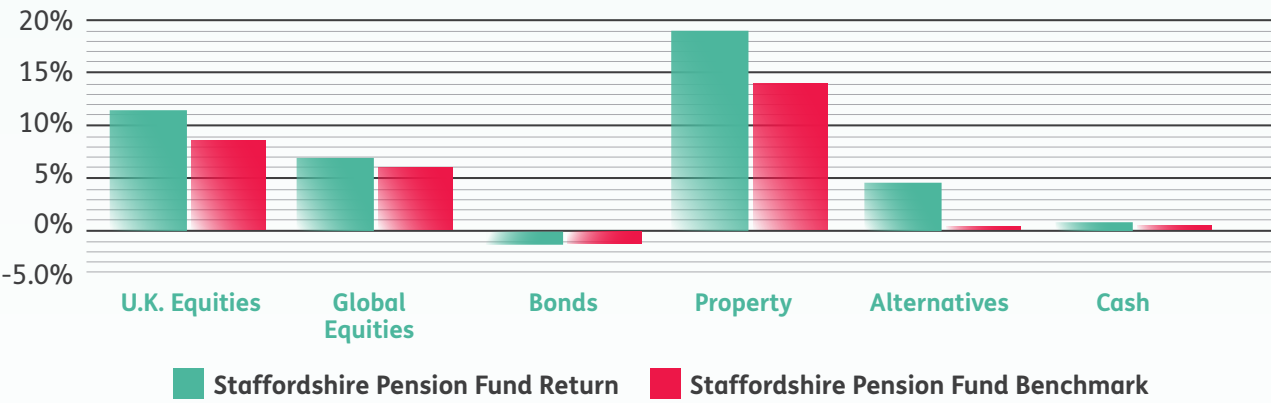


# 1981

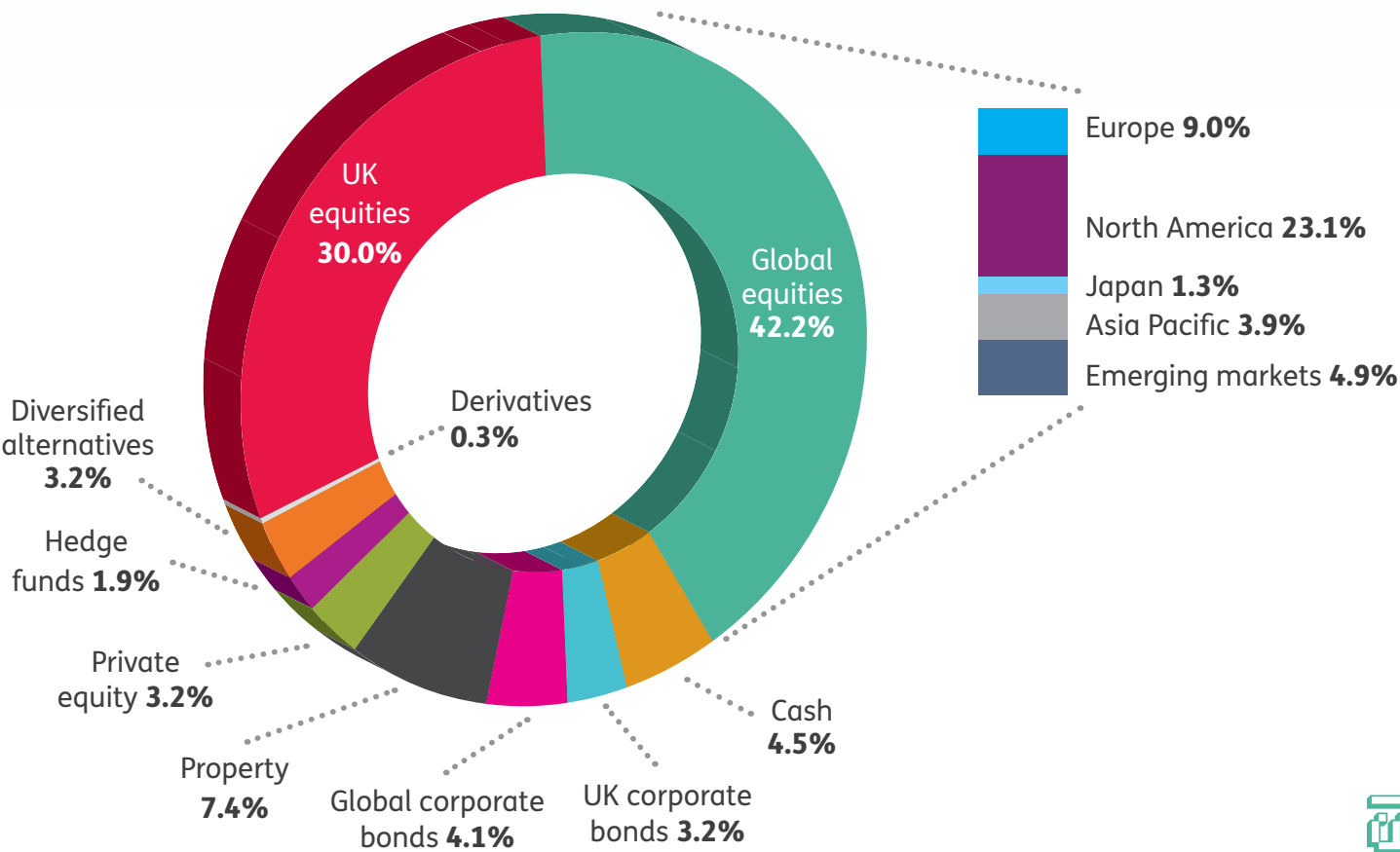
## Mrs Thatcher begins a programme of privatisation of state-run industries



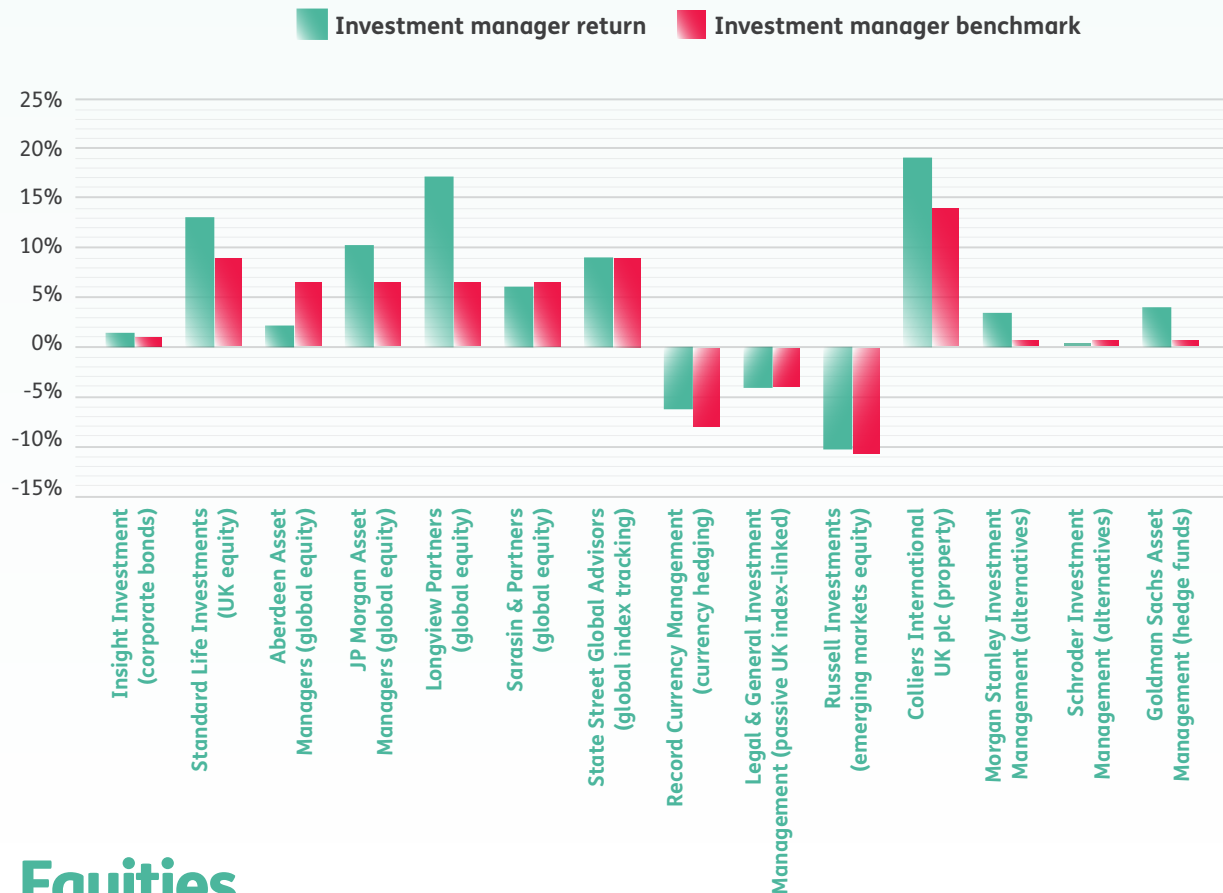
# Major asset class returns for year ended 31 March 2014



# Percentage breakdown by investment type at 31 March 2014



## Investment manager returns for year ended 31 March



## Equities

Equities had a positive year in 2013/2014, with the Fund's equity portfolio returning 8.8% against a benchmark of 7.1%, within this UK equities returned 11.1% and global equities 7.1% (see graph on page 13).

The make up of the Fund's global equity return during the year was contrasting as North American and European (excluding the UK) equities performed well returning 10.9% and 16.5% respectively, whilst Japanese equities returned -4.8%, Asia Pacific (excluding Japan) -6.7% and emerging markets -7.7%. These lesser performing equities make up a smaller proportion of the Fund's global equity holdings (see graph on page 13) so overall the global equity return was firmly in positive territory (7.1%).

## Top Ten Equity Holdings

Name of company	Market value at 31 March 2014
HSBC	£25,713,731
Vodafone	£22,677,990
Royal Dutch Shell	£16,687,648
BP	£16,117,531
Roche	£15,847,524
British American Tobacco	£15,337,029
Amgen	£13,363,762
Pfizer	£13,182,252
Imperial Tobacco	£12,078,631
Glaxosmithkline	£11,860,479



## Bonds

During 2012 the Fund sold its holdings of conventional UK Government bonds. Valuations were at a premium due to the UK's safe haven status away from the Eurozone troubles so the opportunity to lock into capital gains was taken.

With the proceeds the Fund invested in corporate bonds on a 'buy and hold' strategy where limited trading took place and bonds would be held to maturity; this strategy continued during 2013/2014 and corporate bonds returned 0.8% during the year. The Fund also holds an investment of index-linked Gilts and no changes were made to this portfolio during the year. Index-linked Gilts returned -4.4% in 2013/2014.

During 2013/2014 the Fund's overall bond holding returned -1.4%, matching the benchmark return of -1.4%.

## Property

During the year the property market grew rapidly with all sectors of the market performing well. The market strength, which was previously concentrated in the South East and in particular London, spread to all areas of the country.

During the year, in line with the Fund's strategy the Fund purchased two properties, a retail warehouse and a business park. The Fund also sold three properties, two London West End offices and an industrial park. The Fund's total property investment return for 2013/2014 was 18.7% against a benchmark of 12.8%.

## Largest direct property holdings

Location	Market value on 31 March 2014
Upper Woburn Place, London WC1 (Office)	£22,000,000
Burwood House, London SW1 (Office)	£19,500,000
Bridge Street, Dover (Food Store)	£17,500,000
Killingbeck Retail Park, Leeds (Retail Warehouse)	£15,050,000
Hayes Road, Hayes (Retail Warehouse)	£12,500,000

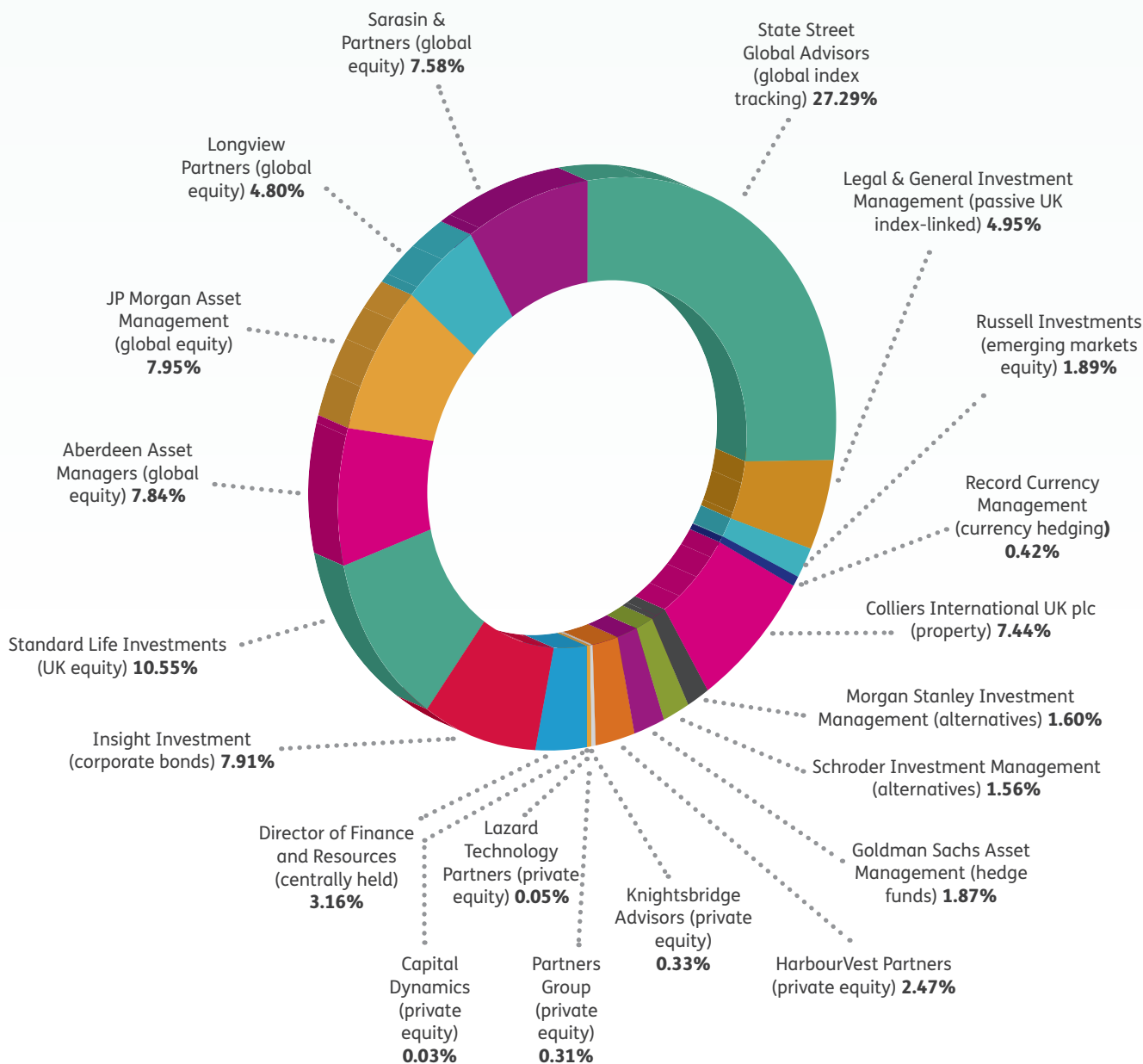
## Alternative investments

During the year the Fund committed a further £20m to Hedge Funds. Hedge Funds are a series of complex investments which require a high degree of manager expertise. The Fund invests in Hedge Funds for diversification as they give a return uncorrelated to equities, which make up a high proportion of the Fund's investments.

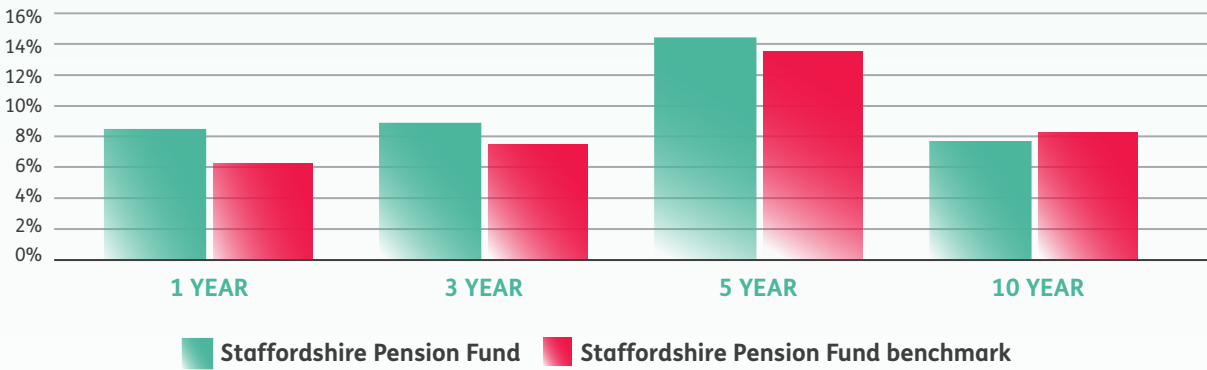
The market for alternative assets is diverse and depending on asset class and manager selection investors can be rewarded with varying returns. The Fund's investment in alternative assets returned 4.7% in 2013/2014 (see graph on page 13). This consisted of the Funds diversified alternative funds returning 1.8%, hedge funds 3.7% and private equity 9.0%.



# How much of the investments each manager looks after (by market value on 31 March 2014)



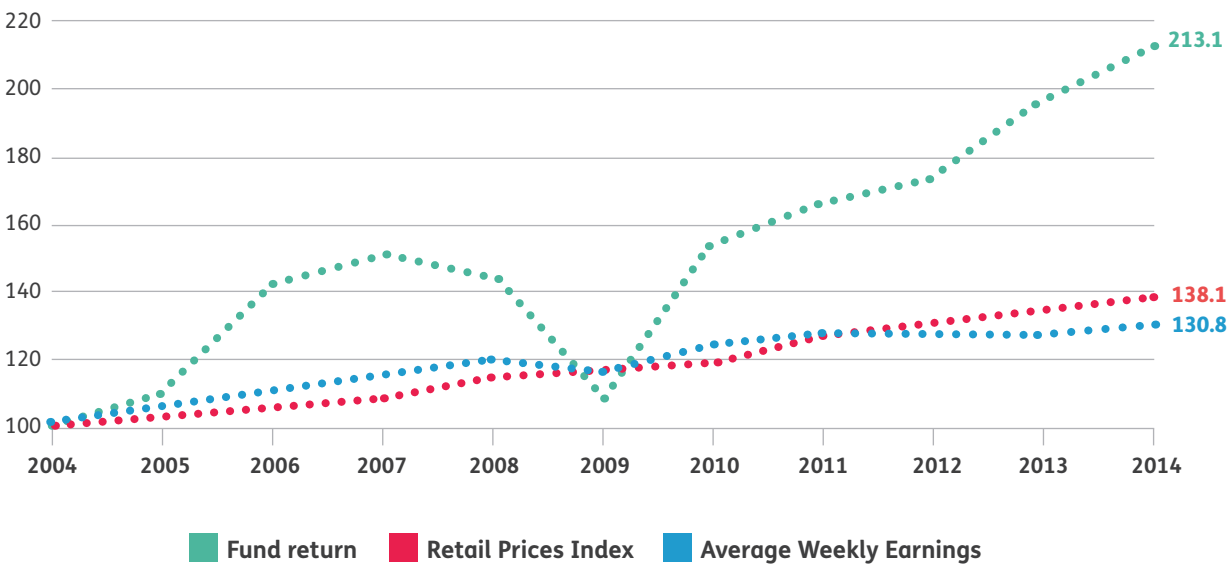
# Pension Fund investment returns



For the year ending 31 March 2014 the Fund’s total investments earned a return of 8.2%. This was ahead of the Fund’s benchmark of 6.2% and increased the Fund value to £3,293.4m. This information is shown above alongside 3, 5 and 10 year return information.

The graph above shows how the Fund has outperformed its own benchmark over the last 1, 3 and 5 year periods. The underperformance versus benchmark in the 10 year period was down to poorly performing investment managers who have since had their contracts terminated.

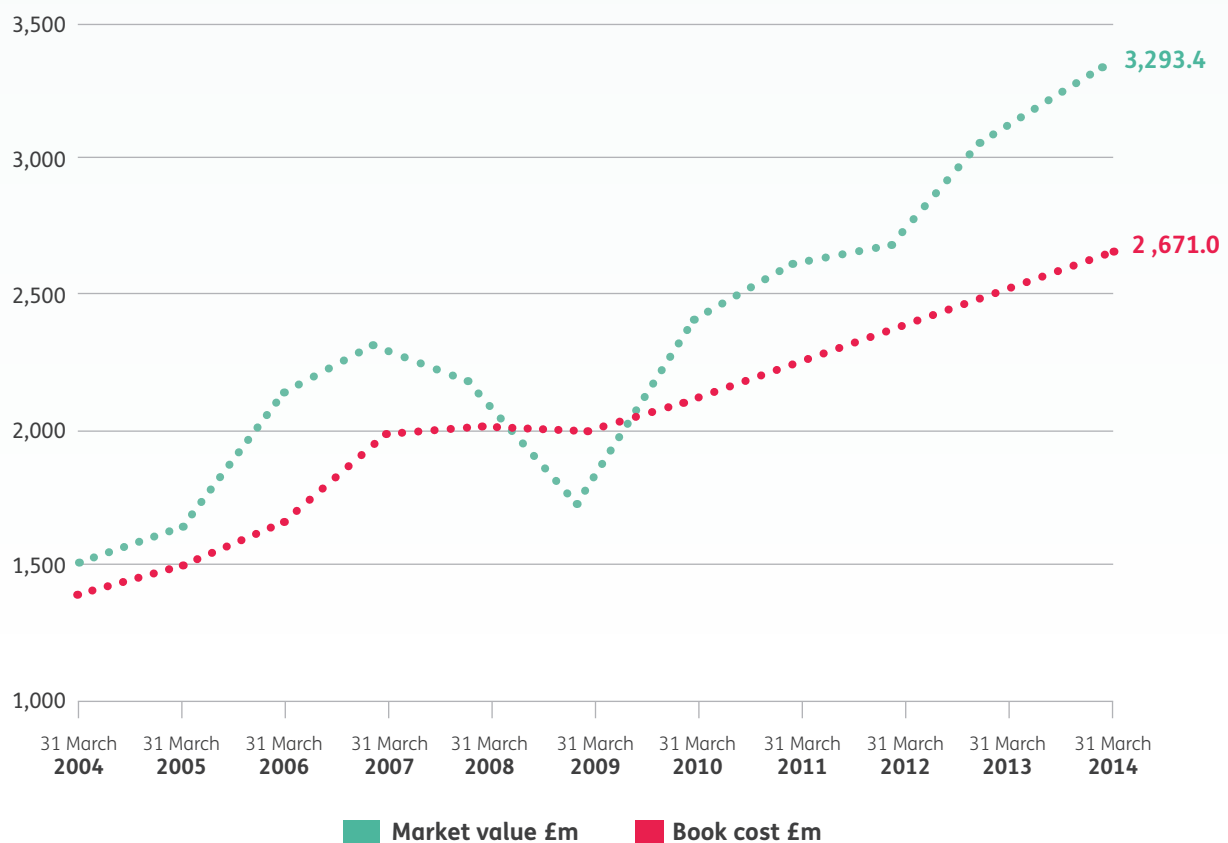
# 10 year investment performance versus inflation and earnings



The graph on page 17 compares the Fund return over the past 10 years against inflation, in the form of the Retail Prices Index, and Average Weekly Earnings. The value of all three measures was indexed to 100 at 31 March 2004 and revalued at 31 March every year thereafter.

It can clearly be seen from the graph above that the Fund has performed well and significantly outperformed the other two measures over the past decade.

## Market value versus book cost



The graph above shows the market value of the Fund over the past 10 years versus the book cost (what we paid for the assets). The graph clearly shows the effect on the market value of the financial crisis of 2008/2009 and recovery since.



# 1982

**HENRY VIII's SHIP  
THE MARY ROSE**  
raised after  
437 years



# Corporate Governance and Socially Responsible Investment Report 2013/2014

The Pensions Committee recognises its role as one of promoting best practice in corporate governance which is considered to be consistent with seeking long term returns. As a result, the Fund requires its UK equity managers to comply with the Financial Reporting Council's (FRC) UK Stewardship Code and requires other investment managers to follow it as far as possible.

The Pensions Committee's policy on Socially Responsible Investment is to endorse the United Nations Principles of Responsible Investing (UNPRI) and seek to encourage its active equity managers to sign up to the principles to incorporate environmental, social and governance issues into their investment process. Currently all of the Fund's active equity managers are signed up to the UNPRI.

Details of the Fund's individual investment manager's corporate governance and socially responsible investment policies, as well as details on the UK Stewardship Code and the UNPRI are available on the Staffordshire Pension Fund website [www.staffspf.org.uk](http://www.staffspf.org.uk)

## Local Authority Pension Fund Forum

To further enhance the commitment to matters of corporate governance and socially responsible investment the Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is a voluntary association of 60 LGPS funds with total assets under management of around £120bn. Formed in 1990 the forum seeks to protect its member's investments by promoting the highest standards of corporate governance and corporate social responsibility from the organisations they are invested in.

You can find more out about LAPFF at their website [www.lapfforum.org](http://www.lapfforum.org)

## Annual voting summary

The Pensions Panel receives quarterly updates from investment managers on details of votes cast on corporate resolutions for holdings in their relevant portfolios. Below is a summary of their activity in 2013/2014. To see the managers quarterly voting summaries in full please contact the Treasury and Pension Fund team at [treasury.pensionfund@staffordshire.gov.uk](mailto:treasury.pensionfund@staffordshire.gov.uk) or call 01785 276330.

	Total resolutions	Vote with management	Votes against management	Abstain	Not voted
<b>JP Morgan</b>	39,363	34,431	4,286	646	0
<b>Standard Life</b>	1,602	1,551	34	17	0
<b>Aberdeen</b>	682	571	45	8	58
<b>Sarasin</b>	1,031	701	208	24	98
<b>Longview</b>	570	508	44	3	15
<b>State Street</b>	9,336	8,621	711	4	0



## Issues during 2013/2014

- The UNPRI recently announced the launch of a new Reporting Framework which is designed to greatly enhance the level of transparency around the investment activities of its asset owner and investment manager signatories.

Reporting and assessment of signatory activities has been a core part of the UNPRI's work since 2007. The new framework, developed following an extensive two-year consultation process, means for the first time signatories who collectively manage \$34 trillion in assets will be required to report publicly on their progress towards implementing the UNPRI's six principles each year. The reporting will be across a wider range of asset classes and investment activities, and will include:

- Voting and engagement.
- Manager selection, appointment and monitoring.
- The integration of environmental, social and governance (ESG) factors into investment decision-making processes and ownership practices.

The transparency will enable investment managers, asset owners, beneficiaries and the broader public to make their own judgements about the degree of each signatory's commitment to responsible investment.

All of the Fund's active equity managers are signed up to the current UNPRI principles and the Fund will seek to encourage them to sign up to the new reporting framework.

- The Fund was contacted during the year with regards to the Living Wage. The pressure group Share Action had initiated a campaign to raise awareness of the Living Wage and its supporters were urged to contact their Pension Fund on the issue.

The Living Wage is intended as a better alternative to the statutory minimum wage by using a regularly updated cost of living analysis to calculate the 'minimum' earnings required for an individual and their family to live a full and productive life. The current Living Wage in London is £8.80 per hour and £7.65 outside of London. In contrast, the national minimum wage in the UK is £6.31 for adults over 21.

To Fund holds no formal position on the Living Wage but contacted one of its equity managers to see if it incorporates issues such as these into any of its analysis of the companies in which it invests. The following response was received which provided reassurance that Fund managers were acting in a responsible way with regards to issues such as The Living Wage:

- 'We look at a broad range of employment issues when we speak to the companies in which we invest. In particular, we consider some of the international norms, such as International Labour Organisation standards. As part of this, we speak with companies about how they manage their supply chain risks and historically, living wages has been part of this conversation. Our Head of Sustainable and Responsible Investments, is currently on the UNPRI coordinated Steering Group on Employee Relations and they will be speaking with a number of international companies on how they manage this issue. The idea of a living wage will be included as part of this wider conversation'.





# 1990

## Administration Report

## Fund Membership

This year has seen further proposals for changes to the LGPS. At the time of writing this Report, legislation was in place covering membership, benefits and administration for a new Scheme, as well as the transitional protection in respect of all accrued rights to 31 March 2014.

Pension Services are committed to providing the best service possible to our stakeholders and the team are trained to a high standard in order to be able to deliver.

We do, however, welcome any comments or ideas which will help us improve this service. Our contact details can be found at the end of the Report.

Benefits for Scheme members are set by regulation and between April 2013 and the end of March 2014, these were the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007(as amended), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended).

## Pension Reform

Improvements in life expectancy and the escalating costs of public sector pension provision led to Lord Hutton's grass roots review; the purpose to make recommendations on how future pension provision could be made sustainable and affordable in the long term and fair to members and all stakeholders.

Details of the New LGPS were covered in our Report last year and have been communicated widely to our membership and employers.

The **main benefits** of the new Scheme are:

The option to give up some of your pension and take a **lump sum**

**Flexible**  
retirement  
options

# A guaranteed pension

1990

Pension for your spouse/civil partner/cohabiting partner and dependant children

## Death in service cover whilst in employment

From the 1st April 2014, the basic structure of the Scheme will be based on a Career Average Revalued Earnings (CARE) scheme, calculated on 1/49th of a members actual pay for each year of membership. We will calculate a pension for each year they are in the scheme, and this will then be added to their pension account.

Each yearly pension figure will then be increased in line with inflation, and when they retire all their pension pots are added together and become payable. The old Scheme membership built up prior to April 2014 is calculated on a final salary basis at 1/60th of their final pensionable pay. Scheme membership built up prior to April 2008 will also be calculated on a final salary basis at 1/80th of their final pensionable pay, and includes an automatic tax free lump sum.



# 1990

11th February

Nelson Mandela Freed

# Membership

The County Council administers the Scheme for over 250 employers. These employers include organisations such as local authorities, further and higher education colleges and voluntary and charitable organisations. This includes a number of “Admitted Bodies”. These are organisations that have entered into an agreement with the County Council to participate in the Fund.

As with the previous year, more schools have opted for academy status and authorities continued to outsource certain local government services to the private sector.

In terms of the current Scheme, membership has not varied tremendously as the table below denotes; however, as a Fund, we continue to monitor trends, including opt-out patterns, and utilise events, publications and employer engagement to ensure a robust membership

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Active pensionable employees	37,633	36,218	34,846	35,008	36,119
Pensioners and Dependents	22,983	24,201	25,821	26,637	28,260
Deferred pensioners (people who no longer pay into the scheme)	27,565	29,922	31,535	33,857	36,604
Total membership	88,181	90,341	92,202	95,502	100,983

## Membership Statistics as at 31/03/2014

Active Contributors



36,119

Deferred Beneficiaries

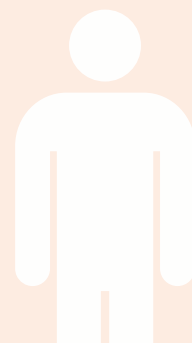
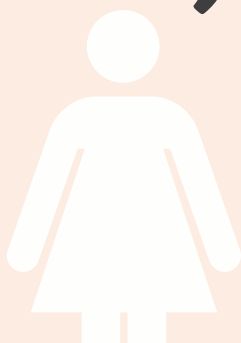


36,604

Pensioners and Dependents



28,260



## Age profile of members at 31/03/2014

Age group	Active	Deferred Beneficiaries	Retired	Spouse/Dependent
0-15	0	0	0	76
15-19	427	107	0	109
20-24	1455	936	0	35
25-29	2329	2557	0	1
30-34	3081	3228	1	3
35-39	3782	3841	6	5
40-44	5505	5675	35	28
45-49	6657	6957	75	55
50-54	5993	6698	206	122
55-59	4467	4809	1655	174
60-64	1888	1670	5477	256
65-69	456	87	7292	398
70-74	79	39	4423	439
75-79	0	0	2644	588
80-84	0	0	1600	600
85-89	0	0	789	462
90+	0	0	394	312
<b>Total</b>	<b>36119</b>	<b>36604</b>	<b>24597</b>	<b>3663</b>

### Notes:

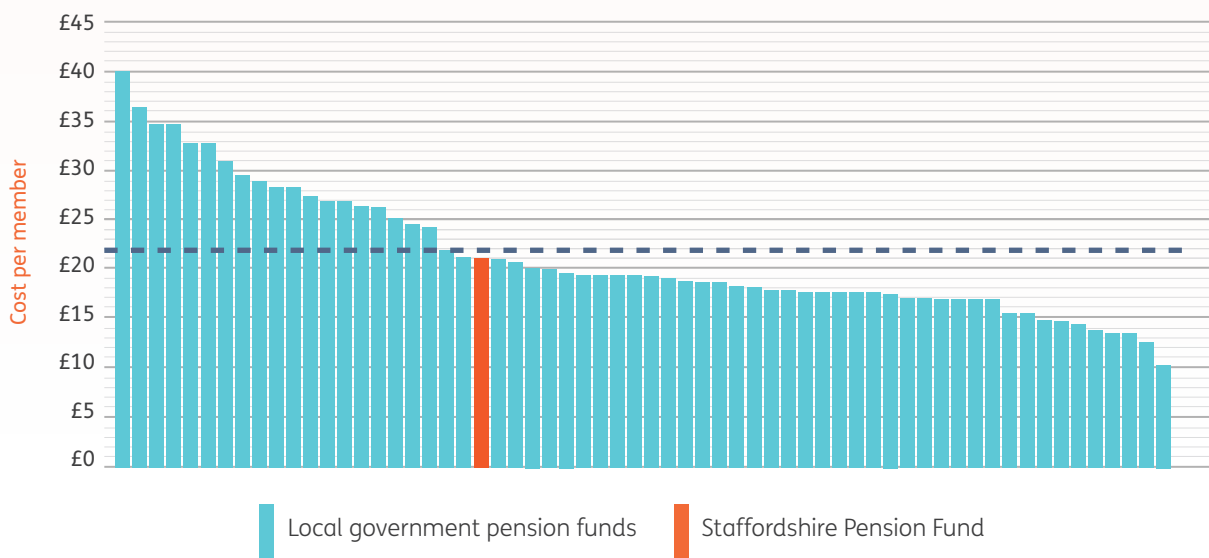
- **Active members** are employees currently contributing to the Local Government Pension Scheme and include some employees who have more than one contract of employment, each contract being treated separately for administration purposes.
- **Deferred members** are former active members who have elected to retain their rights in the Scheme until such time as they become payable.
- **Retired members** are in receipt of a pension.
- **Spouse / Dependent** members in receipt of a pension in respect of a former member.

# Benchmarking

Staffordshire Pension Fund has been a member of the CIPFA Pensions Administration benchmarking club for many years.

On an annual basis, the Pensions section completes a comprehensive questionnaire containing a breakdown of budget costs between pension’s administration and other functions within the section including Communications, IT, Accountancy, and the commissioning of actuarial work. Data is also provided on LGPS members, Fund employers, workloads, staffing, IT arrangements, industry standard performance indicators and current best practice.

The graph below illustrates that the service continues to be cost effective with the cost of administration remaining below with the Government’s key indicator as reported in national benchmarking return.

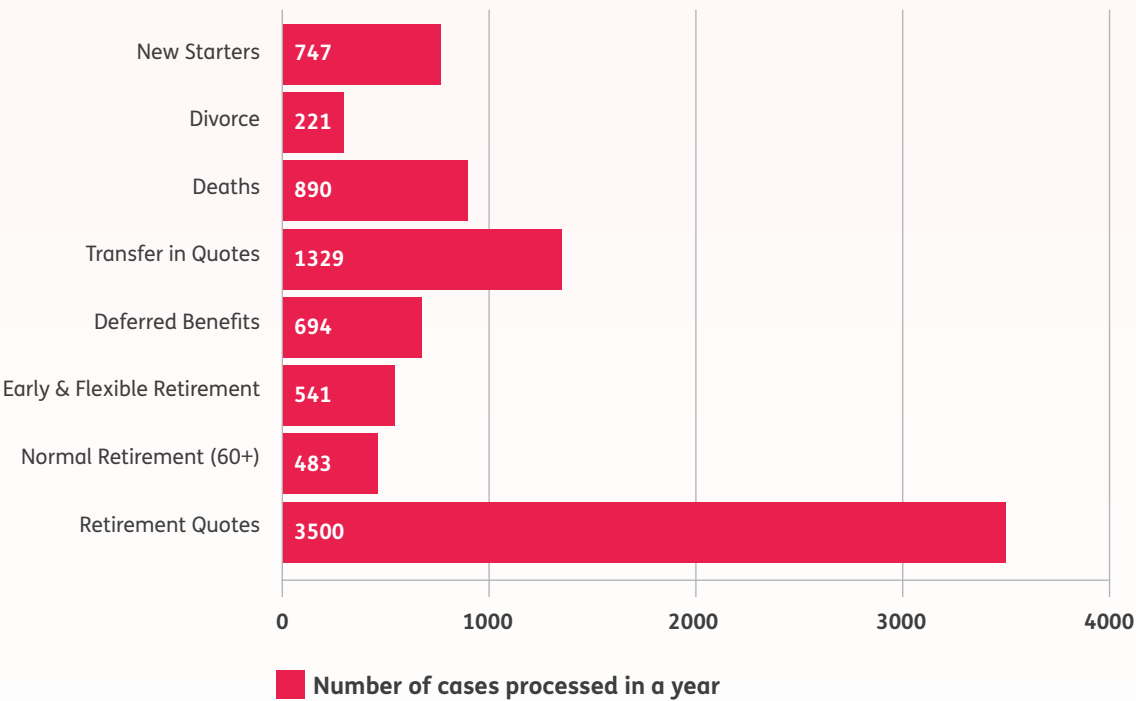


# Managing Performance

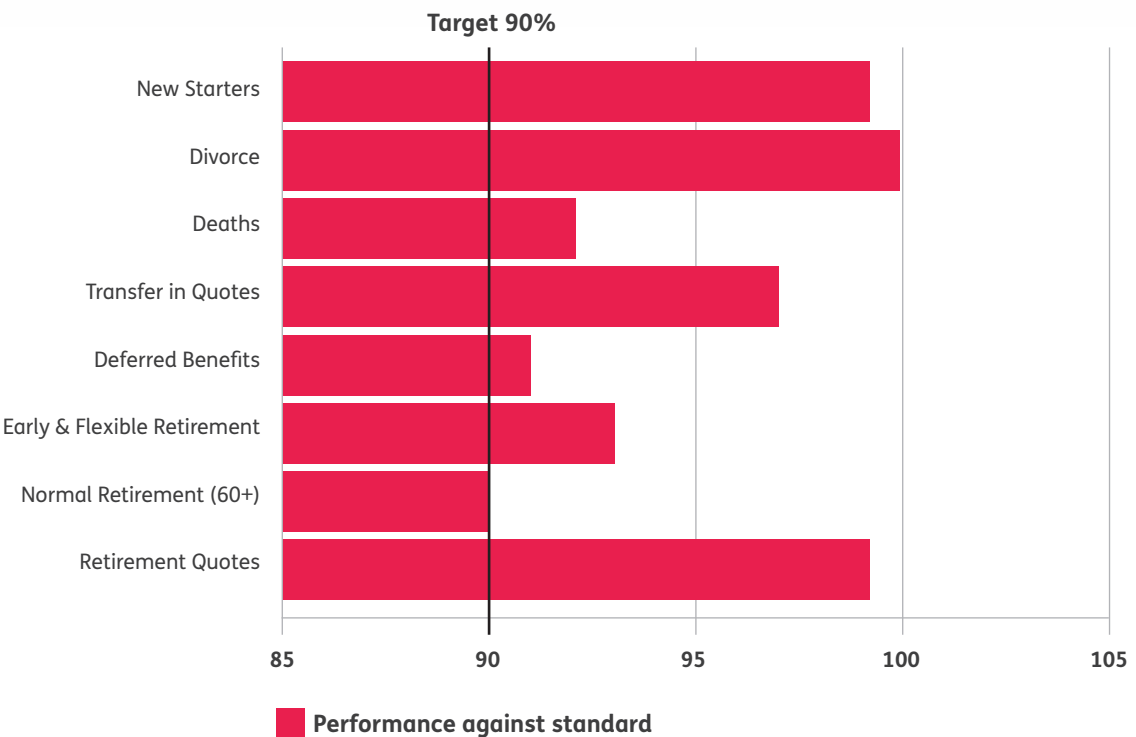
The Staffordshire Pension Fund has a number of performance indicators by which it measures administrative performance.

The following graphs illustrate our workloads over the last twelve months and our performance against our set targets.

Analysis of workload 2013/14



Performance against standard 2013/14



As a Fund we will continue to monitor our performance and aim for continuous improvement.



## Training

A number of operational staff completed their professional qualifications in Pensions. These qualifications will assist staff to deliver the new LGPS 2014 regulations and assist all employers to understand their role and responsibilities, in terms of data exchange and payroll system requirements for the new regulations.

## Feedback

Staffordshire Pension Fund carries out surveys and logs e-mails and communications from members and employers about their views and opinions.

Feedback from all our stakeholders is vitally important to us, in order to ensure we are providing a quality service they deserve.

Some of the comments we have received over the last 12 months include the following:

“

Thank you for the ABS's since 1987 with clear and helpful information allowing me to plan for 2014, which may have seemed less relevant at the time and were filed away, but inevitably the age of 60 was reached. *(Member)*

”

“

Any contact I have had with personnel of the service was polite and efficient - particularly on a face to face basis where I had a query on the wording on one of the forms.

*(Member)*

”

1990

“The information I was given was easy to understand and the service was excellent (Member)”

“A huge thank you to Janet, Matthew & Julie. If it was not for you guys I would have never realised I was entitled to a Staffs Pension. Your team were exceptional at tracking me down, sorting the paperwork and answering my questions over the phone and sending the required bank form via email. You were amazing, quick and efficient. (Member)”

“I cannot thank you enough for your help and advice and prompt payment. Also what a lovely team work in the pensions department. What a great team you are. During the process I spoke to 3 or 4 different staff members who were all very helpful, pleasant and polite. Once again thank you very much. (Member)”

Although not all comments received from members are positive, when members are dissatisfied by the service they receive, we do our very best to learn from this.

“Website language was sometimes not consistent. I can only say the service was excellent for those of us who don't understand the language. I had no contact from my HR during this process and relied totally on the contact with the pension's team. I'm sorry I cannot remember these names but both chaps were extremely helpful and got me to the positive position I am in today.”

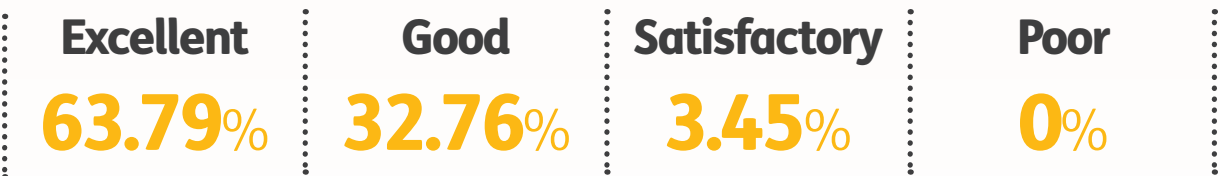
As a result the website was reviewed and areas of inconsistency addressed.

In our most recent Employer Survey when asked the following questions, these were the response we receive:

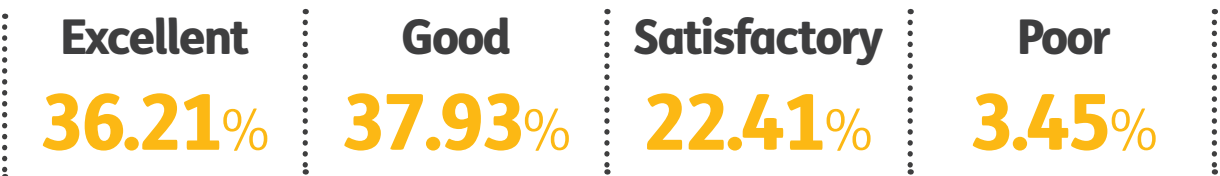
How satisfied are you with the staff's professional knowledge?



How would you rate the courteousness and politeness of staff?



How would you rate the speed of response to enquiries?



1999

The Euro landed as new European Currency

# Communications

During 2013/2014, the Fund continued to develop the ways in which it communicated with its stakeholders.

The Fund is required to have a formal communications policy under the regulations.

This policy currently sets out the following:

- How the Fund communicates with its stakeholders
- The format, frequency and method of communication
- How the Fund promotes the LGPS to prospective members and employers

The Fund revises the Communications Policy Statement on a regular basis, with it being formally agreed by the Pensions Committee, to ensure it reflects the wishes of the members and utilises any available advancements in technology.

The primary communication and marketing activity is to educate and inform members in relation to the LGPS and the options available by virtue of their membership. Within the past year, work has commenced to educate our members and employers about the changes to the Scheme being introduced from 1 April 2014, and other legislative changes such as automatic enrolment. This education has been completed by various methods, including notes in benefit statements, tailored newsletters and one-to-one meetings, roadshows and events.

## Key Communication Activity

### Partnership Working

Staffordshire Pension Fund has continued to collaborate with other Administering Authorities throughout the year, and we have produced several key documents by sharing expertise and costs.

### Training for Employers

Training was arranged on an ad hoc basis prior for the implementation of the new 2014 scheme and new schools converting to academy status which have been offered specific meetings tailored to their needs.

### Regular Updates on the LGPS

In preparation for 2014, Staffordshire Pension Fund has issued regular updates to both active scheme members and employers. The feedback on these has been very positive.

### New Pension Fund website

The Pension Fund website has been reviewed and launched on a new platform this year. There is a dedicated employer section that contains all information, including standard forms, which an employer needs to administer the LGPS. The website address is [www.staffspf.org.uk](http://www.staffspf.org.uk)

## Annual Benefit Statements

Each active and deferred member of the pension scheme receives an annual benefit statement. This statement normally provides details of benefits accrued to 31st March of the previous year along with estimated benefits to retirement age; death in service benefits and a service history.

## Pension Surgeries/ Presentations

With the introduction of a New Scheme in April 2014, the Pension Fund organised a number of presentations to educate and inform the membership, these will continue to be rolled-out in 2014-2015.

## Newsletters

Staffordshire Pension Fund produces and distributes newsletters. These are sent to our active, deferred and retired members. They have been very well received by scheme members over the last twelve months.

## National Representation

The Pension Fund has representation nationally on the Group created to look at administration and communication within the LGPS.

The Group has provided recommendations and documentation that has been rolled out at a national level to all the Funds around the country by the Local Government Employers Association.



## IDRP (Internal Dispute Resolution Procedure)

The Staffordshire Fund has to adhere to the scheme regulations that govern the LGPS. Part of those regulations outline the process that a scheme member has to undertake if they wish to dispute any decision made in respect of them that may affect their pension entitlements. This process is known as the Internal Disputes Resolution Procedure (IDRP) and is a 3-stage process. The first stage requires the scheme member's employer (former employer if no longer an active scheme member) to review their decision that led to the member's dispute being raised. If the member's dispute is not upheld at stage one, stage two passes to Staffordshire County Council as the administering authority to the Staffordshire Pension Fund. If the member remains dissatisfied, stage three passes to the Pensions Ombudsman via The Pensions Advisory Service (TPAS).

## IDRP Figures for 2013/14



## Proposed Introduction of a data exchange facility

As the new requirements of the LGPS 2014 put an extra burden on our scheme employers to submit timely and accurate data, we are proposing to introduce an electronic data exchange facility early in 2015. The facility will enable key data to be extracted directly from the employer's payroll on a monthly basis, to ensure that pension records are synchronised with up to date pay and other material change information.

The facility will also assist us in complying with the Pension Regulator's requirements in their code of practice for accurate record keeping, due to be introduced in 2015.

Ultimately, this enhancement will lead to longer term cost savings by reducing the level of manual intervention in the maintenance of pension records.



# Organisations which were employers of the Fund during 2013/2014

Existing employers     New employers since April 2013

( ) Denotes number of schools with Academy or Trust

Staffordshire County Council (as employing authority)	Chadsmead Primary Academy	Homezone Housing Limited (Lichfield)
Academy Enterprise Trust	Cheadle Town Council	Horninglow and Eton Parish Council
Academy Transformation Trust (2)	Cheddleton Parish Council	Housing Plus
Alleyes Academy	Chesterton Academy Trust (2)	Inspace Partnerships
All Saints Catholic Collegiate (5)	Christchurch Academy	John Taylor Academy
Alrewas Parish Council	Codsall Parish Council	JDM Accord Limited
Anglesey Parish Council	Colwich Parish Council	Keele University
APCOA Parking UK Limited	De Ferrers Academy	KGB Cleaning Services Limited (ex Newcastle College)
Aspens Services Ltd	Draycott in the Clay Parish Council	Kidsgrove Town Council
Aspire Housing Limited (Newcastle)	East Staffordshire Borough Council	Kier Group
Audley Rural Parish Council	Eccleshall Parish Council	Kinver Parish Council
Belgrave Academy	Entrust	Landau Forte Academy (3)
Biddulph Town Council	Essington Parish Council	Lapley, Stretton & Wheaton Aston Parish Council
Brereton and Ravenhill Parish Council	Erasmus Darwin Academy	Leek Town Council
Brewood and Coven Parish Council	Evolve Young People	Lichfield City Council
Bridgtown Parish Council	Fradley and Streethay Parish Council	Lichfield Diocese Woodard Academy
Burntwood Town Council	Glebe Primary School	Lichfield District Council
Bursley Academy	Gnosall Parish Council	Lichfield Garrick Theatre Ltd
Burton and South Derbyshire College	Great Wyrley Parish Council	Liverpool Personal Services Society
Cannock Chase Academy	Haywood Engineering College	Lovell Partnerships Limited
Cannock Chase District Council	Heath Hayes & Wimblebury Parish Council	Madeley Academy
Carmountside Primary School	Hednesford Town Council	

Make Some Noise West Midlands Limited

Mears Ltd

Mencap

Mercia Academy Trust(2)

Moorlands Housing

Mosley Academy

Newcastle-under-Lyme Borough Council

Newcastle-under-Lyme College

Newman Catholic Collegiate (9)

Newstead Primary Academy Trust

North Staffordshire Combined Healthcare

Northgate Information Solutions Limited (Lichfield)

Northgate Information Solutions Limited (Moorlands)

Northgate I.S Uk Ltd

Norton Canes Parish Council

Office of the Police and Crime Commissioner Staffordshire

Painsley Catholic College

Penkridge Parish Council

Perton Parish Council

Reach2 Staffordshire Academy Trust(4)

R M Education

Rugeley Town Council

Sandy Tots Ltd

Servicemaster Ltd

Sixth Form College, Stoke on Trent

South Staffordshire and Shropshire NHS Foundation Trust

South Staffordshire College

South Staffordshire District Council

South Staffordshire Housing Association

St.Bart's Academy Trust (2)

St Chads Academy Trust

St Edward's Church of England Academy

St Joseph's College Edmund Rice Academy Trust

St Margaret Ward School

St Thomas More Catholic College

Stafford and Rural Homes Limited

Stafford Borough Council

Stafford College

Staffordshire and Shropshire Valuation Tribunal

Staffordshire and Stoke on Trent NHS Partnership Trust

Staffordshire Moorlands District Council

Staffordshire University

Staffordshire University Academy

Stoke-on-Trent and Staffordshire Fire Authority

Stoke-on-Trent City Council

Stoke-on-Trent College

Stone Town Council

Swinfen and Packington Parish Council

Tamworth Borough Council

Taylor Shaw (Alleyes)

The Biddulph Academy

The Cheadle Academy

The Colleges Academy Trust (5)

The Co-operative Community Academy

The Creative Academy Trust (5)

The Creative Education Academy Trust

The Crescent Academy

The Discovery Academy

The Eaton Park Academy

The JCB Academy

The Landau Forte Academy

The Ormiston Horizon Academy

The Ormiston Sir Stanley Matthews Academy

The Rural Enterprise Academy

The Sutherland Academy

Thistley Hough High School

Tiny Toez Ltd

Trent and Dove Housing Association

United Learning Trust

University Of Chester Academy Trust (2)

Uttoxeter Town Council

Violet Way Academy

Wates Group Ltd

Weston Road Academy

Wigan Leisure and Culture Trust

Wilnecote High School

Wombourne Parish Council

## Financial statements

1 April 2013 to 31 March 2014

### Pension Fund account

Staffordshire Pension Fund account for the year ended 31 March 2014

Contributions and benefits	Notes	2012/2013 £ 000	2013/2014 £ 000
Contributions receivable	4	145,233	149,178
Transfers in	5	6,741	9,172
		<b>151,974</b>	<b>158,350</b>
Benefits payable	6	(137,290)	(142,964)
Leavers	7	(10,644)	(6,458)
Administrative expenses	8	(2,339)	(2,632)
		<b>(150,273)</b>	<b>(152,054)</b>
<b>Net additions from dealings with Fund members</b>		<b>1,701</b>	<b>6,296</b>
<b>Returns on investments</b>			
Investment income	9	51,710	59,168
Change in the market value of investments	10	328,291	187,884
Investment management expenses	12	(9,565)	(11,497)
<b>Net returns on investments</b>		<b>370,436</b>	<b>235,555</b>
Net increase in the Fund during the year		372,137	241,851
Opening net assets of the Fund		2,679,366	3,051,503
<b>Closing net assets of the Fund</b>		<b>3,051,503</b>	<b>3,293,354</b>

# Net assets statement

## Net assets statement at 31 March 2014

	Notes	2012/2013 £ 000	2013/2014 £ 000
<b>Investment assets</b>			
Fixed interest securities	10/10a	226,831	239,381
Equities	10/10a	1,143,621	1,241,458
Pooled investment vehicles	10/10a	1,078,121	1,124,979
Property	10/10a	234,136	243,546
Cash deposits	10/10a	126,142	146,842
Other investment balances	10/10a	226,250	275,690
Derivatives	11	45,292	32,835
		<b>3,080,393</b>	<b>3,304,731</b>
<b>Investment liabilities</b>			
Derivatives	11	(43,849)	(22,474)
		<b>3,036,544</b>	<b>3,282,257</b>
Current assets	15	<b>22,751</b>	<b>18,105</b>
Current liabilities	16	<b>(7,792)</b>	<b>(7,008)</b>
<b>Net assets of the Fund at 31 March</b>		<b>3,051,503</b>	<b>3,293,354</b>

The financial statements summarise the transactions of the Fund and deal with the net assets available to us. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial position on the scheme, which does take account of these obligations, is set out in the actuary's report

The notes on pages 42 to 65 also form part of the Pension Fund financial statements.

## Actuarial statement

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

### Description of funding policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated 18 March 2014. In summary, the key funding principles are as follows:

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

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

For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised 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 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. An estimate was also carried out as at 31 March 2014.

Date	31 March 2013	31 March 2014
Liabilities – ongoing basis	£m	£m
Assets	3,070	3,251
Liabilities	4,279	4,227
(Deficit)	(1,209)	(976)
Funding level	71.8%	76.9%

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

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

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

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

### Method

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

### Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013		31 March 2014	
	% p.a. Nominal	% p.a. Real	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%	5.1%	2.4%
Pay increases	4.3%	1.8%	4.5%	1.8%
Price inflation/Pension increases	2.5%	-	2.7%	-

**2008** Local Government Pension Scheme (Administration) Regulations came into force.

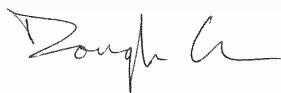
The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	24.3 years	26.6 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Staffordshire County Council, administering authority to the Fund.

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



**Douglas Green FFA**  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
28 May 2014

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow



**2009** **BARACK OBAMA** BECOMES THE  
44TH PRESIDENT OF THE U.S.A.

# Pension Fund Accounts Reporting Requirement

## Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts;

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

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

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

## Balance Sheet

Year Ended	31 March 2013 £m	31 March 2014 £m
Present Value of Promised Retirement Benefits	4,869	5,054

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £2,316m in respect of employee members, £853m in respect of deferred pensioners and £1,885m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

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



## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £222m.

## Financial assumptions

My recommended financial assumptions are summarised below:

Year Ended	31 March 2013 % p.a.	31 March 2014 % p.a.
Inflation / Pension Increase Rate	2.8%	2.8%
Salary Increase Rate*	5.1%*	4.6%
Discount Rate	4.5%	4.3%

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

## Longevity assumption

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

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	24.3 years	26.6 years

\*Future pensioners are assumed to be currently aged 45

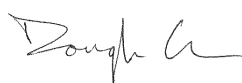
Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

## Commutation assumption

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

## Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 16 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Prepared by:-  
**Douglas Green FFA**  
 16 May 2014  
 For and on behalf of Hymans Robertson LLP

# Notes to the accounts

## 1. Basis of preparation

We have prepared the financial statements in accordance with the requirements of the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended and the Statement of Recommended Practice (SORP) The Financial Reports of Pension Schemes (as amended in 2007).

The financial statements follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector and issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

You can get more information on the Pension Fund, including the Fund Governance Statement, the Statement of Investment Principles and the Funding Strategy Statement from [www.staffspf.org.uk](http://www.staffspf.org.uk)

## 2. Accounting policies

When preparing the Pension Fund financial statements we have adopted the following significant accounting policies, which we applied consistently.

### Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid (buying) price.

Pooled investment vehicles are valued at the bid market price provided by the relevant fund managers, which reflects the market value of the underlying investments.

The value of fixed interest investments in the Fund's investment portfolio does not include interest earned but not paid at the year end, which is included separately within accrued investment income.

UK directly held property investments are stated at their value on the open-market based on an annual independent valuation by Jones Lang Lasalle, as at 31 March 2014. The valuation has been made in accordance with the RICS Valuation - Professional Standards, January 2014, published by the Royal Institute of Chartered Surveyors (RICS).

The private-equity, hedge-fund and alternatives fund valuations are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds up to 31 March 2014. Investments quoted on the stock market are valued at the bid market price quoted on that stock market.

Derivative contracts are valued at bid market price.

Transaction costs are included in the cost of purchases and sales proceeds and include fees, commissions, stamp duty and other fees (see note 10).

Investment income is recognised as follows:

- Interest income as it accrues
- Dividend income on the date the shares are quoted ex-dividend
- Property related income, which primarily consists of rental income, is received in advance and is accrued into the correct year

## Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month they relate to, at the rates given on the rates and adjustments certificate. Additional and actuarial strain contributions from the employer are accounted for in line with the agreement under which they are paid, or when they are received if there is no agreement. Amounts not due until future years are classed as a deferred debtor.

## Transfer values

Transfer values represent the amounts either due to the Fund from new members' previous pension Funds, or which the Fund is due to pay to the new Pension Funds of members who have left the Fund. Transfer values are accounted for on a receipts basis.

## Foreign currency transactions

Dividends, interest and the purchase and sale of investments in foreign currencies have been accounted for at the spot rates at the date of transaction. Where forward foreign exchange contracts are in place for assets and liabilities in foreign currencies, the exchange rate set out in the contract is used. Other assets and liabilities in foreign currencies are given in Sterling (£) at the rates of exchange that apply at the end of the financial year.

Surpluses and deficits arising when converting currency are dealt with as part of the change in market value of investments.

## Investment management expenses

Investment management expenses, including performance-related fees, are accounted for on an accruals basis and are recognised before any VAT the Fund can recover. Performance related fees were £2.1m in 2013/2014 (£1.2m in 2012/2013).

## Administrative expenses

All staff costs of the pensions administration team are charged to the Fund. A proportion of management, accommodation and other support services are charged to the Fund based on Staffordshire County Council policy. All administrative expenses are accounted for on an accruals basis.

## Taxation

The Fund is a registered public service scheme and as such is exempt from paying tax in the UK on interest received and on the proceeds of investments sold. The Fund may suffer withholding tax on overseas investments in the country of origin; where this is not recoverable it is accounted for as an expense when it arises.

## Benefits payable

Under the Pension Fund rules, members may receive a lump-sum retirement grant on top of their annual pension. Lump-sum retirement grants are accounted for from the date of retirement.

Other benefits are accounted for on the date the member leaves the Fund or dies.

## 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 are subject to minimal risk of changes in value.

## Financial instruments

The fair value of financial instruments is defined as the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The financial instruments of the pension fund have to be classified into the following categories under International Financial Reporting Standards (IFRS):

- Financial assets and liabilities at fair value through profit or loss, these have two categories: *Designated*, where assets and liabilities are measured at fair value with fair value changes through profit and loss; and *Held for trading*, where financial assets and liabilities are held for the purpose of selling in the short term for which there is a pattern of short term profit making.
- Available for sale financial assets; any financial asset designated on initial recognition as available for sale.
- Loans and receivables; any financial asset with fixed or determinable payments not quoted in the open market such as debtors.
- Held to maturity investments; any financial asset which is intended to be held to maturity at amortised cost.
- Other financial liabilities measured at amortised cost using the effective interest rate.

### 3. Pension Fund investments 2013/2014

The market value and percentage of total assets held by each of the investment managers at the end of the financial year is shown below.

External fund manager	31 March 2013		31 March 2014	
	£ 000		£ 000	
Insight Investment (corporate bonds)	231,287	8%	258,960	8%
Standard Life Investments (UK equity)	305,840	10%	345,953	10%
Aberdeen Asset Managers (global equity)	252,995	8%	256,832	8%
JP Morgan Asset Management (global equity)	233,824	8%	260,316	8%
Longview Partners (global equity)	134,037	4%	157,258	5%
Sarasin & Partners (global equity)	236,415	8%	248,311	8%
State Street Global Advisors (global index tracking)	851,734	28%	894,330	27%
Legal & General Investment Management (passive UK index-linked)	152,576	5%	162,079	5%
Russell Investments (emerging markets equity)	68,651	2%	61,776	2%
Record Currency Management (currency hedging)	729	0%	13,602	0%
Colliers International UK plc (property)	234,267	8%	243,800	7%
Morgan Stanley Investment Management (alternatives funds)	50,538	2%	52,402	2%
Schroder Investment Management (alternatives funds)	50,628	2%	51,134	2%
Goldman Sachs Asset Management (hedge funds)	30,025	1%	61,313	2%
FRM Investment Management (hedge funds)	25,188	1%	0	0%
HarbourVest Partners (private equity)	76,757	3%	80,899	3%
Knightsbridge Advisors (private equity)	10,815	0%	11,662	0%
Partners Group (private equity)	11,430	0%	9,595	0%
Lazard Technology Partners (private equity)	1,902	0%	1,656	0%
Capital Dynamics (private equity)	1,031	0%	844	0%
Director of Finance and Resources (centrally held)	67,750	2%	103,350	3%
	<b>3,028,419</b>	<b>100%</b>	<b>3,276,072</b>	<b>100%</b>

No major changes were made to the Fund's investment management structure during 2013/2014. The FRM Investment Management contract was terminated in 2012/2013 with the cash held by FRM pending payment back to the Fund at 31 March 2013.

## Stock Lending

The Fund lends stock in return for payment. The table below summarises the value of the stock lent out by the Fund at the end of the last two years.

	31 March 2013	31 March 2014
	£ 000	£ 000
Equities - UK	23,693	25,617
Equities - Global	40,682	42,255
Fixed interest - UK	12,958	5,470
Fixed interest - Global	14,628	7,643
	<b>91,961</b>	<b>80,985</b>

Securities released to a third party under the stock-lending agreement are included in the net assets statement to reflect the Fund's continuing economic interest in those securities.

Collateral holdings, supporting the loans, are not identified as individual loans but are kept in a pooled structure. As security for the stocks on loan, as at 31 March 2014 the Fund held £86.4 million (£100.3 million at 31 March 2013) of collateral in the form of government obligations (such as Gilts) and equities.

Income received from stock-lending activities was £0.24 million for the year ending 31 March 2014 (£0.23 million for year ending 31 March 2013). This is included within the investment income figure shown on the Pension Fund account.



# 3 million

people turned up around the Thames in London to watch the firework display for the Millennium

## 4. Contributions receivable

	2012/2013 £ 000	2013/2014 £ 000
<b>Employers</b>		
Normal	100,792	104,246
Actuarial strain	7,724	7,833
Additional*	1,340	1,520
<b>Scheme members</b>		
Normal	35,377	35,579
<b>Total</b>	<b>145,233</b>	<b>149,178</b>

\*The additional contributions in 2012/2013 and 2013/2014 were made to the Fund by Staffordshire County Council on behalf of Staffordshire and Stoke on Trent NHS Partnership Trust.

Employer's normal contributions include payments for past deficits as agreed by the actuary. The 31 March 2010 valuation's common contribution rate, which covers the period up to 31 March 2014, was 26.8% in total of which 10.6% related to recovering past deficits.

These contributions can be analysed by type of member body as follows.

Staffordshire County Council	61,334	54,436
Scheduled bodies	69,234	73,182
Admitted bodies	14,665	21,560
<b>Total</b>	<b>145,233</b>	<b>149,178</b>

## 5. Transfers in

	2012/2013 £ 000	2013/2014 £ 000
Individual transfers in from other schemes	6,741	9,172

## 6. Benefits payable

	2012/2013 £ 000	2013/2014 £ 000
Pensions	107,587	113,090
Commutations and lump-sum retirement benefits	25,928	26,178
Lump-sum death benefits	3,775	3,696
<b>Total</b>	<b>137,290</b>	<b>142,964</b>

These benefits can be analysed by type of member body as follows.

Staffordshire County Council	62,321	62,923
Scheduled bodies	68,164	71,397
Admitted bodies	6,805	8,644
<b>Total</b>	<b>137,290</b>	<b>142,964</b>

## 7. Payments to and on account of leavers

	2012/2013 £ 000	2013/2014 £ 000
Individual transfers to other schemes	6,873	6,448
Group transfers to other schemes*	3,749	0
Payments for members joining / (leaving) state scheme	(6)	1
Refunds to members leaving service	28	9
<b>Total</b>	<b>10,644</b>	<b>6,458</b>

\*The group transfer figure for 2012/2013 represents the final transfer of assets relating to the movement of Staffordshire Probation Service staff to the West Midlands Pension Fund.



## 8. Administrative expenses

	2012/2013 £ 000	2013/2014 £ 000
Administration and processing	1,900	1,937
Actuarial services	186	394
External Audit fee	26	25
Other expenses	207	231
Printing and publications	20	45
<b>Total</b>	<b>2,339</b>	<b>2,632</b>

## 9. Investment income

	2012/2013 £ 000	2013/2014 £ 000
Fixed interest securities	7,093	9,879
Dividends from equities	28,778	34,755
Income from index-linked securities	478	0
Income from pooled investment vehicles	1,360	833
Rents from property	13,535	13,474
Interest on cash deposits	230	449
Stock lending	234	240
Other	626	212
	<b>52,334</b>	<b>59,842</b>
Withholding tax we cannot recover	(624)	(674)
<b>Total</b>	<b>51,710</b>	<b>59,168</b>

## 10. Investment reconciliation

	Value at 1 April 2013	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2014
	£ 000	£ 000	£ 000	£ 000	£ 000
Fixed interest securities	226,831	34,343	(11,739)	(10,054)	239,381
Equities	1,143,621	567,733	(538,351)	68,455	1,241,458
Pooled investment vehicles	1,078,121	15,800	(31,600)	62,658	1,124,979
Derivatives	1,443	5,898,014	(5,914,142)	25,046	10,361
Property	234,136	19,610	(38,434)	28,234	243,546
Other	218,125	60,842	(21,598)	12,136	269,505
	<b>2,902,277</b>	<b>6,596,342</b>	<b>(6,555,864)</b>	<b>186,475</b>	<b>3,129,230</b>
External cash deposits (centrally held)	67,720				103,339
Investment manager and central cash	58,422			1,409	43,503
	<b>3,028,419</b>			<b>187,884</b>	<b>3,276,072</b>
Outstanding dividend entitlements and recoverable withholding tax	8,523				8,437
Amount receivable for sales of investments	2,313				6,815
Amounts payable for purchases of investments	(2,711)				(9,067)
<b>Total</b>	<b>3,036,544</b>				<b>3,282,257</b>

Transaction costs are included in the cost of purchases and sales proceeds and include fees, commissions, stamp duty and other fees. The Fund was charged transaction costs of £2.6 million in 2013/2014 (£1.7 million in 2012/2013). As well as the transaction costs shown, the Fund was also charged indirectly through the bid-offer spread (the difference between bid prices and offer prices) on investments and within pooled investment vehicles.

The Fund holds the following pooled investments that exceed 5% of the total value of net assets at 31 March 2014 (also at 31 March 2013):

- State Street Global Advisors, Passive UK Equity - £311.7m (9.5%) (£286.3m (9.4%) at 31 March 2013);
- State Street Global Advisors, Passive All World Equity - £582.6m (17.7%) (£565.4m (18.5%) at 31 March 2013).

As at 31 March 2014 the Fund was committed to entering into the following investments:

- £55.0m of private equity investments (£46.7m at 31 March 2013);
- £12.2m of UK directly held property investments (£1.6m at 31 March 2013)

The Fund had no commitments to UK pooled property funds at 31 March 2014 (£3.4m at 31 March 2013)

**A further analysis of the market value of investments at 31 March is given overleaf.**

## 10a. Analysis of investments

	31 March 2013 £ 000		31 March 2014 £ 000	
<b>Fixed interest securities</b>				
UK corporate quoted	94,730	3%	106,204	3%
Global corporate quoted	132,101	4%	133,177	4%
	<b>226,831</b>	<b>7%</b>	<b>239,381</b>	<b>7%</b>
<b>Equities</b>				
UK quoted	405,535	13%	453,537	14%
Global quoted	738,086	25%	787,921	25%
	<b>1,143,621</b>	<b>38%</b>	<b>1,241,458</b>	<b>39%</b>
<b>Pooled investment vehicles</b>				
UK	341,795	11%	367,946	11%
UK index-linked	152,576	5%	162,079	5%
Global	583,750	20%	594,954	19%
	<b>1,078,121</b>	<b>36%</b>	<b>1,124,979</b>	<b>35%</b>
All companies operating unit trusts or managed funds are registered in the United Kingdom.				
<b>Derivatives (see note 11)</b>				
Forward foreign currency	1,087	0%	10,210	0%
Futures	356	0%	151	0%
	<b>1,443</b>	<b>0%</b>	<b>10,361</b>	<b>0%</b>
<b>Property</b>				
UK directly held property	206,910	7%	207,605	6%
UK pooled property funds	27,226	1%	35,941	1%
	<b>234,136</b>	<b>8%</b>	<b>243,546</b>	<b>7%</b>
<b>Other</b>				
Alternatives funds	86,165	3%	103,536	3%
Hedge funds	30,025	1%	61,313	2%
Private equity	101,935	3%	104,656	3%
	<b>218,125</b>	<b>7%</b>	<b>269,505</b>	<b>8%</b>
<b>Cash</b>				
External deposits	67,720	2%	103,339	3%
Investment manager and central (£)	52,218	2%	37,102	1%
Investment manager and central (non Sterling)	6,204	0%	6,401	0%
	<b>126,142</b>	<b>4%</b>	<b>146,842</b>	<b>4%</b>
<b>Total</b>	<b>3,028,419</b>	<b>100%</b>	<b>3,276,072</b>	<b>100%</b>

## 11. Derivative contracts

### Forward foreign currency contracts

To reduce the volatility associated with fluctuating currency rates the Fund holds forward foreign currency contracts. The open contracts at 31 March are analysed in Sterling (£) against other major currencies below.

	31 March 2013	31 March 2013	31 March 2014	31 March 2014
	Assets	Liabilities	Assets	Liabilities
	£ 000	£ 000	£ 000	£ 000
Canadian Dollar	67	(259)	4,775	(2,378)
Swiss Franc	1,611	(1,994)	42	(449)
Euro	9,548	(10,332)	1,396	(1,739)
Japanese Yen	16,522	(12,689)	11,287	(7,502)
United States Dollar	17,068	(18,456)	15,179	(10,402)
Other	1	0	2	(1)
	<b>44,817</b>	<b>(43,730)</b>	<b>32,681</b>	<b>(22,471)</b>

### Futures contracts

Futures contracts were used for efficient portfolio management within the Insight Investment corporate bond portfolio. All were traded on a stock exchange and are listed above at 31 March.

	nominal value	31 March 2013	31 March 2013	31 March 2014	31 March 2014
	£ 000	Assets	Liabilities	Assets	Liabilities
	£ 000	£ 000	£ 000	£ 000	£ 000
Euro Bund Future (euro)					
- June 2013	5,960	0	(79)	0	0
Long Gilt Future (sterling)					
- June 2013	14,373	475	0	0	0
US 10 year Note (US\$)					
- June 2013	9,573	0	(35)	0	0
US 5 year Note (US\$)					
- June 2013	2,787	0	(5)	0	0
Euro Bund Future (euro)					
- June 2014	5,196	0	0	0	(3)
Long Gilt Future (sterling)					
- June 2014	13,933	0	0	87	0
US 10 year Note (US\$)					
- June 2014	7,620	0	0	45	0
US 5 year Note (US\$)					
- June 2014	4,743	0	0	22	0
		<b>475</b>	<b>(119)</b>	<b>154</b>	<b>(3)</b>

## 12. Investment management expenses

A breakdown of the costs we had to pay in connection with the investment of the Fund is set out below.

	2012/2013 £ 000	2013/2014 £ 000
Management and administration fees	7,876	9,798
Custody fees	145	178
Performance measurement services	88	100
Other	1,456	1,421
<b>Total</b>	<b>9,565</b>	<b>11,497</b>

## 13. Directly held property net asset account

The Fund had investments in property of £243.5m at 31 March 2014 (£234.1m at 31 March 2013), of which £207.6m was in directly held property (£206.9m at 31 March 2013). The account below reconciles the movement in the Fund's investments in directly held property.

	2012/2013 £ 000	2013/2014 £ 000
Balance at start of year	206,595	206,910
Purchases at cost	7,961	15,991
Sale proceeds	0	(37,693)
Change in market value	(7,646)	22,397
<b>Balance at 31 March</b>	<b>206,910</b>	<b>207,605</b>

## 14. Directly held property fund account

A summary of the income and expenses associated with the Fund's directly held property is given below.

	2012/2013 £ 000	2013/2014 £ 000
Rental income	13,535	13,474
Direct operating expenses	(1,413)	(1,403)
<b>Net income</b>	<b>12,122</b>	<b>12,071</b>

## 15. Current assets

	2012/2013 £ 000	2013/2014 £ 000
<b>Contributions due</b>		
Employers	17,124	12,970
Members	2,589	1,980
Cash balances	1,150	1,224
HM Revenue & Customs	11	11
Payments made in advance	17	0
Other	1,860	1,920
<b>Total</b>	<b>22,751</b>	<b>18,105</b>

An analysis of current assets by type of body is given below.

	2012/2013 £ 000	2013/2014 £ 000
Central government bodies	8,453	7,418
Other local authorities	12,429	8,055
NHS bodies	46	423
Public corporations and trading funds	432	451
Other entities and individuals	1,391	1,758
<b>Total</b>	<b>22,751</b>	<b>18,105</b>

## 16. Current liabilities

	2012/2013 £ 000	2013/2014 £ 000
Investment management expenses	(2,524)	(2,529)
Income received in advance	(2,001)	(1,081)
Benefits payable	(2,490)	(2,765)
Other	(777)	(633)
<b>Total</b>	<b>(7,792)</b>	<b>(7,008)</b>

An analysis of current liabilities by type of body is given below.

	2012/2013 £ 000	2013/2014 £ 000
Central government bodies	(1,018)	0
Other local authorities	0	(6)
NHS bodies	0	(3)
Public corporations and trading funds	0	0
Other entities and individuals	(6,774)	(6,999)
<b>Total</b>	<b>(7,792)</b>	<b>(7,008)</b>

## 17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contributions (AVC) scheme run by three providers. Contributions are paid directly from scheme members to the providers.

The contributions are not included within the fund accounts, in line with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

	Clerical Medical £ 000	Equitable Life £ 000	Standard Life £ 000
<b>Opening value</b>	<b>1,039</b>	<b>773</b>	<b>2,635</b>
Income	133	0	160
Expenditure	(118)	(110)	(970)
Change in market value	68	61	113
<b>Closing value</b>	<b>1,122</b>	<b>724</b>	<b>1,938</b>

## 18. Related-party disclosure

Staffordshire Pension Fund is administered by Staffordshire County Council. The county council incurs expenditure in relation to the administration of the Fund and is subsequently reimbursed by the Pension Fund.

The Pension Fund holds a proportion of its assets in cash to meet short term commitments. This cash is managed by the Staffordshire County Council Treasury and Pension Fund team in line with the Fund's Annual Investment Strategy which sets out the permitted counterparties and limits.

Staffordshire County Councillors can join the Fund up to 31 March 2014. As at this date three members of the Pensions Committee and the Pensions Panel had taken up this option.

## 19. Deferred debtor

A transfer was made from the Fund to the Civil Service Pension Scheme on 1 April 2005 in respect of magistrates courts. As at 31 March 2011 agreement had been reached that the Fund was due a payment that represented the shortfall between the assets held and the liabilities retained within the Fund. The shortfall of £8.512 million, including an allowance for the delay in receipt of 3.765%, meant ten payments were due to the Fund of £1.004m. These payments commenced in 2011/2012 and the current assets figure at note 15 (Employers) records the £7.028 million due at 31 March 2014.

## 20. Deferred liability

A cash transfer was made to the Fund in 2011/2012 by the Environment Agency of £0.188m. The transfer was in respect of Pre-1974 Water Company Pensions increase recharges and represents income received in advance. £0.013m has been transferred to the revenue account in 2013/2014 and £0.013m will be released per year until 2025/2026. The current liabilities figure at note 16 (Income received in advance) includes the remaining £0.150m to be released at 31 March 2014.

## 21. Events after the balance sheet date

There have been no significant events since 31 March 2014 that require any adjustment to these accounts.

## 22. Critical judgements in applying accounting policies

### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. The value of unquoted private equity investments at 31 March 2014 was £104.7m (£101.9m at 31 March 2013).

### Pension Fund liability

The Pension Fund liability is calculated every three years by the Fund actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19, the assumptions underpinning the valuation are given in the Actuarial Statement. The estimate is subject to significant variances based on changes to the underlying assumptions.



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

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below.

Item	Uncertainty	Effect if actual results differ from assumptions
Private equity	Private equity funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £104.7m. There is a risk that this investment may be under or overstated in the accounts.
Hedge funds	Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of hedge funds in the financial statements is £61.3m. There is a risk that this investment may be under or overstated in the accounts.
Alternatives Funds	The Fund invests in two diversified alternatives funds which are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of the Fund's investments in alternatives funds in the financial statements is £103.5m. There is a risk that this investment may be under or overstated in the accounts.

## 24. Classification of financial instruments

The net assets of the Fund disclosed in the net assets statement and under note 10 are made up of the following categories of financial instruments. No financial instruments were reclassified during 2013/2014.

The analysis below and in subsequent notes on financial instruments does not include the Pension Fund's directly held property. This is treated under a different accounting standard (IAS 40 Investment Property) and is disclosed under note 13 - Directly held property net asset account and note 14 - Directly held property fund account.

**31 March 2014**

	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£ 000	£ 000	£ 000	£ 000
<b>Financial assets</b>				
Fixed interest securities	239,381	0	0	239,381
Equities	1,241,458	0	0	1,241,458
Pooled investment vehicles	1,124,979	0	0	1,124,979
UK pooled property funds	35,941	0	0	35,941
Hedge funds	61,313	0	0	61,313
Private equity	104,656	0	0	104,656
Alternatives funds	103,536	0	0	103,536
Derivatives	10,361	0	0	10,361
Cash	0	148,066	0	148,066
Other investment balances	15,252	0	0	15,252
Current assets	0	16,881	0	16,881
	<b>2,936,877</b>	<b>164,947</b>	<b>0</b>	<b>3,101,824</b>
<b>Financial liabilities</b>				
Current liabilities	0	0	(7,008)	(7,008)
Other investment balances	(9,067)	0	0	(9,067)
	<b>(9,067)</b>	<b>0</b>	<b>(7,008)</b>	<b>(16,075)</b>
	<b>2,927,810</b>	<b>164,947</b>	<b>(7,008)</b>	<b>3,085,749</b>

The previous years data is given overleaf.

31 March 2013

	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£ 000	£ 000	£ 000	£ 000
<b>Financial assets</b>				
Fixed interest securities	226,831	0	0	226,831
Equities	1,143,621	0	0	1,143,621
Pooled investment vehicles	1,078,121	0	0	1,078,121
UK pooled property funds	27,226	0	0	27,226
Hedge funds	30,025	0	0	30,025
Private equity	101,935	0	0	101,935
Alternatives funds	86,165	0	0	86,165
Derivatives	1,443	0	0	1,443
Cash	0	127,292	0	127,292
Other investment balances	10,836	0	0	10,836
Current assets	0	21,601	0	21,601
	<b>2,706,203</b>	<b>148,893</b>	<b>0</b>	<b>2,855,096</b>
<b>Financial liabilities</b>				
Current liabilities	0	0	(7,792)	(7,792)
Other investment balances	(2,711)	0	0	(2,711)
	<b>(2,711)</b>	<b>0</b>	<b>(7,792)</b>	<b>(10,503)</b>
	<b>2,703,492</b>	<b>148,893</b>	<b>(7,792)</b>	<b>2,844,593</b>

## 25. Net gains and losses on financial instruments

The gains and losses recognised in the accounts in relation to financial instruments are made up as follows.

	2012/2013 £ 000	2013/2014 £ 000
<b>Financial assets</b>		
Designated as fair value through profit and loss	334,636	164,078
Loans and receivables	1,301	1,409
	<b>335,937</b>	<b>165,487</b>

## 26. Fair value of financial instruments

The following table summarises the carrying values of the financial instruments by class against their fair values.

	31 March 2013		31 March 2014	
	Carrying value £ 000	Fair value £ 000	Carrying value £ 000	Fair value £ 000
<b>Financial assets</b>				
Fair value through profit and loss	2,706,203	2,706,203	2,936,877	2,936,877
Loans and receivables	148,893	148,893	164,947	164,947
<b>Financial Liabilities</b>				
Fair value through profit and loss	(2,711)	(2,711)	(9,067)	(9,067)
Financial liabilities measured at amortised cost	(7,792)	(7,792)	(7,008)	(7,008)
	<b>2,844,593</b>	<b>2,844,593</b>	<b>3,085,749</b>	<b>3,085,749</b>

## 27. Valuation of financial instruments carried at fair value

The Fund is required to classify its financial instruments into three levels of a fair value hierarchy according to the quality and reliability of information used to determine fair values. The three levels are detailed below.

**Level 1** - Quoted prices (unadjusted) in active markets for identical assets or liabilities. Examples of financial instruments classified as level 1 are quoted equities and fixed interest securities.

**Level 2** - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). An example of a level 2 financial instrument is a pooled property fund as they are not traded in a market that is considered to be active and valuation techniques used to determine fair value use inputs based significantly on observable market data.

**Level 3** - Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Such instruments would include private equity and hedge funds (fund of funds), which are valued using valuation techniques that require significant judgement.

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

### 31 March 2014

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
<b>Financial assets</b>				
Designated as fair value through profit and loss	2,621,221	46,151	269,505	2,936,877
Loans and receivables	164,947	0	0	164,947
<b>Financial liabilities</b>				
Designated as fair value through profit and loss	(9,067)	0	0	(9,067)
Financial liabilities at amortised cost	(7,008)	0	0	(7,008)
	<b>2,770,093</b>	<b>46,151</b>	<b>269,505</b>	<b>3,085,749</b>

The previous years data is given below.

### 31 March 2013

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
<b>Financial assets</b>				
Designated as fair value through profit and loss	2,459,765	28,313	218,125	2,706,203
Loans and receivables	148,893	0	0	148,893
<b>Financial liabilities</b>				
Designated as fair value through profit and loss	(2,711)	0	0	(2,711)
Financial liabilities at amortised cost	(7,792)	0	0	(7,792)
	<b>2,598,155</b>	<b>28,313</b>	<b>218,125</b>	<b>2,844,593</b>

## 28. Nature and extent of risks arising from financial instruments

The primary objective of the Fund is to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment. The Fund aims to do this by adopting an investment strategy that balances risk and return.

The majority of the Fund is invested through external investment managers. Each has an investment management agreement in place which sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions.

Risks are managed through diversification; by investing across asset classes, across managers and styles and ensuring managers maintain a diversified portfolio of investments within their mandate. The majority of the Fund is invested in liquid investments.

### Market risk

Market risk is the risk of loss from fluctuations in market prices, interest rates or currencies. The Fund is exposed through its investment portfolio to all these market risks.

Market risk also represents the risk that the value of a financial instrument will fluctuate caused by factors other than those mentioned above. These changes can be caused by factors specific to the individual instrument or those affecting the market in general and will affect each asset class the Pension Fund holds in different ways.

A high proportion of the Fund is invested in equities and therefore fluctuation in equity prices is the largest risk the Fund faces. The Fund relies on the fact that it has positive cash flows and a strong employer covenant to underpin its investment in equities and maintains its high exposure to equities over the long term as they are expected to deliver higher returns.

The Fund manages market risk through a diversified investment portfolio and instructing individual investment managers to diversify investments within their own individual portfolios in line with their investment strategies and mandate guidelines. The Pensions Panel and Pensions Committee regularly receive reports which monitor such risks.

## Market risk – sensitivity analysis

In consultation with the fund's investment advisor the following movements in market prices have been judged as possible for the 2014/2015 financial year. The potential market movements figures also allow for interest rate and currency rate fluctuations.

Asset type	Potential market movements
UK equity	+/- 17%
Global equity	+/- 21%
Private equity	+/- 29%
UK fixed interest bonds	+/- 12%
UK Index-linked bonds	+/- 6%
Corporate bonds	+/- 11%
Cash	+/- 1%
UK pooled property funds	+/- 15%
Alternatives	+/- 6%

This movement in the market prices would increase or decrease the net assets at 31 March 2014 to the amounts shown below.

Asset type	31 March 2014 £ 000	Percentage change %	Value on increase £ 000	Value on decrease £ 000
UK corporate bonds	106,204	12%	118,948	93,460
Global corporate bonds	133,177	12%	149,158	117,196
UK equities	453,537	17%	530,638	376,436
Global equities	787,921	21%	953,384	622,458
UK pooled investments	367,946	17%	430,497	305,395
UK index-linked pooled investments	162,079	6%	171,804	152,354
Overseas pooled investments	594,954	21%	719,894	470,014
Forward foreign currency	10,210	0%	10,210	10,210
Futures	151	0%	151	151
UK pooled property funds	35,941	15%	41,332	30,550
Hedge funds	61,313	6%	64,992	57,634
Private equity	104,656	29%	135,006	74,306
Alternatives funds	103,536	6%	109,748	97,324
Cash	146,842	1%	148,310	145,374
Outstanding dividend entitlements and recoverable withholding tax	8,437	0%	8,437	8,437
Amount receivable for sales of investments	6,815	0%	6,815	6,815
Amounts payable for purchases of investments (9,067)		0%	(9,067)	(9,067)
Current assets	18,105	0%	18,105	18,105
Current liabilities	(7,008)	0%	(7,008)	(7,008)
	<b>3,085,749</b>		<b>3,601,354</b>	<b>2,570,144</b>

## Interest rate risk

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

Changes in market interest rates would affect the value of the fund's fixed interest and index-linked securities. The amount of income the fund generates from its cash holdings would also be affected.

## Foreign currency risk

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in Sterling (£) will fluctuate because of changes in foreign exchange rates.

A high proportion of the fund's equity portfolio is held in global stock markets. To reduce volatility associated with fluctuating currencies, the fund employs Record Currency Management to manage a currency hedging mandate.

## Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. The biggest exposure the fund has is through its investment in corporate bonds.

The fund is also exposed to credit risk through other investment managers that hold assets and the custodian. The fund minimises credit risk through the careful selection and monitoring of high quality counterparties. Assets and cash held by the custodian are held in individual accounts in the pension fund's name, clearly segregated from the assets of other clients and the custodian.

Through its stock lending programme the fund is exposed to the collateral provided by the borrower against the securities lent. To manage this risk the collateral permitted is restricted to government obligations (such as gilts) and equities. Collateral is held in excess of the securities lent.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the fund pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the fund.

Another source of credit risk for the fund is the cash it holds to meet short-term commitments. The cash is managed by the Staffordshire County Council Treasury and Pension Fund team in line with the fund's Annual Investment Strategy which sets out the permitted counterparties and limits. Fund's Annual Investment Strategy which sets out the permitted counterparties and limits.



In 2013/2014 investments were made with:

- Staffordshire County Council's banker, The Co-operative Bank (up to £5m - maximum 1 week). Following a downgrade of the bank during the year, deposits were ceased to be made with this counterparty.
- "AAA" rated Sterling (£) Money Market funds with same day access (lower of £20m or 50% of cash held)
- Banks and Building Societies that met the Fund's credit criteria (lower of £10m or 25% of cash held - maximum 12 months)

At 31 March 2014, £103.3m was held in this way (£67.7m at 31 March 2013).

## Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. To manage this risk the fund holds an allocation of its assets in cash to meet short term commitments.

The majority of the stocks held by the fund's investment managers are quoted on major stock markets and may be realised quickly if required. Less liquid investments such as property, private equity, hedge funds and alternatives funds currently make up a smaller proportion of the fund's assets.

In the short-term we can borrow money on the money markets to cover any shortfall that may arise. Overall there is very little risk that we will not be able to raise funds to meet our commitments.

## Statement of Director of Finance and Resources Responsibilities

In preparing this Pension Fund report, the Director of Finance and Resources 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 on Local Authority Accounting
- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Director of Finance and Resources certificate

I certify that the Pension Fund report presents fairly the financial position of the Pension Fund as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Andrew Burns BSc (Hons), CPFA, MBA  
Director of Finance and Resources

# Independent auditors' statement to the Members of the Staffordshire County Council (the Authority) on the Pension Fund financial statements

## Statement on the financial statements

### Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Staffordshire County Council for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have examined

The pension fund financial statements, which are prepared by Staffordshire County Council comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

## Responsibilities for the financial statements and our examination

### Our responsibilities and those of the Responsible Finance and Resources Officers

As explained more fully in the Statement of Director of Finance and Resources Responsibilities set out on page 65 of the audited Statement of Accounts the Director of Finance and Resources is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. Our responsibility is to express an opinion on the consistency of the financial statements within

the pension fund annual report with the pension fund accounts in the Statement of Accounts of Staffordshire County Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

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 financial statements. The other information consist only the Chairman's Report, Fund Management, Investment Report, Fund Membership, Glossary and Contacts.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 25 September, and the date of this statement.



Richard Bacon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT  
15 October 2014

- (a) The maintenance and integrity of the Staffordshire County Council website is the responsibility of the senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

## Glossary of terms

### Actuarial valuation

A valuation carried out by an actuary to check what a pension scheme's assets are worth versus its future liabilities. This is then used to work out how much contributions must be so there will be enough money in the scheme for all people to get their pensions.

### Actuarial strain

This is a charge paid to the Pension Fund for paying pensions early.

### Additional voluntary contributions (AVCs)

This is an extra contribution a member can pay to their own pension scheme to increase future pension benefits.

### Alternative investments

Investments considered outside of the traditional asset classes of stocks, bonds and cash.

### Benchmarks

These are investment performance standards that we expect our investment managers to achieve and against which we measure their investment return.

### Bid-market price

The price a buyer pays for a stock.

### Collateral holdings

Assets pledged to a lender until the loan is repaid. If the borrower does not pay off the loan, the lender has the legal right to seize the asset and sell it to pay off the loan.

### Corporate governance

The systems by which companies are directed and controlled.

### Derivatives

Investments that derive their value from underlying assets such as currencies or are linked to indices such as a stock market index.

### Equities

Stocks representing ownership interest in companies.

### Financial instrument

A contract between two parties that involves a monetary exchange for some type of debt or asset.

### Fixed-interest investments

Where you loan money to a government or individual company for a fixed rate of income.

### Hedge funds

A portfolio of investments that use advanced investment strategies with the goal of generating high returns.

### Index-linked securities

Investments in stock where the rate of interest and capital value are linked to the rate of inflation.

### Investment management expenses

All expenses relating to managing the Fund's investments.

### Investment managers

Firms we appoint to deal with the Fund's investments on a day-to-day basis.

### Pensions Committee

A committee formed under the constitution of the county council to deal specifically with pension's administration and investment.

### Pensions Panel

An independent panel we set up to provide advice on investments and to report to the Pensions Committee.

### Pooled investment vehicles

A fund that combines the resources or capital from a number of investors and pursues a clearly defined investment plan.

### Private equity

Ownership in a company that is not publicly-traded.

### Property

All buildings and land that the Fund owns including pooled property funds.

### Refunds of contributions

2008 Scheme: The amount employees will receive if they stop their pensionable employment within the first three months of working for us.

2014 Scheme: The amount employees will receive if they stop their pensionable employment within the first two years of working for us.

### Socially responsible investment

Investments which take into consideration social and environmental factors as well as financial factors.

### Stock lending

The act of loaning securities to another investor in return for a fee. When a security is loaned the ownership is also transferred to the borrower.

### Transfer values

The value of a pension scheme members benefits available to buy benefits in another scheme.

### Withholding tax

A tax on dividend income that is charged at source. Some of this may be recoverable and some may not.

If you have any questions or need more information about our Pension Fund, please contact the relevant person below.

### Investment and Fund management

Melanie Stokes – Treasury and Pension Fund Manager

**Phone:** 01785 276330

**E-mail:** [treasury.pensionfund@staffordshire.gov.uk](mailto:treasury.pensionfund@staffordshire.gov.uk)

### Benefits, Contributions and Pensions Payroll

Janet Caiazzo – Pensions Manager

**Phone:** 01785 276441 or for Payroll 01785 278222 (option 2)

**E-mail:** [pensions.enquiries@staffordshire.gov.uk](mailto:pensions.enquiries@staffordshire.gov.uk)

#### Or, you can write to us at:

Treasury and Pension Fund  
Staffordshire County Council  
Wedgwood Building  
Tipping Street  
Stafford ST16 2DH.

You can also visit our website at [www.staffspf.org.uk](http://www.staffspf.org.uk)

If you would like this information in large print, in Braille, on audio tape or CD, in British Sign Language or in any other language, please ring 01785 276330.

# 2014

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