APPENDIX B

Lincolnshire Pension Fund 2019/20

Fund Account – For the Year Ended 31 March 2020

	See note	2018/19 £000	2019/20 £000
Contributions and Benefits			
Contributions Receivable	6	(98,278)	(104,258)
Transfers In from other Pension Funds	7	(7,312)	(10,629)
		(105,590)	**(114,887)**
Benefits Payable	8	92,904	99,326
Payments To and On Account of Leavers	9	7,803	9,920
		100,707	**109,246**
Net (additions)/withdrawals from dealings with Fund Members		**(4,883)**	**(5,641)**
Management Expenses	10	11,018	12,033
Net (additions)/withdrawals including Management Expenses		**6,135**	**6,392**
Returns on Investments			
Investment Income	11	(20,403)	(23,692)
(Profit)?loss on Disposal of Investments and Change in the Value of Investments	12a	(178,619)	141,022
(Profit)/Loss on Forward Foreign Exchange	13	21,050	18,145
Net Returns on Investments		**(177,972)**	**135,475**
Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(171,837)	141,867
Opening Net Assets of the Fund		(2,189,357)	(2,361,194)
Closing Net Assets of the Fund		**(2,361,194)**	**(2,219,327)**

Net Asset Statement as at 31 March 2020

	See note	31 March 2019 £000	31 March 2020 £000
Long Term Investment Assets	12	833	833
Investment Assets	12	2,344,965	2,202,091
Investment Liabilities	12	(1,277)	(145)
Total Net Current Investments		**2,343,688**	**2,201,943**
Total Net Investments		**2,344,521**	**2,202,779**
Current Assets	20	19,802	20,418
Current Liabilities	21	(3,129)	(3,870)
Net Assets of the Fund Available to Fund Benefits at the end of the Reporting Period		**2,361,194**	**2,219,327**

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

Notes to the Pension Fund Account

Note 1. Description of the Pension Fund

The Lincolnshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by West Yorkshire Pension Fund (WYPF) in a shared service arrangement.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee, which is a committee of Lincolnshire County Council.

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant employer. Admitted bodies include charitable organisations and similar not-for-profit bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 251 contributing employer organisations in the Fund including the County Council and just over 73,500 members, as detailed below (information reported based on March processed data):

	31 March 2019	31 March 2020
Number of Employers with Active Members	234	251
Number of Employees in the Fund		
Lincolnshire County Council	9,879	9,175
Other Employers	12,941	13,715
Total Active Members	22,820	22,890
Number of Pensioners		
Lincolnshire County Council	14,398	15,444
Other Employers	7,317	7,994
Total Pensioner Members	21,715	23,438
Number of Deferred Pensioners		
Lincolnshire County Council	19,753	18,668
Other Employers	8,468	8,533
Total Deferred Pensioners	28,221	27,201

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. Rates paid by employers during 2019/20 were determined at the 2016 Valuation, or when a new employer joins the scheme. Rates paid during 2019/20 ranged from 14.9% to 33.0% of pensionable pay. In addition, the majority of employers are paying monetary amounts to cover their funding deficit.

Benefits

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 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index.

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

There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits.

Note 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31 March 2020.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the end of the financial year, nor do they taken into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the account, or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in the accounts, this can be found at Note 18.

The accounts have been prepared on a going concern basis.

The accounting policies set out below (at Note 3) have been applied consistently to all periods presented within these financial statements.

Accounting standards that have been issued but have not yet been adopted

On an annual basis the Code of Practice requires the Pension Fund to consider the impact of accounting standards that have been issued but have not yet been adopted and disclose information relating to the impact of these standards. For 2020/21 there are a number of new accounting standards:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- Amendments to IAS 19 Employee Benefits: Plan Amendments, Curtailment or Settlement.

It is not thought that any of these standards will have a significant impact on the Pension Fund Accounts for 2020/21.

Note 3. Significant Accounting Policies

Fund account - revenue recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

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

Additional employers' contributions, for example in respect of early retirements, are accounted for in the year the event arose.

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 and are calculated in accordance with the LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account - expense items

d) Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

e) Taxation

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

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the headings shown below. All items of expenditure are charged to the fund on an accruals basis.

i) Administrative expenses

All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) Oversight and Governance

All staff costs associated with the governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

iii) Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with Invesco Asset Management (for Global Equities – ex UK) and Morgan Stanley Investment Management Ltd. (for Alternative Investments) that an element of their fee will be performance related.

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

Net assets statement

g) Financial assets

All investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net 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 the asset are recognised by the Fund and are classified as Fair Value through Profit and Loss (FVPL).

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

Alternatives, private equity, property venture and infrastructure valuations are based on valuations provided by managers at the year-end date. Where more up to date valuations are received during the accounts preparation or audit period, their materially, both individually and collectively will be considered, and the accounts revised to reflect these valuations if necessary. If valuations at the year-end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as Fair Value through Other Comprehensive Income (FVOCI) rather than FVPL as the investment is a strategic investment and not held for trading.

h) Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2020 are shown in Note 27.

i) Derivatives

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

Future value of forward currency contracts are based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using Northern Trust closing spot/forward foreign exchange rates on 31 March.

j) Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

l) 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 in accordance with the requirements of IAS 19 and relevant actuarial standards. At year end, the promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Pension Fund Note 18).

m) Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 21).

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (see Note 24 and 25).

Note 4. Critical Judgements in Applying Accounting Policies

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Investment in Border to Coast Pension Partnership

The valuation of the Fund's investment in Border to Coast Pensions Partnership has been assessed using the criteria set out in IFRS9 Financial Instruments. The key factors considered include:

- There is currently no market for these investments and no identical or similar market to compare them to. Therefore is it not possible to use a 'quoted price'.
- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund.

There is insufficient evidence to estimate the fair value at any measure other than cost, therefore fair value is cost. The value of the shareholding in Border to Coast Pension Partnership is £0.833m.

Covid-19 Impact

The impact of the Covid-19 pandemic has created additional uncertainty surrounding illiquid asset values. As such some of the Pension Fund's holdings as at 31 March 2020 are difficult to value according to preferred accounting policy.

- Pooled property unit trusts. Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.
- Unquoted assets (including alternatives and private equity holdings). The fair value of these investments is unavoidably subjective in normal circumstances and Covid-19 disruptions may increase this. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

Further details on the carrying value of these holdings are set out in Note 5 below.

Note 5. Assumptions Made About the Future and Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £359m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £28m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £320m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £151m.
Estimation of Fair Value for investments which are not publicly listed (including Alternatives, Infrastructure, Private Equity and Property Venture	Valuation of investments which are not publicly listed involve a degree of estimation. Those assets involving the greatest degree of estimation are classified as level 3 with the fair value hierarchy (details are set out in Note 14). Guidance, including the International Private Equity and Venture Capital Valuation Guidelines (2012) provide a framework for the valuation of these assets, but this involved a degree of estimation in producing a valuation.	The total value of these level 3 investments is £325.5m at 31 March 2020 (£289.6m at 31 March 2019). The assets classified as level 3 and the sensitivity of the valuation methods employed are described in Note 14.
Pooled Property Unit Trusts	Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.	The total pooled property unit trusts invested in by the Fund are valued at £188.8m. If these assets were over or under-stated in the accounts by 1% this would affect the value by £1.9m.

Note 6. Contributions Receivable

Contributions receivable are analysed below:

	2018-19 £000	2019-20 £000
Employers		
Normal	58,966	60,186
Deficit Recovery Funding	17,138	21,412
Additional – Augmentation	1,632	892
Members		
Normal	20,466	21,684
Additional Years	76	84
Total Contributions Receivable	**98,278**	**104,258**

These contributions are analysed by type of Member Body as follows:

	2018-19 £000	2019-20 £000
Administering Authority	40,061	43,539
Scheduled Bodies	53,239	56,339
Admission Bodies	4,978	4,380
Total Contributions Receivable	**98,278**	**104,258**

Note 7. Transfers In From Other Pension Funds

	2018-19 £000	2019-20 £000
Individual Transfers from Other Schemes	7,312	10,629
Total Transfers In from Other Pension Funds	**7,312**	**10,629**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2020.

Note 8. Benefits Payable

	2018-19 £000	2019-20 £000
Pensions	73,016	78,073
Commutations and Lump Sum Retirement Benefits	17,791	18,870
Lump Sum Death Benefits	2,097	2,383
Total Benefits Payable	**92,904**	**99,326**

These benefits are analysed by type of Member Body as follows:

	2018-19 £000	2019-20 £000
Administering Authority	49,350	52,290
Scheduled Bodies	39,423	42,340
Admission Bodies	4,131	4,696
Total Benefits Payable	**92,904**	**99,326**

Note 9. Payments To and On Account of Leavers

	2018-19 £000	2019-20 £000
Individual Transfers to Other Schemes	6,990	9,580
Group Transfers from Other Schemes	419	-
Refunds to Members Leaving Service	394	340
Total Payments To and On Account of Leavers	**7,803**	**9,920**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2020.

Note 10. Management Expenses

	2018-19 £000	2019-20 £000
Administrative Costs	1,128	1,250
Investment Management Expenses	9,429	10,203
Oversight and Governance Costs	461	580
Total Management Expenses	**11,018**	**12,033**

The External Audit fee for the year was £0.019m (£0.019m in 2018/19).

A further breakdown of the investment management expenses is shown below:

	2018-19 £000	2019-20 £000
Transaction Costs	738	1,583
Management Fees	7,999	6,804
Performance Related Fees	609	1,641
Custody Fees	83	175
Total Investment Management Expenses	**9,429**	**10,203**

Note 11. Investment Income

	2018-19 £000	2019-20 £000
Equities	18,192	19,323
Pooled Investments		
Property	1,629	2,563
Infrastructure	18	-
Alternatives	3	1,535
Cash Deposits	97	192
Stock Lending	464	79
Total Investment Income	**20,403**	**23,692**

Note 12. Investments

	2018-19 £000	2019-20 £000
Long Term Investments		
Unquoted Equity Holding in Border to Coast Pensions Partnership	833	833
Total Long Term Investment	**833**	**833**

	2018-19 £000	2019-20 £000
Investment Assets		
Equities	818,260	495,761
Pooled Investments		
Property	194,973	190,771
Infrastructure	44,437	46,347
Private Equity	22,962	16,559
Bonds	283,158	414,941
Equities	649,490	695,082
Alternatives	290,056	306,633
Cash Deposits	36,413	23,939
Investment Income Due	5,216	3,723
Amounts Receivable from Sales	-	-
Open Forward Foreign Exchange (FX)	-	8,335
Total Investment Assets	**2,344,965**	**2,202,091**
Investment Liabilities		
Open Forward Foreign Exchange (FX)	(1,276)	-
Investment Income Payable	(1)	(18)
Amounts Payable for Purchases	-	(127)
Total Investment Liabilities	**(1,277)**	**(145)**
Total Net Investment Assets	**2,343,688**	**2,201,946**

Note 12A. Reconciliation of Movements in Investments

2019/20	Market Value 31 March 2019 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2020 £000
Equities	818,260	380,719	(784,022)	80,804	495,761
Pooled Investments					
Property	194,973	1,124	(3,441)	(1,885)	190,771
Infrastructure	44,437	2,848	(3,346)	2,408	46,347
Private Equity	22,962	356	(7,469)	710	16,559
Bonds	283,158	331,502	(197,591)	(2,128)	414,941
Equities	649,490	429,663	(138,595)	(245,476)	695,082
Alternatives	290,056	103,443	(111,411)	24,545	306,633
	2,303,336	**1,249,655**	**(1,245,875)**	**(141,022)**	**2,166,094**
Cash Deposits	36,413				23,939
Other Investment Balances:					
Open Forward FX	(1,276)	2,574,575	(2,546,819)	(18,145)	8,335
Amounts Receivable for Sales	-				-
Investment Income Due	5,215				3,705
Amounts Payable for Purchases	-				(127)
Net investment assets	**2,343,688**				**2,201,946**

2018/19	Market Value 31 March 2018 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2019 £000
Equities	751,286	350,985	(335,249)	51,238	818,260
Pooled Investments					
Property	194,461	42	(4,989)	5,459	194,973
Infrastructure	35,420	6,835	(3,294)	5,476	44,437
Private Equity	29,345	423	(13,271)	6,465	22,962
Bonds	264,097	12,317	(2,317)	9,061	283,158
Equities	582,508	-	(1,832)	68,814	649,490
Alternatives	268,167	78,966	(89,183)	32,106	290,056
	2,125,284	**449,568**	**(450,135)**	**178,619**	**2,303,336**
Cash Deposits	38,746				36,413
Other Investment Balances:					
Open Forward FX	50				(1,276)
Amounts Receivable for Sales	1,409				-
Investment Income Due	4,410				5,215
Amounts Payable for Purchases	(2,016)				-
Net investment assets	**2,167,883**				**2,343,688**

Note 12B. Analysis of Investments

2019/20	UK £000	Overseas £000	Total £000
Quoted			
Equities	-	495,761	495,761
Pooled Investments			
Property – UK Commercial Unit Trust	175,601	-	175,601
Bonds	414,941	-	414,941
Equities	695,082	-	695,082
Alternatives	40,805	-	40,805
Quoted as at 31 March 2020	**1,326,429**	**495,761**	**1,822,190**
Unquoted			
Pooled Investments			
Property	591	14,579	15,170
Infrastructure	42,226	4,121	46,347
Private Equity	-	16;559	16,559
Alternatives	265,828	-	265,828
Unquoted as at 31 March 2020	**308,645**	**35,259**	**343,904**
Cash and Equivalents			23,939
Other Investment Balances - Assets			12,058
Other Investment Balances - Liabilities			(145)
Total as at 31 March 2020			**2,201,946**

2018/19 – Re-analysed	UK £000	Overseas £000	Total £000
Quoted			
Equities	15,462	802,798	818,260
Pooled Investments			
Property – UK Commercial Unit Trust	178,634	-	178,634
Bonds	283,158	-	283,158
Equities	649,490	-	649,490
Alternatives	60,725	-	60,725
Quoted as at 31 March 2019	**1,187,469**	**802,798**	**1,990,267**
Unquoted			
Pooled Investments			
Property	1,547	14,792	16,339
Infrastructure	40,458	3,979	44,437
Private Equity	-	22,962	22,962
Alternatives	229,331	-	229,331
Unquoted as at 31 March 2019	**271,336**	**41,733**	**313,069**
Cash and Equivalents			36,413
Other Investment Balances - Assets			5,216
Other Investment Balances - Liabilities			(1,277)
Total as at 31 March 2019			**2,343,688**

Note 12C. Investments Analysed by Fund Manager

Fund Manager	31 March 2019		31 March 2020	
	£'000	%	£'000	%
Externally Managed				
Border to Coast (Global Equity Alpha)	-	-	344,976	15.6
Border to Coast (Investment Grade Credit)	-	-	180,327	8.2
Invesco	545,516	23.2	503,027	22.8
Schroders	136,451	5.8	-	-
Columbia Threadneedle	149,422	6.4	-	-
Morgan Stanley (Global Brands)	219,728	9.4	-	-
Morgan Stanley (Alternatives)	303,948	13.0	318,790	14.5
Morgan Stanley (Private Equity)	24,679	1.1	17,755	0.8
Blackrock	283,157	12.1	234,613	10.7
Legal & General	429,762	18.3	350,106	15.9
Internally Managed				
Property	202,956	8.7	199,770	9.1
Infrastructure	44,686	1.9	48,386	2.2
UK Equity	344	-	1	-
Unallocated Cash	3,039	0.1	4,195	0.2
Total	**2,343,688**	**100.0**	**2,201,946**	**100.0**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The investments that fall into this category are as follows:

Investment	31 March 2019		31 March 2020	
	£000	%	£000	%
Legal & General UK Equity Fund	429,762	18.2	350,106	15.8
Border to Coast (Global Equity Alpha)	-	-	344,976	15.5
Morgan Stanley Alternative Investments	290,056	12.3	306,633	14.0
Morgan Stanley Global Brands	219,728	9.3	-	-
Border to Coast (Investment Grade Credit)	-	-	180,327	8.1
Blackrock 1-5yr Corporate Bond Fund	139,253	5.9	149,016	6.7

Note 12D. Stock Lending

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, Northern Trust. The total amount of stock on loan at the year-end was £18.934m (£0.001m at 31 March 2019) and this value is included in the net assets statement to reflect the Fund's continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £20.722m (£0.001m at 31 March 2019), which represented 109.4% of the value of securities on loan.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. Income received from stock lending activities, before costs, was £0.079m for the year ending 31 March 2020 (£0.437m at 31 March 2019) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

Note 13. Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. The Fund's investment managers use forward foreign exchange contracts to reduce their exposure to fluctuations in foreign currency exchange rates.

Open forward Currency Contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	None					
Over one month	GBP	291,727	USD	351,292	8,798	-
	GBP	7,828	CAD	13,365	260	-
	GBP	955	AUD	1,925	6	-
	GBP	17,026	EUR	18,605	536	-
	EUR	5,230	GBP	4,831	-	(196)
	USD	18,941	GBP	16,323	-	(1,068)
Total					9,600	(1,264)
Net Forward Currency Contracts at 31 March 2020						8,336
Prior Year Comparative						
					6	(1,282)
Net Forward Currency Contracts at 31 March 2019						(1,276)

Profit (Loss) of Forward Currency Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of normal trading of the Fund's managers who manage multi-currency portfolios. For 2019/20 this was a loss of £18.145m (£21.050m loss in 2018/19).

Note 14. Fair Value – Basis of Valuation

All investment assets are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments (inc. overseas equities and bonds)	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – pooled property unit trusts	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations provided by independent valuers for these property funds are subject to a 'material uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis.	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts.
Unquoted Equities and Alternatives	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors and investment managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Property Unit Trusts	19%	188,776	224,643	152,909
Property Venture	19%	1,996	2,375	1,617
Infrastructure	17%	46,347	54,226	38,468
Private Equity	24%	16,559	20,533	12,585
Alternatives	10%	260,560	586,616	234,504

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies. The range in the potential movement is caused by how this profitability is measured since different methods (listed in the first table of Note 14 above) produce different price results.

Note 14A. Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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 securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities 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.

Level 3

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

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

Values at 31 March 2020 Observable Fair Value	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,121,286	538,905	514,238	2,174,429
Financial assets at fair value through other comprehensive income and expenditure	-	-	833	833
Net Investment Assets	**1,121,286**	**538,905**	**515,071**	**2,175,262**

Values at 31 March 2019 Re-analysed Observable Fair Value	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,811,633	202,400	289,303	2,303,336
Financial liabilities at fair value through profit and loss	-	(1,276)	-	(1,276)
Net Investment Assets	**1,816,599**	**201,124**	**289,552**	**2,307,275**

The holding in Border to Coast Pensions Partnership of £0.833m was carried at cost at 31 March 2019.

14B Transfer between levels in the Fair Value Hierarchy

Property Unit Trusts

The valuations provided by independent valuers for the Funds four UK Commercial Property Funds and the European Growth Fund are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case. As a consequence of this these assets have been moved from level 2 to level 3 in the fair value hierarchy.

All transfers between levels are recognised from the month in which they occur.

Re-Categorisation within the Fair Value Hierarchy

On 1 April 2019 the Fund changed custodian. The categorisation of assets in relation to the prior year have been re-analysed in light of the additional information which is now available with the new custodian. This has resulted in a change to the assets reported in each category within the fair value hierarchy. Overall the total value of assets reported remains unaffected.

Re-categorisation as at 1 April 2018 and 31 March 2019 is included within the tables in this note, and are summarised as follows:

- Movement of Infrastructure Assets from Level 2 to Level 3;
- Movement of Property Venture Assets from Level 2 to Level 3;
- Further detail on Alternative Assets allowing them to be analysed between Levels 1, 2 and 3 (previously these were all disclosed in Level 3); and
- Movement of Other Investment Balances from Fair Value through Profit and Loss to Assets at Amortised Cost.

	Original Analysis		Re-analysis	
31 March 2019	Financial Assets £000	Financial Liabilities £000	Financial Assets £000	Financial Liabilities £000
Fair Value though profit and loss				
Level 1 – Quoted Market Price	1,775,869	-	1,811,633	-
Level 2- Using Observable Inputs	239,658	-	202,400	(1,276)
Level 3 – With Significant Unobservable Inputs	313,024	(1,276)	289,303	-
Fair Value through Profit and Loss	2,364,551	(1,276)	2,303,336	(1,276)
Assets/Liabilities at Amortised Cost	56,215	(3,129)	61,431	(3,130)
Total	2,364,766	(4,405)	2,364,767	(4,406)

31 March 2018 Observable Fair Value	Original Analysis Financial Assets £000	Original Analysis Financial Liabilities £000	Re-analysis Financial Assets £000	Re-analysis Financial Liabilities £000
Fair Value though profit and loss				
Level 1 – Quoted Market Price	1,603,710	-	1,681,263	-
Level 2- Using Observable Inputs	229,931	(2,016)	190,897	-
Level 3 – With Significant Unobservable Inputs	297,512	-	253,174	-
Fair Value through Profit and Loss	**2,131,153**	**(2,016)**	**2,125,334**	**-**
Assets/Liabilities at Amortised Cost	62,599	(2,379)	68,418	(4,395)
Total	**2,193,752**	**(4,395)**	**2,193,752**	**(4,395)**

14C Reconciliation of Fair Value Measurements within Level 3

Period 2019/20	Market value at 31 March 2019 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value at 31 March 2020 £000
Property Unit Trusts *	-	188,776	-	-	-	-	-	188,776
Property Venture	4,207	-	-	153	(1,495)	(1,082)	213	1,996
Infrastructure	44,437	-	-	2,848	(3,346)	2,397	11	46,347
Private Equity	22,962	-	-	356	(7,469)	(5,376)	6,086	16,559
Alternatives	217,697	-	-	58,796	(47,626)	28,938	2,755	260,560
Unquoted Equity Holding in Border to Coast Pensions Partnership	833	-	-	-	-	-	-	833
Total	**290,136**	**188,776**	**-**	**62,153**	**(59,936)**	**24,877**	**9,065**	**515,071**

* the transfer of Property Unit Trusts into level 3 happened in March 2020, therefore there are no purchases, sales or gains and losses. These all relate to when these assets where classed in level 2.

Period 2018/19 Re-analysed	Market value at 31 March 2019 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value at 31 March 2020 £000
Property Venture	6,886	-	-	42	(3,107)	168	218	4,207
Infrastructure	35,420	-	-	6,835	(3,294)	-	5,476	44,437
Private Equity	29,345	-	-	423	(13,271)	(5,350)	11,815	22,962
Alternatives	181,523	-	-	44,852	(38,081)	26,992	2,411	217,697
Total	**253,174**	**-**	**-**	**52,152**	**(57,753)**	**21,810**	**19,920**	**289,303**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and change in market values line of the Fund account.

Note 15. Financial Instruments

Note 15A. Classification of Financial Instruments

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

	31 March 2020			
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership	-	-	-	833
Equities	495,761	-	-	-
Pooled Investments				
Property	190,977	-	-	-
Infrastructure	46,347	-	-	-
Private Equity	16,559	-	-	-
Bonds	414,941	-	-	-
Equities	695,082	-	-	-
Alternatives	306,633	-	-	-
Cash	-	37,010	-	-
Other Investment Balances	8,335	3,723	-	-
Debtors	-	7,347	-	-
	2,174,429	**48,080**	**-**	**833**
Financial Liabilities				
Other Investment Balances	-	-	(145)	-
Creditors	-	-	(3,870)	-
	-	**-**	**(4,015)**	**-**
Grand Total	**2,174,429**	**48,080**	**(4,015)**	**833**

	31 March 2019 Re-Analysed			
	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through comprehensive income
	£000	£000	£000	£000
Financial Assets				
Unquoted Equity Holding in Border to Coast Pensions Partnership	-	-	-	833
Equities	818,260	-	-	-
Pooled investments				
Property	194,973	-	-	-
Infrastructure	44,437	-	-	-
Private Equity	22,962	-	-	-
Bonds	283,158	-	-	-
Equities	649,490	-	-	-
Alternatives	290,056	-	-	-
Cash	-	47,123	-	-
Other Investment Balances	-	5,216	-	-
Debtors	-	9,092	-	-
	2,303,336	**61,431**	**-**	**833**
Financial Liabilities				
Other Investment Balances	(1,276)	-	(1)	-
Creditors	-	-	(3,129)	-
	(1,276)	**-**	**(3,130)**	**-**
Grand Total	**2,302,060**	**61,431**	**(3,130)**	**833**

15B Net Gains and Losses on Financial Instruments

	2018/19 £000	2019/20 £000
Financial Assets		
Fair Value through Profit and Loss	178,619	(133,375)
Total	**178,619**	**(133,375)**

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

Note 16. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

a) Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Other Price Risk

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

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

The Fund’s investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for 2019/20; assuming that all other variables, in particular foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movements (+/-)
UK Equities	30.0%
Overseas Equities	33.0%
UK Bonds	16.0%
Property	19.0%
Infrastructure	17.0%
Private Equity	24.0%
Alternatives	10.0%

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

Asset Type	Value at 31 March 2020 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	695,082	30.0%	903,607	486,557
Overseas Equities	495,761	33.0%	659,362	332,160
UK Bonds	414,941	16.0%	481,332	348,550
Property	190,771	19.0%	227,017	154,525
Infrastructure	46,347	17.0%	54,226	38,468
Private Equity	16,559	24.0%	20,533	12,585
Alternatives	306,633	10.0%	337,296	275,970
Total	**2,166,094**		**2,683,373**	**1,648,815**

Asset Type	Value at 31 March 2019 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	664,952	13%	751,396	578,508
Overseas Equities	802,798	13%	907,162	698,434
UK Bonds	283,158	5%	297,316	269,000
Property	194,973	15%	224,219	165,727
Infrastructure	44,437	17%	51,991	36,883
Private Equity	22,962	24%	28,473	17,451
Alternatives	290,056	10%	319,062	261,050
Total	**2,303,336**		**2,579,619**	**2,027,053**

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 risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. Experience suggests that a movement of less than +/- 1% in interest rates from one year to the next is likely. The analysis that follows 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 +/- 1% change in interest rates.

Assets Exposed to Interest Rate Risk	Value at 31 March 2020 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	23,939	-	23,939	23,939
Cash balances	13,071	-	13,071	13,071
Bonds	414,941	4,149	419,090	410,792
Total	**451,951**	**4,149**	**456,100**	**447,802**

Assets Exposed to Interest Rate Risk	Value at 31 March 2019 £000	Percentage Movement on 1% change in interest Rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	36,413	-	36,413	36,413
Cash balances	10,710	-	10,710	10,710
Bonds	283,158	2,832	285,990	280,326
Total	**330,281**	**2,832**	**333,113**	**327,449**

Income Exposed to Interest Rate Risk	Interest Receivable 2019/20 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	192	2	194	190
Bonds	-	-	-	-
Total	**192**	**2**	**194**	**190**

Income Exposed to Interest Rate Risk	Interest Receivable 2018/19 £000	Percentage Movement on 1% change in interest Rates %	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	97	1	98	96
Bonds	-	-	-	-
Total	**97**	**-**	**98**	**96**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

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

Following analysis of historical data and in consultation with an investment manager, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%, as measured by one standard deviation (8% in 2018/19). An 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net asset available to pay benefits as follows:

Assets Exposed to Currency Risk	Value at 31 March 2020 £000	Percentage Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas Equities	495,761	49,576	545,337	446,185
Pooled Investments:				
Overseas Property	14,579	1,458	16,037	13,121
Overseas Infrastructure	4,453	445	4,898	4,008
Overseas Private Equity	18,026	1,803	19,829	16,223
Total	**532,819**	**53,282**	**586,101**	**479,537**

Assets Exposed to Currency Risk	Value at 31 March 2019 £000	Percentage Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas Equities	802,798	64,224	867,022	738,574
Pooled Investments:				
Overseas Property	14,792	1,183	15,975	13,609
Overseas Infrastructure	3,979	318	4,297	3,661
Overseas Private Equity	22,962	1,837	24,799	21,125
Total	**844,531**	**67,562**	**912,093**	**776,969**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund is additionally exposed to credit risk through securities lending (see Note 12D) and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, Northern Trust, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, Northern Trust provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

The Pension Fund's bank account is held at Barclays, which holds an 'A' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices. At 31 March 2020 the balance at Barclays was £12.071m (£9.710m at 31 March 2019).

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed assets (equities and bonds), instruments that can be liquidated at short notice, normally three working days. As at 31 March 2020, these assets totalled £1,605.784m (£1,750.908m as at 31 March 2019), with a further £37.010m held in cash (£47.123m as at 31 March 2019). Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

Note 17. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation which applies to the 2019/20 accounts took place as at 31st March 2016. The details set out in the note below relate to the valuation. The next valuation took place on 31st march 2019 and relates to accounting period from 01 April 2020.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
2) to ensure that employer contribution rates are as stable as possible;
3) to minimise the long-term cost of the scheme by recognising the link between assets and adopting an investment strategy that balances risk and return;
4) to reflect the different characteristics of employing bodies in determining contribution rates where reasonable to do so; and
5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates, where possible. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 76.9% funded (71.5% at the March 2013 valuation). This corresponded to a deficit of £529m (2013 valuation: £597m) at that time.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay) 1 April 2017-31 March 2020	Secondary Rate (£000) 2017/18	2018/19	2019/20
17.4%	18,004	20,539	23,222

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report on the Fund's website.

The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. The calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The principal assumptions were as follows:

Financial Assumptions

Future Assumed Returns at 2016	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property & Infrastructure	3.8
Cash	2.5

Other Financial Assumptions	31 March 2013 % p.a.	31 March 2016 % p.a.
Discount rate	4.6	4.0
Price inflation (RPI)	3.3	3.2
Pay increases*	3.8	2.6
Pension increases	2.5	2.1
Revaluation of deferred pension	2.5	2.1
Revaluation of accrued CARE pension	2.5	2.1
Expenses	0.4	0.5

*An allowance is also made for promotional pay increases

Demographic Assumptions

The baseline longevity assumptions are a bespoke set specifically tailored to fit the membership profile of the Fund. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% per year. The assumed life expectancy from age 65 is as follows:

		31 March 2013	31 March 2016
Male			
	Current Pensioners	22.2 years	22.1 years
	Future Pensioners	24.5 years	24.1 years
Female			
	Current Pensioners	24.4 years	24.4 years
	Future Pensioners	26.8 years	26.6 years

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option

It is assumed that 2% of active members (evenly distributed across age, service length and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

Note 18. Actuarial Present Value of Promised Retirement Benefit

Below is the note provided by the Fund's Actuary, Hymans Robertson; to provide the Actuarial present value of the promised retirement benefits as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2020 for IAS 19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 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. I have been instructed by the Administering Authority to provide the necessary information for the Lincolnshire Pension Fund ("the Fund").

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 the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or

- by reference to this information in an accompanying actuarial report.

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

Present value of promised retirement benefits

Year Ended	31 March 2019 £'m	31 March 2020 £'m
Active Members	1,793	1,368
Deferred Members	843	704
Pensioners	1,131	1,268
Total	**3,767**	**3,340**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £339m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £118m.

Financial assumptions

Year Ended (% p.a.)	31 March 2019	31 March 2020
Pension Increase Rate	2.5%	1.9%
Salary Increase Rate	2.9%	2.2%
Discount Rate	2.4%	2.3%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a 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	21.4 years	23.7 years
Future Pensioners (assumed to be aged 45 at the latest formal valuation)	22.4 years	25.2 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

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.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	299
0.5% p.a. increase in the Salary Increase Rate	1%	31
0.5% p.a. decrease in the Real Discount Rate	10%	332

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. 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 on 18 May 2020 by:

Anne Cranston AFA

For and on behalf of Hymans Robertson LLP

Note 19. Current Assets

	31 March 2019 £000	31 March 20 £000
Short Term Debtors		
Contributions due - Employers	5,238	4,782
Contributions due - Employees	1,375	1,431
Sundry Debtors	2,479	1,134
Total Short Term Debtors	**9,092**	**7,347**
Cash Balances	10,710	13,071
Cash Balances	**10,710**	**13,071**
Total Current Assets	**19,802**	**20,418**

Note 20. Current Liabilities

	31 March 2019 £000	31 March 20 £000
Creditors		
Contributions – paid in advance	(34)	(122)
Sundry Debtors	(3,095)	(3,748)
Total	**(3,129)**	**(3,870)**

Note 21. Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £8.077m (£8.683m in 2018/19). Member contributions of £0.909m (£0.998m in 2018/19) were received by the Prudential in the year to 31 March and £1.782m (£1.700m in 2018/19) was paid out to members.

The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

Note 22. Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. During the reporting period, the Council incurred costs of £0.231m 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 £34.135m to the Fund in 2019/20. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the

County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £13.016m and interest of £0.127m was earned over the year.

Each member of the Pension Fund Committee is required to declare their interests at each meeting and also is asked to sign an annual declaration disclosing any related party transactions. Three Committee members: Cllr P Key, A Antcliff (Employee Representative) and S Larter (Small Scheduled Bodies Representative) were contributing members of the Pension Fund during 2019/20. Cllr R Waller's daughter (District Council Representative) was also a contributing member of the scheme during 2019//20. S Larter (Small Scheduled Bodies Representative) is also a deferred member of the scheme.

Note 23. Key Management Personnel

The key management personnel of the Fund are the Executive Director of Resources, the Head of Pensions and the Accounting, Investment and Governance Manager. The Fund does not employ any staff directly. Lincolnshire County Council employs the staff involved in providing the duties of the Administering Authority for the Fund. The proportion of employee benefits earned by key management personnel relating to the Pension Fund are: £0.130m short term benefits (£0.122m in 2018/19) and £0.021m post-employment benefits (£0.021m in 2018/19).

Note 24. Contingent Liabilities and Contractual Commitments

At 31 March 2020 the fund had outstanding capital commitments (investments) to nineteen investment vehicles, amounting to £35.035m. These commitments relate to outstanding call payments due on unquoted limited partnerships making investments in private equity, property or infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over the lifetime of the funds.

Note 25. Contingent Assets

Seven admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

No such defaults have occurred in 2019/20 (or 2018/19)

Note 26. Impairment Losses

The Fund has no recognised impairment losses.

Note 27. Exchange Rates Applied

The exchange rates used at 31 March 2020 per £1 sterling were:

Australian Dollar	2.0259
Canadian Dollar	1.7649
Swiss Franc	1.1997
Danish Krone	8.4327
Euro	1.1301
Hong Kong Dollar	9.6107
New Israeli Shekel	4.3863
Japanese Yen	133.8588
Norwegian Krone	13.0207
Swedish Krona	12.2851
Singapore Dollar	1.7655
US Dollar	1.2400

Glossary of Terms

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure and property, and financial assets such as private equity and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Asset Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale, as requested by MHCLG: 'significantly reducing costs whilst maintaining investment performance'.

Auto Enrolment – UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria, and repeat this process every three years to re-enrol any employees that have opted out of the pension scheme.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Consumer Price Index (CPI) – The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Counterparty – The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to complete. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of assets, income collection and settlement of trades for a portfolio, independent from the asset management function.

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes are defined benefit schemes.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Fiduciary Duty – A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – One type of defined benefit pension scheme where employee benefits are based on the person's final salary when they retire. The LGPS Scheme has moved from this to a CARE (career average revalued earnings) scheme in 2014.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Infrastructure – The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – The investor's long-term distribution of assets across various asset classes taking into consideration their objectives, their attitude to risk and timescale.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pension liabilities are the pensions benefits and payments that are due to be paid when someone retires.

Market Value – The price at which an investment can be bought or sold at a given date.

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Portfolio – Block of assets generally managed under a single mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or designating bodies that have an automatic right and requirement to be an employer within the LGPS.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance, such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Lincolnshire Fund and produces a report on the Fund's financial position.

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