

# West Sussex Pension Fund

## Statement of Accounts 2014/15

### Declaration

Under paragraph 8(2) of the Accounts and Audit (England) Regulations 2011, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2015.

Peter Lewis  
Executive Director Corporate Resources and Services (interim)

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after the 31st March 2015 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website. ([www.westsussex.gov.uk/pensions](http://www.westsussex.gov.uk/pensions)).

# The Local Government Pension Fund Scheme

## Pension Fund Account

2013/2014 £000	Notes	2014/2015 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>		
<b>Contributions received</b>		
	7	
81,503 from employers		87,097
1,500 normal		-
23,239 additional		
468 from employees		24,566
23,239 normal		426
468 additional voluntary		
<b>Transfers in</b>		
2,801 Individual transfers in from other schemes		2,266
1,250 Bulk transfers from other schemes		0
4		32
<b>110,765</b>		<b>114,387</b>
<b>Benefits paid</b>		
	8	
(76,327) Pensions		(78,983)
(12,985) Commutation of pension to lump sum		(14,223)
(1,798) Lump sum death benefit		(1,702)
<b>Payments to and on account of leavers</b>		
(13) Refunds of contributions		(90)
(5,110) Individual transfers out to other schemes		(1,660)
(2,952) Bulk transfers to other schemes		(39,832)
<b>Management Expenses</b>		
(470) Administrative expenses *		(457)
(11,257) Investment management expenses *	10	(10,554)
(1,379) Oversight and governance costs *	11	(810)
<b>(112,291)</b>		<b>(148,311)</b>
<b>(1,526)</b>		<b>(33,924)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		
<b>Investment income</b>		
2,584 Interest from fixed interest securities		2,059
34,283 Dividends from equities		35,554
3,601 Income from pooled investment vehicles		742
8,347 Net rents from direct properties	12	9,221
- Income from stock lending		343
116 Interest on cash deposits		342
<b>Profit and (losses) on disposal of investments and change in market value</b>		
202,521 Profit and (losses) on disposal of investments and changes in the market value of investments *	14	345,148
(574) Taxes on income	13	(812)
<b>250,878</b>		<b>392,598</b>
<b>249,352</b>		<b>358,673</b>
<b>2,367,826</b>		<b>2,617,178</b>
<b>2,617,178</b>		<b>2,975,852</b>

\* Amounts for 13/14 have been restated in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

## Net Asset Statement

At 31 March 2014 £000		Notes	At 31 March 2015 £000
	<b>Investments assets</b>	14	
75,936	Fixed-interest securities UK public sector		59,079
	Equities		
312,850	UK		333,650
1,432,368	Overseas		1,686,001
	Pooled investments		
351,170	Fixed interest and currency funds		440,090
45,967	Indirect property investments		557
158,358	Private equity investments		158,984
	Direct property		
107,900	Freehold		115,665
56,325	Leasehold		99,650
43,045	Cash deposits		37,132
7,764	Investment income		8,543
10,038	Amounts receivable for sales		1,255
<b>2,601,721</b>	<b>Total investment assets</b>		<b>2,940,606</b>
	<b>Investment liabilities</b>		
(1,114)	Property rent receipts in advance		(1,514)
(9,128)	Amounts payable for purchases	14	(918)
<b>(10,242)</b>			<b>(2,432)</b>
	<b>Current assets</b>	19	
3,925	Contributions due		4,057
3,305	Other debtors including prepayments		3,298
19,893	Cash balances		32,996
1,229	Taxation		665
<b>28,352</b>			<b>41,016</b>
	<b>Current liabilities</b>	20	
-	Contributions		(17)
(1)	Taxation		-
(2,653)	Other current liabilities inc. benefits payable		(3,321)
<b>(2,653)</b>			<b>(3,338)</b>
<b>25,699</b>	<b>Net current assets / (liabilities)</b>		<b>37,678</b>
<b>2,617,178</b>	<b>Net assets of the scheme available to fund benefits at the period end</b>		<b>2,975,852</b>

## Notes to the Accounts

### NOTE 1: Description of the Fund

The Local Government Pension Scheme (LGPS) is a national defined benefit funded scheme, managed locally by administering authorities.

At 31 March 2015 the West Sussex Pension Fund had a diversified portfolio totalling £2,976m invested in equities and bonds, property, cash and private equity. This figure includes current assets and liabilities.

Fund managers have been appointed to manage these investments. The Fund's return for the year was 14.9% compared with the customised benchmark return of 17.1%. Aberdeen Asset Managers (AAM) were appointed to manage the Fund's property portfolio from April 2014.

The following description of the Fund is a summary only. For more detail, reference should be made to the West Sussex Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) regulations.

#### a. General

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

The pension scheme is administered by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

The Fund is overseen by the Pensions Panel which is a committee of West Sussex County Council and comprises seven County Councillors, a district and borough representative, a scheduled body representative and an employee representative.

#### b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months and employees of certain specified employers (such as Colleges, Academies, and those who are providing a service transferred from a local authority) can join the Scheme. Organisations participating in the Fund include:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Scheduled Bodies including Academies and Resolution Bodies:</li> </ul> | <p>regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable and employees within Colleges, Academies, Town and Parish Councils).</p> |
|---|--|

- **Admitted Bodies:** Other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

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

There are 154 active employer organisations within the West Sussex Pension Fund including the County Council itself, as detailed below:

	31 March 2014	31 March 2015
Number of employers with active members	138	154
<b>Number of active members in Scheme</b>		
County Council	12,340	13,587
Other employers	10,193	11,340
<b>Total</b>	<b>22,533</b>	<b>24,927</b>
<b>Number of pensioners</b>		
County Council	8,954	9,220
Other employers	7,973	8,240
<b>Total</b>	<b>16,927</b>	<b>17,460</b>
<b>Number of deferred pensioners</b>		
County Council	13,077	13,312
Other employers	8,630	9,117
<b>Total</b>	<b>21,707</b>	<b>22,429</b>

The number of deferred pensioners excludes 1,762 frozen refunds (2013/14 - 1,765) and 195 leavers for whom no formal paperwork has been received (2013/14 - 277).

The increase in the number of employers with active members in 2014/15 is due to twelve schools converting to academy status during the last reporting period, ten admitted bodies joining due to the externalisation of services and four parish council being admitted to the Fund. Ten employers ceased to be active during the year.

The overall increase in employees is due to the introduction of Auto Enrolment.

#### c. Funding

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

- Active members of the Fund in accordance with the LGPS regulations and range from 5.5% to 12.5% of pensionable pay for the reporting period ending 31 March 2015. (5.5% to 7.5% 2013/14).
- Employers in the Fund in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The last valuation was carried out at 31 March 2013 and the new rates became effective on 1 April 2014. Employer Future Service Rates range from 8.8% to 35.0%. A deficit amount (also known as past service adjustment) may also be charged.

## d. Benefits

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

	Service pre 1 April 2008	Service 31 March 2008-1 April 2014
Pension	Each year worked is worth $1/80 \times$ final pensionable salary	Each year worked is worth $1/60 \times$ final pensionable salary
Lump sum	Automatic lump sum of $3 \times$ salary	No automatic lump sum

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

There are a number of ancillary benefits provided under the Scheme including early retirement, ill-health retirement and death benefits. More details can be found on the Fund's website.

**NOTE 2: Basis of preparation**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after the end of the reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 17.

**NOTE 3: Summary of significant accounting policies****Fund Account – revenue recognition**

## a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis and on the basis set by the Fund actuary in the payroll period to which they relate.

Employer additional deficit funding contributions are accounted for on receipt.

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

## b. Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the reporting period and are calculated in accordance with the Local Government Pension Scheme regulations.

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

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

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

c. Investment income

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received at the end of the reporting period is disclosed in the net asset statement as a current financial asset. Income from pooled investments was overstated by £821,044 in 2013/14 and this has been reflected by way of a corresponding reduction in 2014/15.

iv. Property-related income

Property income consists primarily of rental income and is accounted for on an accruals basis.

v. Movement in the net market value of investments

Changes to the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit/loss during the year.

### **Fund Account - Expense items**

a. Benefits payable

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

b. Taxation

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

c. Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance. Consequently management expenses reported in the Fund Account for 2013/14 have been increased by £3.696m to £13.106m and Profit and Loss on disposal of investments and changes in market value of investments has similarly been increased by £3.696m to £202.521m to reflect the fees which have been deducted at source.

Administrative expenses

All administrative expenses are accounted for on an accruals basis representing the annual charge relating to the Capita Pensions SSO Contract, staff costs for officers related to interaction with employers and associated management, accommodation and other overheads relating to those officers.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The Fund's external advisor fees are also included in oversight and governance costs.

Investment management expenses

All management expenses are accounted for on an accruals basis.

Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford outperformed against the benchmark for the past two years and performance related fees were £2.6m (2014/15) and £3.1m (2013/14).

The cost of the council's in-house treasury management team is charged to the Fund based on a proportion of the council's cost representing time spent by officers on treasury management. This is included in investment management costs.

d. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary. As permitted under IAS26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (Note 17).

## Net Asset Statement

a. Financial assets

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



## i. Market quoted investments

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

## ii. Fixed-interest securities

Fixed-interest securities are recorded at net market value based on their current yield.

## iii. Unquoted investments

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

- The valuation of Partners Group portfolio is taken from the unaudited 31st March 2015 fund-of-fund reports. Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of programs managed by Partners Group. Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs managed by the firm. Partners Group gathers the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Partners Group have been given an unqualified opinion.
- The valuation of Pantheon's portfolio is taken from the unaudited 31 March 2015 fund-of-fund reports Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV). The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited financial statements for Pantheon Ventures have been given an unqualified opinion. Pantheon's audited valuation is available each May following their December year end.

v. Pooled investment vehicles

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

Indirect properties have been valued at their open market value by the fund administrator.

vi. Freehold and leasehold properties

Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

b. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction. End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

c. Derivatives

The Fund does not invest directly in derivatives. However, the Fund may use derivatives to assist with the efficient transition of portfolio assets during a portfolio restructure or fund manager change.

d. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

The day-to-day activity of the fund managers includes forward dated trades which means that assets and liabilities can be generated with a settlement date falling outside the accounting period. This is reflected in the accrued values for investments shown in the statements.

e. Financial liabilities

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

f. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary. As permitted under IAS26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (Note 17).

g. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to boost the value of their pensions. These have been invested separately with Standard Life Assurance and Equitable Life Assurance Society and are not included in the Pension Fund accounts but are disclosed as a note (Note 21).

**NOTE 4: Assumptions made about the future and other major sources of estimation uncertainty**

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions (for example in respect of investment returns, salary growth etc.) will result in a deficit or surplus emerging over time.</p> <p>A 0.5% decrease in real discount rate at year ended 31 March 2015 would result in an approximate 9% increase to employer liability (£361m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2015 would result in an approximate 3% increase in employer liability (£116m).</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2015 would result in an approximate increase in employers liability of 2% (£63m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2015 would result in an approximate 7% increase in employer liability (£266m).</p>
Sensitivity analysis	The sensitivity analysis is based on historical data.	Actual experience relative to assumptions will result in a greater or lesser impact on the financial assets of the Fund.
Private equity	Private equity investments are valued at fair value in accordance with industry guidelines based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cashflows. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investment in the financial statements are £159.0m. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 5: Critical judgements in applying accounting policies****Unquoted private equity investments**

Determining the fair value of private equity investments is subjective. They are based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued at fair value in accordance with industry guidelines based on the fund manager report as at the end of the reporting period. The value of unquoted private equities at 31 March 2015 was £159.0m (£158.4m at 31 March 2014).

**Pension fund liability**

The pension liability is valued every three years by the actuary.

In addition, the Fund receives an IAS26 report, the assumptions for which are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

**NOTE 6: Events after the balance sheet date**

It has been agreed that all deferred and pension members of the West Sussex Probation Committee will transfer to Greater Manchester Pension Fund. Details of this transfer amount is still to be confirmed and the final date of the transfer agreed. This will not affect their benefits.

**NOTE 7: Contributions received**

By Category			
2013/14			2014/15
£000			£000
83,003	Employers		87,097
23,707	Members		24,992
<u>106,710</u>			<u>112,089</u>
By Authority			
2013/14			2014/15
£000			£000
92,011	Scheduled bodies		92,845
666	Resolution bodies		4,061
9,609	Admitted bodies		9,027
4,424	Academies		6,156
<u>106,710</u>			<u>112,089</u>

**NOTE 8: Benefits paid**

By Category			
2013/14			2014/15
£000			£000
76,327	Pensions		78,983
12,985	Commutation and lump sum retirement benefit		14,223
1,798	Lump sum death benefit		1,702
<u>91,110</u>			<u>94,908</u>
By Authority			
2013/14			2014/15
£000			£000
83,068	Scheduled bodies		85,560
547	Resolution bodies		952
7,152	Admitted bodies		7,920
343	Academies		476
<u>91,110</u>			<u>94,908</u>

Pensions paid increased by £3.8m (4.2%) when the two years are compared.

LGPS pension payments are increased each April in based on September CPI. The pensions increase for 2014/15 was set at 2.7% with effect from 7 April 2014.

In addition the number of pensioners increased by 3.1% over the twelve month period.

The pensions increase for 2015/16 has been set at 1.7% and will be applied from 6 April 2015.

**NOTE 9: Payments to and on account of leavers**

In addition to the figure shown in the Fund Account, there are potential liabilities of a further £0.760m in respect of individuals transferring out of the pension scheme upon whom the Fund is awaiting a final decision.

**NOTE 10: Investment management expenses**

2013/14		2014/15
£000		£000
8,665	Fund management fees*	8,392
777	Property management fees	548
176	Custody fees	184
1,616	Transaction costs**	1,427
23	In-house treasury management expenses*	3
<u>11,257</u>		<u>10,554</u>

Of the investment management expenses in 2014/15, a total of £2.6m was in respect of performance-related fees paid to the Fund's investment managers (£3.1m in 2013/14).

\* Costs have been restated for 2013/14 to reflect CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

\*\* Transaction costs have been reported separately for the first time this year.

**NOTE 11: Oversight and governance costs**

2013/14		2014/15
£000		£000
509	Staff costs*	334
26	External audit fees	26
363	Actuary fees	233
5	Bank charges*	4
73	Performance monitoring service	66
64	Advisory fees*	128
339	Other expenses	19
<u>1,379</u>		<u>810</u>

\* Costs have been restated for 2013/14 in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

**NOTE 12: Property income**

2013/14		2014/15
£000		£000
9,831	Rental income	10,158
(1,484)	Direct operating expenses	(937)
<u>8,347</u>		<u>9,221</u>

**NOTE 13: Taxes on income**

2013/14		2014/15
£000		£000
1,472	Tax paid on dividend payments	1,763
(898)	Tax recoverable	(951)
<u>574</u>		<u>812</u>

**NOTE 14: Investments****NOTE 14a: Reconciliation of movements in investments and derivatives**

	<b>Market Value at 1 April 2014</b>	<b>Net Transactions</b>	<b>Current Year Realised / Unrealised Profit or Loss</b>	<b>Cash Movement</b>	<b>Market Value at 31 March 2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed-interest securities					
UK public sector	75,936	(22,557)	5,700	-	59,079
Equities					
UK	312,850	5,216	15,584	-	333,650
Overseas	1,432,368	13,517	240,116	-	1,686,001
Pooled investment vehicles					
Unit trusts	-	-	-	-	-
Fixed-interest and currency funds	351,170	39,178	49,742	-	440,090
Indirect property	45,967	(43,028)	(2,382)	-	557
Private equity	158,358	(25,741)	26,367	-	158,984
Direct property					
Freehold property	107,900	(1,943)	9,708	-	115,665
Leasehold property	56,325	42,418	907	-	99,650
Derivatives	-	(4)	4	-	-
<b>Sub total</b>	<b>2,540,874</b>	<b>7,056</b>	<b>345,746</b>	<b>-</b>	<b>2,893,676</b>
Other investment balances					
Cash	43,045	(8,316)	(597)	3,000	37,132
Amount receivable for sales	10,038				1,255
Investment income due	7,764				8,543
Amount payable for purchases	(9,128)				(918)
<b>Total assets</b>	<b>2,592,593</b>	<b>(1,260)</b>	<b>345,148</b>	<b>3,000</b>	<b>2,939,688</b>



	<b>Market Value at 1 April 2013</b>	<b>Net Transactions</b>	<b>Previous Year Realised / Unrealised Profit or Loss</b>	<b>Cash Movement</b>	<b>Market Value at 31 March 2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed-interest securities					
UK public sector	87,548	(6,802)	(4,810)	-	75,936
Equities					
UK	451,165	(176,007)	37,692	-	312,850
Overseas	813,294	468,241	150,833	-	1,432,368
Pooled investment					
Unit trusts	383	(394)	11	-	-
Fixed-interest and currency funds	627,197	(269,251)	(6,776)	-	351,170
Indirect property	37,116	5,550	3,301	-	45,967
Private equity	158,007	(12,189)	12,540	-	158,358
Direct property				-	
Freehold property	79,535	21,366	6,999	-	107,900
Leasehold property	67,645	(15,201)	3,881	-	56,325
Derivatives	-	(912)	912	-	-
<b>Sub total</b>	<b>2,321,890</b>	<b>14,401</b>	<b>204,583</b>	<b>-</b>	<b>2,540,874</b>
Other investment balances					
Cash	20,756	11,351	(2,062)	13,000	43,045
Amount receivable for sales	15,201				10,038
Investment income due	5,319				7,764
Amount payable for purchases	(13,202)				(9,128)
<b>Total assets</b>	<b>2,349,964</b>	<b>25,752</b>	<b>202,521</b>	<b>13,000</b>	<b>2,592,593</b>

Transaction costs for equities, bonds, fixed-interest and currency funds have been recorded separately for the first time this year (see Note 10).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

**NOTE 14b: Analysis of investments**

<b>31 March 2014</b>			<b>31 March 2015</b>	
%	£000		£000	%
		<b>Quoted</b>		
68.7	1,745,218	Equities	2,019,651	69.8
3.0	75,936	Fixed-interest securities	59,079	2.0
		Pooled investments		
13.8	351,170	Fixed-interest and currency funds	440,090	15.2
		<b>Unquoted</b>		
		Pooled investments		
6.2	158,358	Private equity	158,984	5.5
6.5	164,225	Direct property investments	215,315	7.5
1.8	45,967	Indirect properties	557	0.0
<b>100.0</b>	<b>2,540,874</b>	<b>Total</b>	<b>2,893,676</b>	<b>100.0</b>
	43,045	Cash deposits	37,132	
	7,764	Investment income	8,543	
	10,038	Amounts receivable for sales	1,255	
	<b>2,601,721</b>	<b>Total investment assets</b>	<b>2,940,606</b>	
		<b>UK investments</b>		
12.4	312,850	Equities	333,650	11.6
3.0	75,936	Fixed-interest securities	59,079	2.0
		Pooled investments		
4.5	114,955	Fixed-interest and currency funds	128,077	4.4
1.7	43,558	Indirect properties	-	0.0
6.6	164,225	Investment properties	215,315	7.5
		<b>Overseas investments</b>		
56.3	1,432,368	Equities	1,686,001	58.3
		Pooled investments		
0.1	2,409	Indirect properties	557	0.0
		<b>Other</b>		
6.2	158,358	Private equity	158,984	5.5
0.8	19,897	Currency Allocation Return Fund	23,691	0.8
8.4	216,318	Sterling Market Cap Bond Fund	288,322	10.0
<b>100.0</b>	<b>2,540,874</b>		<b>2,893,676</b>	<b>100.0</b>
	43,045	Cash	37,132	
	7,764	Investment income	8,543	
	10,038	Amounts receivable for sales	1,255	
	<b>2,601,721</b>	<b>Total investment assets</b>	<b>2,940,605</b>	

The above analysis does not include investment liabilities of £2.3m which relates to property receipts in advance (£1.4m) and amounts payable for purchases (£0.9m).

No individual investment exceeded 5% of the total value of the Fund's net assets. However the Fund holds investments in fixed-interest and currency funds, the values of which, shown as a percentage of the total fund value, have been set out in the following table.

<b>31 March 2014</b>			<b>31 March 2015</b>	
%	£000		£000	%
8.3	216,318	<b>Baillie Gifford managed funds</b>		
		Sterling Market Cap Bond	288,322	9.7
0.8	19,897	<b>UBS managed funds</b>		
4.4	114,955	Currency Allocation Return Fund	23,691	0.8
		UK Corporate Bond Plus	128,077	4.3
<b>13.5</b>	<b>351,170</b>		<b>440,090</b>	<b>14.8</b>

The Fund's top ten holdings shown as a percentage of the total fund value are set out below.

31 March 2015	<b>Value £000</b>	<b>Value %</b>
Naspers	55,385	1.9
Royal Caribbean Cruises	50,531	1.7
Google	37,344	1.3
Prudential	37,193	1.2
AIA Group	32,719	1.1
Samsung	28,945	1.0
Anthem	26,149	0.9
Taiwan Semiconductor	23,910	0.8
Amazon	23,848	0.8
Ryanair	23,226	0.8
	<b>339,250</b>	<b>11.6</b>

31 March 2014	<b>Value £000</b>	<b>Value %</b>
Naspers	38,109	1.5
Google	37,102	1.4
Prudential	30,520	1.2
Nestle	26,247	1.0
Samsung	25,675	1.0
Royal Caribbean Cruises	24,419	0.9
BP	24,356	0.9
Roche	21,738	0.8
Taiwan Semiconductor	19,894	0.8
TD Ameritrade	19,609	0.7
	<b>267,669</b>	<b>10.2</b>

**NOTE 14c: Stock lending**

The LGPS (Management & Investment of Funds) regulations 2009 permit the Fund to lend stock on the basis that the total value to be transferred is not in excess of 25% of the total market value of the stock held by the Fund. The Fund entered into a stock-lending agreement with its custodian (Northern Trust) allowing stock to be lent to third parties. At the end of the reporting period the Fund had £135.1m of stock on loan, the value of which is included in the Net Asset Statement as the stock is only on loan and therefore remains an asset of the Fund. As security for the stock on loan, the Fund received collateral at 31st March 2015 valued at £145.0m which represents 107.32% of the value of the stock on loan. The collateral is held as insurance against borrower default. Income from stock lending is recognised on the date at which the stock is borrowed.

**NOTE 14d: Analysis of investments excluding cash**

<b>31 March 2014</b>			<b>31 March 2015</b>	
%	£000		£000	%
		<b>Book cost and market value of investments</b>		
	2,095,450	Book cost	2,225,111	
	2,540,874	Market value	2,893,675	
		<b>Share of market (bid) value held by fund managers</b>		
39.3	1,002,205	UBS Global Asset Management	1,118,943	38.7
46.1	1,170,120	Baillie Gifford & Co	1,399,877	48.4
4.1	103,286	Pantheon Ventures	95,545	3.3
2.2	55,071	Partners Group	63,439	2.2
8.3	210,192	Aberdeen Asset Management	215,872	7.5
<b>100.0</b>	<b>2,540,874</b>		<b>2,893,675</b>	<b>100.0</b>
		<b>Analysis of investment assets - UBS Global Asset Management</b>		
22.5	225,283	UK equities	258,546	23.1
56.4	566,134	Overseas equities	649,550	58.0
7.6	75,936	Fixed-interest securities	59,079	5.3
13.5	134,852	Fixed-interest and currency funds	151,768	13.6
<b>100.0</b>	<b>1,002,205</b>		<b>1,118,943</b>	<b>100.0</b>
		<b>Analysis of investment assets - Baillie Gifford &amp; Co</b>		
7.5	87,568	UK equities	75,104	5.4
74.0	866,234	Overseas equities	1,036,451	74.0
18.5	216,318	Fixed-interest fund	288,322	20.6
<b>100.0</b>	<b>1,170,120</b>		<b>1,399,877</b>	<b>100.0</b>

The Fund's objective is to maximise returns and to seek to outperform the customised benchmark by 1% pa over a rolling three year period, with aspiration that performance will not fall more than 3% below the benchmark as calculated by the WM Company in any one year. Each fund manager is monitored against their own customised benchmark and outperformance target. The Fund's rate of return for the year was 14.9% compared with the customised benchmark return of 17.1%. Over the three years to 31 March 2015 the Fund's rate of return was 13.6% per annum compared with the customised benchmark return of 12.1% per annum.

**NOTE 14e: Direct property holdings****31 March 2014**  
**£000**

147,180	Opening balance
26,140	Additions
(19,975)	Disposals
10,880	Net increase in market value
-	Other changes in fair value
<b>164,225</b>	Closing balance

**31 March 2015**  
**£000**

164,225
43,535
(3,060)
10,615
-
<b>215,315</b>

**NOTE 15: Financial instruments****NOTE 15a: Classification of financial instruments**

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

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement headings. No financial assets were reclassified during the accounting period.

<b>31 March 2014</b>		<b>31 March 2015</b>	
<b>Designated as fair value through profit and loss</b>	<b>Loans and receivables</b>	<b>Designated as fair value through profit and loss</b>	<b>Loans and receivables</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>		<b>Financial assets</b>	
75,936	-	59,079	-
1,745,218	-	2,019,650	-
351,170	-	440,090	-
45,967	-	557	-
158,358	-	158,984	-
43,045	-	37,132	-
-	19,893	-	32,996
10,038	7,764	1,255	8,543
-	8,458	-	3,963
<b>2,429,732</b>	<b>36,115</b>	<b>2,716,747</b>	<b>45,502</b>
<b>Financial liabilities</b>		<b>Financial liabilities</b>	
(9,128)	(1,114)	(918)	(1,514)
(2,652)	-	(2,516)	-
<b>(11,780)</b>	<b>(1,114)</b>	<b>(3,433)</b>	<b>(1,514)</b>
<b>2,417,952</b>	<b>35,001</b>	<b>2,713,313</b>	<b>43,988</b>

**NOTE 15b: Net gains and losses on financial instruments**

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000</b>		<b>£000</b>
	<b>Financial assets</b>	
187,033	Fair value through profit and loss	334,533
-	- Loans and receivables	-
-	- Financial liabilities measured at amortised cost	-
	<b>Financial liabilities</b>	
-	- Fair value through profit and loss	-
-	- Financial liabilities measured at amortised cost	-
<u>187,033</u>	<b>Total</b>	<u>334,533</u>

**NOTE 15c: Fair value of financial instruments and liabilities**

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

<b>31 March 2014</b>		<b>31 March 2015</b>	
<b>Carrying Value</b>	<b>Fair value</b>	<b>Carrying Value</b>	<b>Fair value</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
			<b>Financial assets</b>
2,429,732	2,429,732	2,716,747	Fair value through profit and loss
36,115	36,115	45,502	Loans and receivables
<u>2,465,847</u>	<u>2,465,847</u>	<u>2,762,249</u>	<b>Total financial assets</b>
			<b>Financial liabilities</b>
(11,780)	(11,780)	(3,433)	Fair value through profit and loss
-	-	-	Financial liabilities measured at amortised cost
<u>(11,780)</u>	<u>(11,780)</u>	<u>(3,433)</u>	<b>Total financial liabilities</b>

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

**NOTE 15d: Valuation of financial instruments carried at fair value**

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

Level 1

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

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is based on observable market data.

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2015</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,557,207	557	158,984	2,716,748
Loans and receivables	45,502	-	-	45,502
<b>Total financial assets</b>	<b>2,602,709</b>	<b>557</b>	<b>158,984</b>	<b>2,762,250</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(3,433)	-	-	(3,433)
Loans and receivables	(1,514)	-	-	(1,514)
<b>Total financial liabilities</b>	<b>(4,948)</b>	<b>-</b>	<b>-</b>	<b>(4,948)</b>
<b>Net financial assets</b>	<b>2,597,761</b>	<b>557</b>	<b>158,984</b>	<b>2,757,302</b>
	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2014</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>Level 3 £000</b>	<b>Total £000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,225,407	45,967	158,358	2,429,732
Loans and receivables	36,116	-	-	36,116
<b>Total financial assets</b>	<b>2,261,523</b>	<b>45,967</b>	<b>158,358</b>	<b>2,465,848</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(11,780)	-	-	(11,780)
Loans and receivables	(1,114)	-	-	(1,114)
<b>Total financial liabilities</b>	<b>(12,894)</b>	<b>-</b>	<b>-</b>	<b>(12,894)</b>
<b>Net financial assets</b>	<b>2,248,629</b>	<b>45,967</b>	<b>158,358</b>	<b>2,452,954</b>

**NOTE 16: Nature and extent of risks arising from financial instruments and other assets**Risk and risk management

The primary long term risk is that the Fund's assets will fall short of its liabilities. The combined portfolio is diversified by assets and fund managers. In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary, based on the Funds funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored on a quarterly basis by the Pensions Panel.

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

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

a. Market risk

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

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

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

Fund managers are expected to maintain a diversified portfolio and each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions. Also, under the LGPS regulations, there are statutory thresholds designed to limit funds concentration of risks in specific areas.

Other price risks

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

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



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

#### Other price risks – sensitivity analysis

The Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period. This data has been provided by the Fund's performance monitoring consultant, State Street Investment Analytics, and is based on historical data.

<b>Asset type</b>	<b>Potential market movement +/-</b>
UK equities	11.35%
Overseas equities	9.85%
Fixed-interest securities	6.55%
Fixed-interest funds	6.55%
Cash	0.01%
Property	3.68%
Private equity	6.98%
Currency fund	6.98%

Had the market price of the fund investments increased/decreased in line with the above the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

<b>Asset type</b>	<b>Value at 31 March 2015 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
UK equities	333,650	11.35	371,519	295,780
Overseas equities	1,686,001	9.85	1,852,072	1,519,930
Fixed-interest securities	59,079	6.55	62,949	55,209
Fixed-interest funds	416,399	6.55	443,673	389,124
Cash	37,132	0.01	37,136	37,129
Property	215,872	3.68	223,816	207,928
Private equity	158,984	6.98	170,081	147,887
Currency fund	23,691	6.98	25,344	22,037
Investment income due	8,543	0.00	8,543	8,543
Amounts receivable for sales	1,255	0.00	1,255	1,255
<b>Investment liabilities</b>				
Amounts payable for purchases	(918)	0.00	(918)	(918)
<b>Total assets</b>	<b>2,939,687</b>		<b>3,195,469</b>	<b>2,683,905</b>

#### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The Fund's exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. The analysis of fixed-interest and currency funds reflects the underlying securities held in those funds where information is available.

	Value at 31 March 2014	Value at 31 March 2015
	£000	£000
<b>Asset type</b>		
Cash and cash equivalents	161,130	43,787
Cash balances	19,893	32,996
Fixed-interest securities	300,181	360,242
<b>Total assets</b>	<b>481,204</b>	<b>437,025</b>

#### Interest rate risk - sensitivity analysis

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

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

	Value at 31 March 2015	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	43,787	438	(438)
Cash balances	32,996	330	(330)
Fixed-interest securities	360,242	3,602	(3,602)
<b>Total assets</b>	<b>437,025</b>	<b>4,370</b>	<b>(4,370)</b>

#### Currency risk

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

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

The table below summarises the Fund's currency exposure as at 31 March 2015 and 31 March 2014 is set out below. The analysis of fixed-interest and currency funds reflects the underlying securities held in those funds where information is available.

	<b>Value at 31 March 2014 £000</b>	<b>Value at 31 March 2015 £000</b>
<b>Currency</b>		
Overseas equities	1,410,357	1,742,984
Overseas fixed-interest securities	36,084	30,740
Overseas Private equity	158,358	158,984
Overseas indirect property	2,409	557
Cash	7,493	12,328
<b>Total</b>	<b>1,614,701</b>	<b>1,945,594</b>

Currency risk – sensitivity analysis

An analysis of major currencies (as per the FTSE AW Index) provides an indication of the volatility associated with foreign exchange rate movements. This information has been provided by the Fund's performance consultant State Street Investment Analytics. With the exception of private equity investments which have been treated on a global basis the analysis has been done on an individual stock basis and summarised by asset class for the purpose of the accounts.

The analysis assumes that all other variables, in particular interest rates, remain constant.

If sterling strengthens/weakens against other currencies in which the Fund holds investments, it would increase/decrease the net assets available to pay benefits as follows:

	<b>Value at 31 March 2015 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
<b>Currency</b>				
Overseas equities	1,742,984	6.46	1,855,603	1,630,366
Overseas fixed-interest securities	30,740	5.56	32,451	29,029
Overseas private equity	158,984	5.70	168,045	149,922
Overseas indirect property	557	6.15	592	523
Cash	12,328	7.14	13,209	11,448
<b>Total</b>	<b>1,945,594</b>		<b>2,069,901</b>	<b>1,821,287</b>

b. Credit risk

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

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

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

The Fund has not had any experience of default or uncollectible deposits. The fund managers held £37.1m in cash (31 March 2014: £43.0m) and cash internally managed by WSCC at 31 March 2015 was £33.0m (31 March 2014: £19.7m). This was held by institutions with the following credit ratings :

	<b>Nominal amount 31 March 2014</b>	<b>Nominal amount 31 March 2015</b>
	£000	£000
AAA rated counterparties	62,746	64,176
AA- rated counterparties	7	9
A rated counterparties	22	5,943
<b>TOTAL</b>	<b>62,775</b>	<b>70,128</b>

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2015, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

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

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

The Fund is currently cash flow positive.

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

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

d. Refinancing risk

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

e. Counterparty risk

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

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) regulations 2009 (as amended). Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

**NOTE 17: Funding arrangements - Actuarial Statement**Description of funding policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated 25 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 help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (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; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,370 million, were sufficient to meet 86.4% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £371 million.

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

Principal actuarial assumptions and method used to value the liabilities**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:

	% pa nominal	% pa real
Discount rate	4.6	2.1
Pay increases *	3.8	1.3
Price inflation / pension increases	2.5	-

\* plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The Fund is a member of Club Vita. The life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model assuming long term improvements of 1.25% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	24.4 years	25.8 years
Future Pensioners	26.9 years	28.5 years

Copies of the 2013 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2013

Experience has been mixed over the two years to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been offset by the effect of strong asset returns, meaning that funding levels are likely to have increased marginally over this period.

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

**NOTE 18: Actuarial present value of promised retirement benefits**

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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.

The Fund actuary has provided the necessary information for the West Sussex Pension Fund.

Balance sheet

	31 March 2014	31 March 2015
	£m	£m
Employee members	1,372	1,854
Deferred pensioners	572	692
Pensioners	1,275	1,320
Present value of promised retirement benefits	<u>3,219</u>	<u>3,866</u>

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013.

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

No allowance has been made for unfunded benefits.

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

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

Assumptions

The assumptions used are those adopted for the administering authority's IAS19 report as required by the CIPFA Code of Practice.

The Fund actuary estimates that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £513m.

Financial assumptions

	31 March 2014	31 March 2015
	% p.a.	% p.a.
Inflation / pensions increase rate	2.8	2.4
Salary increase rate	4.1	3.8
Discount rate	4.3	3.2

Longevity assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming long term improvements of 1.25% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	24.4 years	25.8 years
Future pensioners *	26.9 years	28.5 years

\* Future pensioners are assumed to be currently aged 45.

Commutation assumption

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



**NOTE 19: Current assets**

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000</b>		<b>£000</b>
	Debtors:	
1,081	Contributions due - employees	1,219
2,844	Contributions due - employers	2,838
97	Prepayments	192
3,208	Other debtors	3,106
1,229	Taxation	665
<u>8,459</u>		<u>8,020</u>
19,893	Cash balances	32,996
<b><u>28,352</u></b>		<b><u>41,016</u></b>

Analysis of debtors

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000</b>		<b>£000</b>
1,271	Central government bodies	1,732
3,466	Other local authorities	3,626
-	Public corporations and trading funds	-
961	Educational establishments	1,567
2,761	Other entities and individuals	1,095
<b><u>8,459</u></b>		<b><u>8,020</u></b>

**NOTE 20: Current liabilities**

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000</b>		<b>£000</b>
-	Contributions	17
1	Tax	-
718	Benefits payable	821
1,934	Other current liabilities	2,499
<b><u>2,653</u></b>		<b><u>3,338</u></b>

Analysis of creditors

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000</b>		<b>£000</b>
1,239	Central government bodies	991
5	Other local authorities	763
-	NHS bodies	-
1	Educational establishments	88
1,408	Other entities and individuals	1,496
<b><u>2,653</u></b>		<b><u>3,338</u></b>

**NOTE 21: Additional voluntary contributions**

<b>Market Value</b>		<b>Market Value</b>	
<b>31 March 2014</b>		<b>31 March 2015</b>	
<b>£000</b>		<b>£000</b>	
1,493	Standard Life	1,699	
517	Equitable Life	487	
<u>2,010</u>		<u>2,186</u>	

AVC Contributions of £163,488 were paid directly to Standard Life during the year (2013/14 £162,883). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(2)(b) of the LGPS Management and Investment of Funds regulations 2009 (as amended).

**NOTE 22: Related party transactions**West Sussex County Council

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

The Council incurred costs of £0.8m (2013/14 £1.0m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the Pension Fund and contributed £39.9m to the Fund in 2014/15 (2013/14 £37.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the treasury management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2015, the Fund had a daily average investment balance of £63.885m (31 March 2014 £13.239m) earning interest of £0.242m (2013/14 £0.056m) in these funds at a rate of return of 0.38% (2013/14 0.43%).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

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

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of The Accounts and Audit (England) regulations 2011 and Regulation 7A of The Accounts and Audit (Wales) regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the West Sussex County Council Pension Fund.

The disclosures required by Regulation 7(2)–(4) of The Accounts and Audit (England) regulations can be found in the main accounts of West Sussex County Council.

**NOTE 23: Contingent liabilities and contractual commitments**

Outstanding commitments in private equity at 31 March 2015 totalled £46.6m (31 March 2014 : £60.9m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

**NOTE 24: Contingent assets**

Some admitted employers in the West Sussex Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

The fund has made provision for a contingent asset to the value of £100,000. Upon completion of sale of Castlebridge Office Village, Nottingham it was agreed that the buyer would hold £100,000 of the sale price until April 2016 and at this date the sum will transfer to West Sussex Pension Fund should the tenant continue to trade.