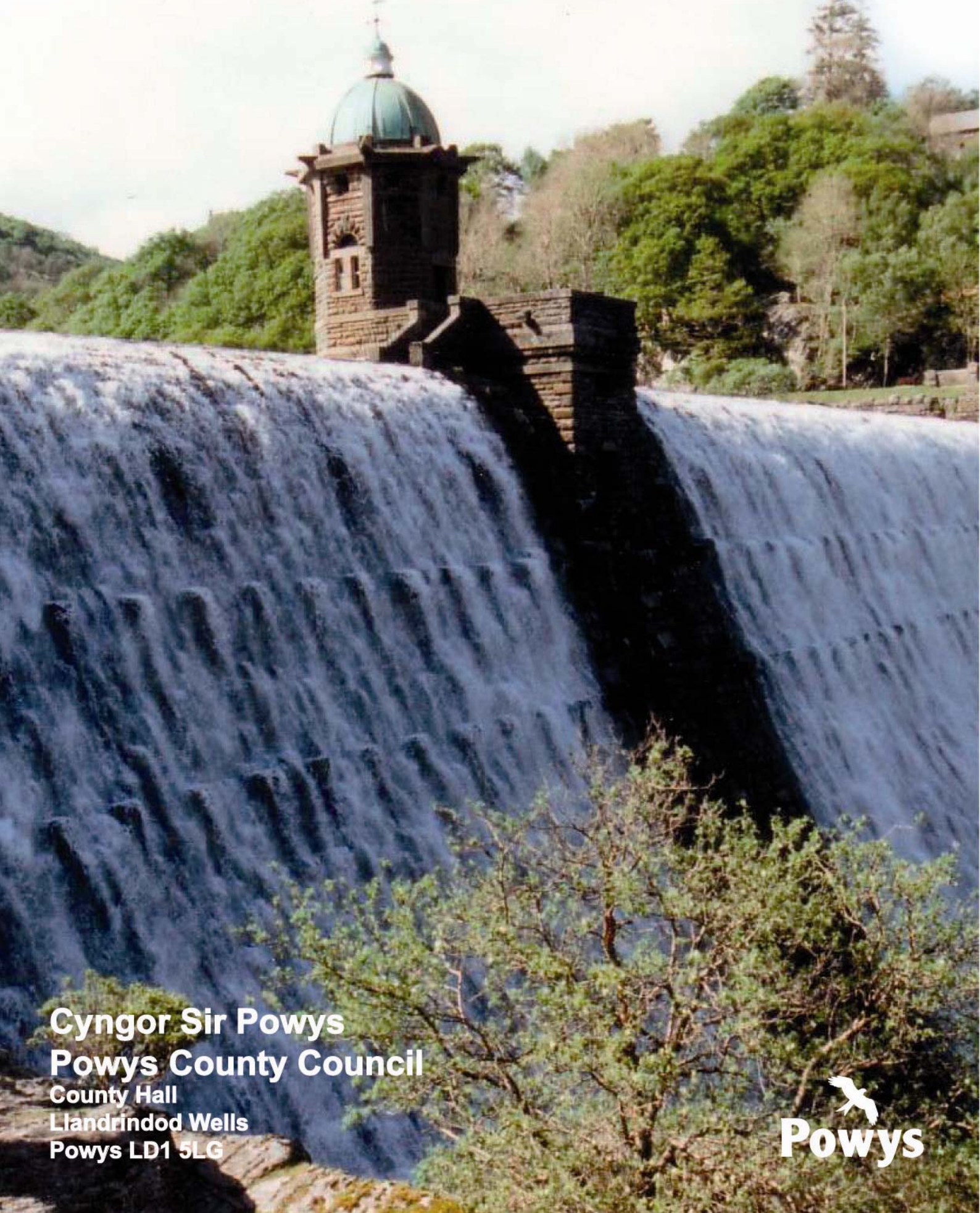


# Pension Fund Accounts 2012/13



**Cyngor Sir Powys**  
**Powys County Council**  
County Hall  
Llandrindod Wells  
Powys LD1 5LG



Draft

## **Pension Fund Account**

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## Chairman's Statement

The Pension Fund aims to deliver pensions effectively and efficiently at the lowest cost to the contributing employers. This requires a balance be struck between the risk and return of the investments held and to consider the future liabilities of the fund. We are committed to a long-term goal of stabilising the future pension costs to employers.

The cost to employers is based on the triennial actuarial valuation of the fund, the most recent one being completed as at 31 March 2010. That valuation highlighted a fall in the funding level of the fund from 73% to 71%. The aim is to achieve 100% funding. The next valuation is due to be calculated as at 31 March 2013. The purpose of the valuation is to establish the contribution rates that employers should pay into the fund in order to finance members future benefits. Employee rates are set in statute and are not affected by the valuation report.

It is worth noting that regardless of how the investments of the fund perform the pensions of existing pensioners and the future pensions of employees are guaranteed. The Fund cannot be "wound up" like private sector schemes.

Following the Local Council Elections in May 2012, there has been a change in the Pensions & Investment Committee personnel. We welcome Councillor Tom Turner's appointment to the Committee & look forward to his contribution to the governance of the Pension Fund.

The trend of falling contributor numbers in recent years has halted, with a slight rise in contributors this year. The number of pensioners claiming benefits however, continues to rise. Cash flow remains positive for now, as income from employers and employees exceeds benefits paid to pensioners, although this will need to be monitored carefully.

As part of the Governments reform of pensions, auto enrolment (AE) begins for Powys County Council on 1<sup>st</sup> April 2013. Other employers in the fund will be required to introduce AE at future dates, depending on their number of employees.

On the investments front, the fund had a modest return in the nine months to the end of 2012 but significant gains in equities in the first quarter of 2013 contributed to an increase of 14.3% in the funds value in the 12 months to 31<sup>st</sup> March 2013.

I trust that you find this years report interesting and informative. Should you have any comments on this report or any aspect regarding the administration of the scheme, see Appendix 2 for details of how to contact us. As a reminder, the Members of Powys County Council are the Trustees of the fund and as such are responsible for the administration.

Cllr Tony Thomas  
Chair of the Pensions and Investment Committee

## Fund Administration

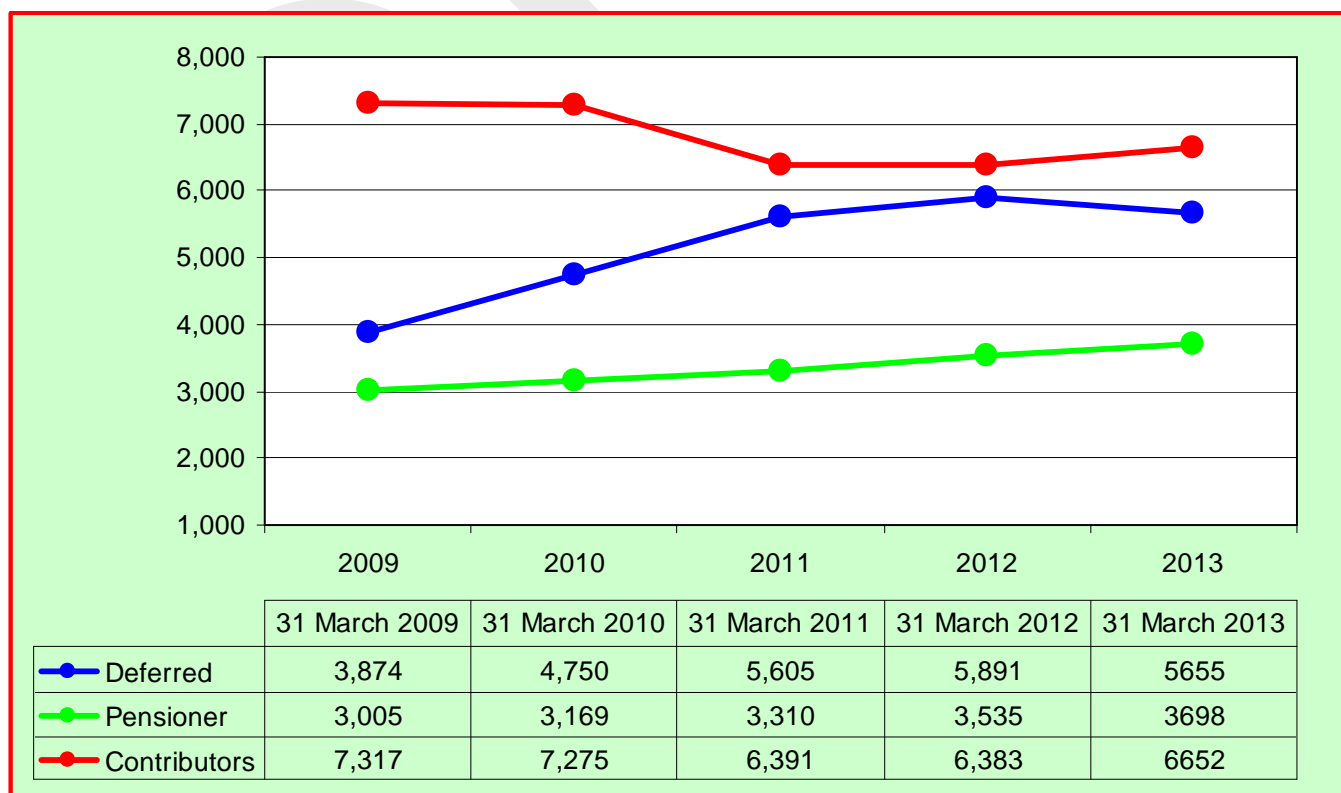
### Scheme Details

Powys County Council is the administering Authority for the Powys Pension Fund. The Pension Fund provides future pension entitlement to all eligible employees of Powys County Council and the other participating bodies (Appendix 2). Membership of the scheme is not mandatory. It is a defined benefit pension scheme based on final salary. The contributions payable by employees and the benefits due to them are prescribed by the Local Government Pension Scheme Regulations. With effect from 01 April 2012 all members have been allocated a contribution rate based on the following:

Band	Range	Contribution Rate
1	Up to £13,500	5.5%
2	£13,501 to £15,800	5.8%
3	£15,801 to £20,400	5.9%
4	£20,401 to £34,000	6.5%
5	£34,001 to £45,500	6.8%
6	£45,501 to £85,300	7.2%
7	More than £85,300	7.5%

The fund excludes membership for teachers, police officers and fire fighters, for who separate schemes exist.

The graph below shows the membership of the Fund. Deferred members are former employees of the contributing authorities who have yet to draw their pensions.



## **Pension Increases**

Pensions paid to retired members are increased each year in line with the cost of living, which is measured by the Consumer Price Index (CPI). Increases are payable from the first Monday of each tax year. The table below shows the pension increases of the last 5 years:

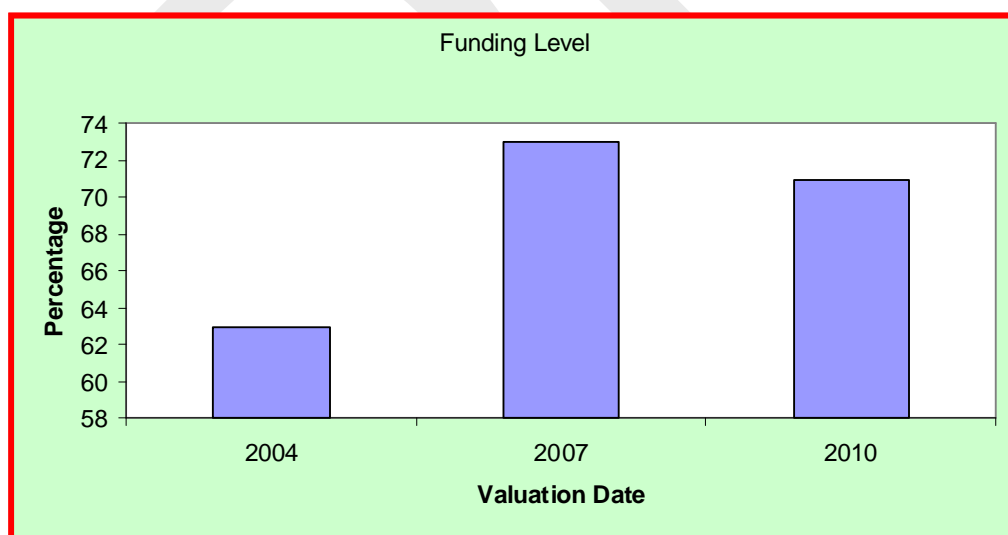
Effective Date	Increase %
6 <sup>th</sup> April 2009	5.0
12 <sup>th</sup> April 2010	0.0
11 <sup>th</sup> April 2011	3.1
9 <sup>th</sup> April 2012	5.2
8 <sup>th</sup> April 2013	2.2

## **Management of the Fund**

The County Council is the designated statutory body responsible for administering the Powys Pension Fund of its constituent scheduled and admitted bodies. The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee, which meets at least quarterly. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers. The Committee will review market conditions and economic trends with the aim of forming a view on the prospects for each of the world markets over the short, medium and long term. The Pensions and Investment Committee, alongside the Chief Financial Officer and the external experts it employs, provided the general direction and advice by which the Fund was managed. It also monitored the performance of the Fund and the investments for which the administering Authority is responsible.

Day to day administration of the scheme is provided by the Pensions Section of Powys County Council. A list of the bodies that have been admitted to the scheme can be found in Appendix 2.

## **Funding and Valuation**



The aim of the funding is to accumulate current contributions at a level sufficient to provide known benefits at some time in the future. In short therefore, the scheme benefits are financed by contributions from employees and employers together with income from investments. Both the employees' contributions and the benefits to be provided by the scheme are fixed by the Government as set out in the Local Government Pension Scheme Regulations, leaving the employers' rate of contribution as the only element which can be deliberately adjusted. The performance of investments depends upon market circumstances.

The employers' rate of contribution is assessed by the Actuary to the Fund who reviews the future income and liabilities of the Fund. These reviews, or actuarial valuations, are required by law with a major review being undertaken every third year. The next valuation of the Fund will be completed in autumn 2013.

The actuarial valuation as at 31 March 2010 showed the assets held at the valuation date were sufficient to cover only 71% of the accrued liabilities assessed on an ongoing basis. Efforts continue to be made to address this deficit. It is the long-term goal to achieve 100% funding. The level of funding has no impact on members' benefits which are guaranteed by law.

### **Additional Voluntary Contribution (AVC) Scheme**

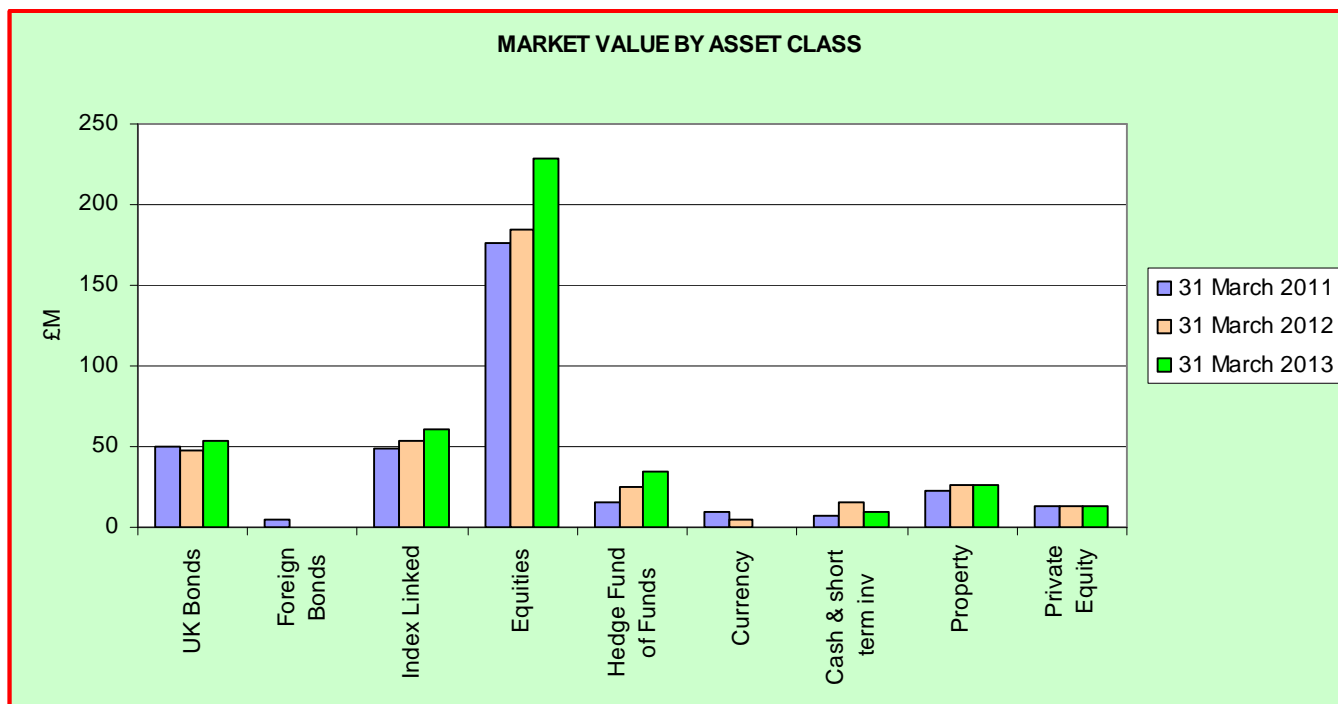
Since 06 April 1988, it has been a legal requirement for all Pension Schemes to provide members with access to an in-house AVC Scheme. The Authority's appointed providers are the Equitable Life Assurance Society, the Standard Life Assurance Company and Prudential plc. Members are able to pay contributions into a variety of AVC arrangements offered by the providers, in order to secure additional pension benefits. The AVC investments are excluded from the Pension Fund Accounts.

### **Statement of Investment Principles**

As required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093) the Pensions and Investment Committee have produced a Statement of Investment Principles which complies with the six investment principles set out by the Chartered Institute of Public Finance Accountants (CIPFA) Pensions Panel – Appendix 5.

## Investment Report

The prime requirement in managing the Fund is to ensure adequate diversification of its assets over different asset classes and different geographical areas. The right balance must be struck between the desire for enhanced returns and potential ‘risk’ of volatility in those returns i.e. the investment policy of the Fund is aimed at maximising returns within the acceptable limits of risk. There is no ideal split for any fund, so the portfolio balance needs to be regularly monitored and adjusted in line with the economic, financial and market indicators.



The investment style of the Fund is to appoint external expert fund managers with clear performance benchmarks and place accountability for performance against those benchmarks on the fund managers. The Chief Financial Officer must ensure that the management of the Fund falls within the requirements of the Local Government Pension Scheme Regulations.

### Performance Review

	1 Year %	3 Years %	5 Years %
Powys Overall Return Annualised Rolling Return pa	14.3	9.1	6.6
Inflation CPI	2.8	3.4	3.3
Average Earnings Index	1.3	1.8	2.1

Given the long-term nature of the Fund, perhaps the most significant column above is that detailing the comparisons over five years. Inflation and average earning percentages are taken from the Office for National Statistics data.

The performance of each of the current Fund Managers for 2012/13 is shown in the table on the next page. The Fund Managers have been given a rolling 3-year specific performance target measured against the benchmark return in the relevant asset class. The targets include a minimum acceptable performance level.



Mandate	Fund Performance (%)	Performance Benchmark (%)
BlackRock Global Investors (Balanced)	17.3	18.5
BlackRock Global Investors (Index-Linked Funds)	11.4	11.7
Western Assets	13.4	12.0
Aberdeen Asset Management (Global Equity)	18.7	18.4
MFS (Global Equity)	24.1	17.7
Schroder Investment Manager (Global Equity)	16.8	17.7
Aviva Investors (UK Property)	4.2	1.1
Fauchier Partners (Hedge Fund of Funds)	6.1	0.7
GAM (Hedge Fund of Funds)	2.5	4.0
Goldman Sachs (Hedge Fund of Funds) *	3.3	0.1
CBRE Investors (European Property)	6.6	3.3
Standard Life Investments (Private Equity)	0.2	17.1
HarbourVest Partners VII (Private Equity)	14.3	17.1
HarbourVest Partners VIIIa - Buyout (Private Equity)	6.1	17.1
HarbourVest Partners VIIIb -Venture (Private Equity)	9.9	17.1
<b>Overall Fund</b>	<b>14.3</b>	<b>13.2</b>

\* Goldman Sachs performance figures based on Q1 2013 data.

During 2012/13 the fund invested a further £1m of capital with Aviva and £3m with GAM. Of the £3.253m capital commitment (Note 18) outstanding as at 31 March 2012, £0.566m was drawn down.

#### Investment manager structure as a percentage of fund total, as at 31<sup>st</sup> March 2013

Asset Class	Manager						Total %
	BGI, Bank of Scotland	Aberdeen, Schroders, MFS	Western Asset	Fauchier, GAM, Goldman Sachs	Aviva, CBRE	Std Life, Harbourvest	
	Passive %	Active %	Active %	Active %	Active %	Active %	
Equities	32.4	21.5					53.9
UK Fixed Interest Gilts			2.4				2.4
Sterling Non Gilts	0.9		9.2				10.1
Index Linked Gilts	13.9		0.2				14.1
Overseas Bonds							0.0
Property					6.2		6.2
Private Equity						3.1	3.1
Hedge Fund				8.1			8.1
Cash	1.6		0.5				2.1
<b>TOTAL</b>	<b>48.8</b>	<b>21.5</b>	<b>12.3</b>	<b>8.1</b>	<b>6.2</b>	<b>3.1</b>	<b>100.0</b>

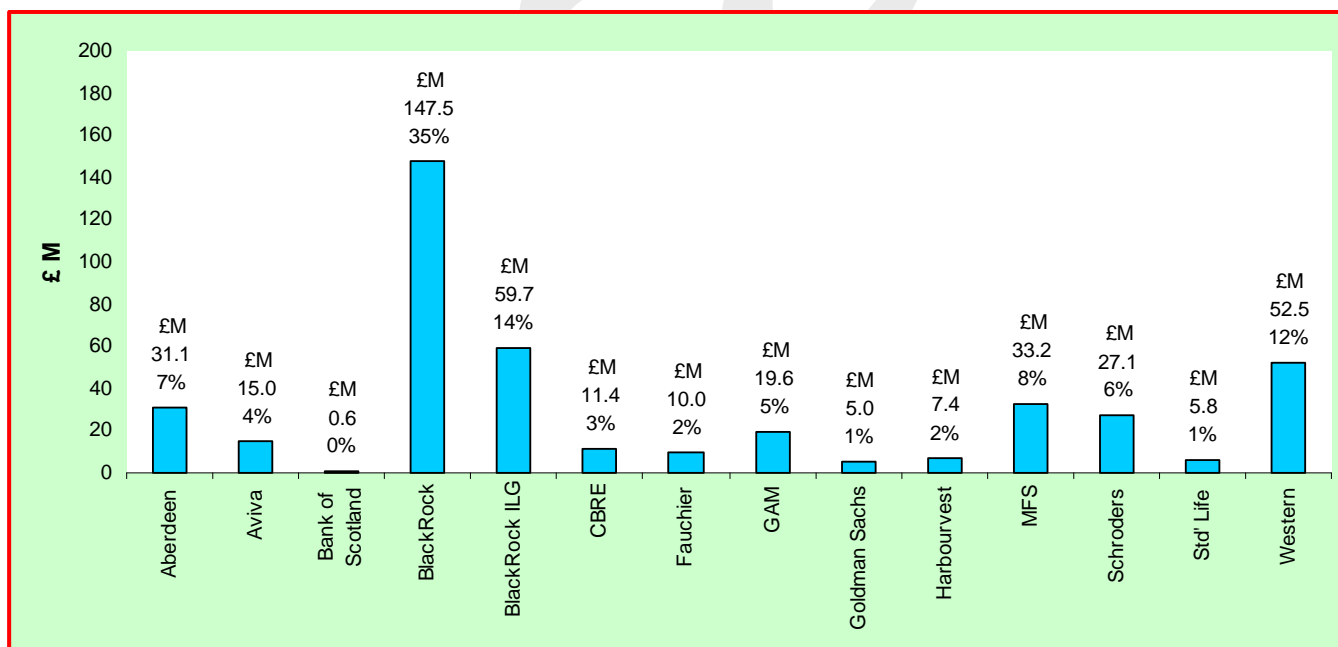
The strategic asset allocation is as follows:

	2011/12	2012/13
Equities	47%	47%
Fixed Interest and Index Linked Securities	30%	30%
Property	10%	10%
Private Equity	5%	5%
Currency	1.5%	0%
Hedge Fund of Funds	6.5%	8%

The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of the funds Investment Advisors.

The strategic asset allocation is the ideal target and cannot be achieved until the scheme is fully funded in all areas. It does not reflect the actual investments held at the year-end. The current structure aims to have a 70:30 split between return seeking and liability matching assets. Hedge funds are return seeking assets and in particular have some shared characteristics as bonds, most notably the lower expected volatility compared to equities.

AON Hewitt Limited currently operates a Medium Term Asset Allocation (MTAA) project for the Fund. It utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% per annum by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. The service will run until early 2014. The MTAA service has an artificial benchmark of 52% equity, 33% bonds, 15% alternatives. The market value of assets spread between the fund managers as at 31 March 2013 is shown below:



## Net Assets Statement

As at 31 March

	Note	2012 £`000	2013 £`000
Investments	10	371,705	425,907
Current Assets	13	1,406	3,668
Current Liabilities	13	-823	-4,155
<b>NET ASSETS AS AT 31 MARCH</b>		<b>372,288</b>	<b>425,420</b>

The accounts show cash held with the Investment Managers as investments as recommended in the Statement of Recommended Practice, Financial Reports for Pension Schemes.

## Pension Fund Account

	Note	2011/12 £`000	2012/13 £`000
<u>Contributions and Benefits</u>			
Contributions Receivable	3	22,136	21,894
Transfers In	4	727	1,648
Other Income	5	105	60
<b>TOTAL INCOME</b>		<b>22,968</b>	<b>23,602</b>
Benefits Payable	6	20,116	20,576
Payments on Account of Leavers	7	700	812
Administrative Expenses	8	758	724
<b>TOTAL EXPENDITURE</b>		<b>21,574</b>	<b>22,112</b>
<b>NET ADDITIONS FROM DEALING WITH MEMBERS</b>		<b>1,394</b>	<b>1,490</b>
<u>Returns on Investments</u>			
Investment Income	9	3,054	3,798
Change in Market Value of Investments	10	19,734	49,412
Investment Management Expenses	12	-1,536	-1,568
<b>NET PROFIT ON INVESTMENTS</b>		<b>21,252</b>	<b>51,642</b>
<b>NET INCREASE IN THE FUND</b>		<b>22,646</b>	<b>53,132</b>
<b>OPENING NET ASSETS</b>		<b>349,642</b>	<b>372,288</b>
<b>CLOSING NET ASSETS</b>		<b>372,288</b>	<b>425,420</b>

## Notes to the Pension Accounts

### 1. Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the 2012/13 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

### 2. Accounting Policies

- Contributions and Benefits  
Contributions are accounted for on an accruals basis. Benefits payable represents the benefits entitlement up to the end of the reporting period.
- Transfers to other Schemes  
Transfer payments made to other schemes are as a result of early leavers and are accounted for when paid.
- Transfers from other Schemes  
Transfers received from other schemes are for new members and are accounted for when received. No liability to the scheme accrues until all monies have been received from the transferor's scheme.
- Refunds to Leavers  
These are accounted for when due.
- Investment Management Expenses  
Each fund manager receives a fee for their services based on the market value of the assets they manage.
- Investment Income  
Interest earned and other investment income is accounted for on an accruals basis.
- Foreign Currency Transactions  
Assets and liabilities held in a foreign currency are translated at the rate of sterling quoted at year-end. Income and expenditure arising during the year is translated into sterling at the rate quoted on the date of receipt or payment. Resulting exchange gains or losses are recognised through the revenue account.
- Valuation of Assets  
No property is directly held by the fund. The market value used for quoted investments is that quoted by the stock exchange on 31 March 2013. Fund Managers value unquoted securities at the year-end in line with generally accepted guidelines to ascertain the fair value of the investment.

**3. Contributions Receivable**

	2011/12 £`000	2012/13 £`000
<u>Employers</u>		
Normal	16,661	16,615
Special	-	-
Additional	631	419
<u>Members</u>		
Normal	4,844	4,860
	<b>22,136</b>	<b>21,894</b>

Contributions were made as follows:	2011/12 £`000	2012/13 £`000
Powys County Council (Administering Authority)	20,167	19,423
Scheduled Bodies (Appendix 3)	1,294	1,178
Admitted Bodies (Appendix 3)	675	1,293
	<b>22,136</b>	<b>21,894</b>

**4. Transfers In**

	2011/12 £`000	2012/13 £`000
Individual Transfers From Other Schemes	727	1,648

**5. Other Income**

	2011/12 £`000	2012/13 £`000
Administrative Fees Received	19	8
Additional Allowances Recovered	86	52
	<b>105</b>	<b>60</b>

**6. Benefit Payable**

	2011/12 £`000	2012/13 £`000
Pensions	16,165	17,273
Commutations and Lump Sum Retirement Benefits	3,696	3,067
Lump Sum Death Benefits	255	236
	<b>20,116</b>	<b>20,576</b>

Benefits Can Be Further Analysed:	2011/12 £`000	2012/13 £`000
Powys County Council (Administering Authority)	11,064	11,455
Scheduled Bodies (Appendix 4)	8,296	8,113
Admitted Bodies (Appendix 4)	756	1,008
	<b>20,116</b>	<b>20,576</b>

**7. Payments to and on Account of Leavers**

	2011/12 £`000	2012/13 £`000
Refunds to Members Leaving Service	2	6
Payments to Members Joining State Scheme	-	-
Individual Transfers to Other Schemes	698	806
	<b>700</b>	<b>812</b>

**8. Pensions Administration**

	2011/12 £`000	2012/13 £`000
Powys CC Fees	677	662
Direct Administration Fees	51	32
Audit Fees	30	30
Actuarial Fees	-	-
	<b>758</b>	<b>724</b>

**9. Investment Income**

	2011/12 £`000	2012/13 £`000
Income From Fixed Interest Securities	2,322	2,409
Income From Indexed Securities	686	806
Dividends From Equities	2	-
Interest on Cash Deposits	44	293
Other Investment Income	-	290
	<b>3,054</b>	<b>3,798</b>

**10. Investments**

	Value at 01.04.12 £`000	Purchases at Cost £`000	Sale Proceeds £`000	Cash Movement £`000	Change in Market Value £`000	Value at 31.03.13 £`000
Fixed Interest Securities	48,255	21,158	14,891	-689	-494	53,339
Index linked Securities	53,643	11,829	11,940	1,203	5,420	60,155
Equities (pooled funds)	184,514	17,004	12,141	-1,876	41,617	229,118
Property (pooled funds)	26,671	1,000	805	241	-641	26,466
Private Equity	13,554	536	2,782	60	1,858	13,226
Hedge Fund of Funds	25,511	7,797	-	-293	1,600	34,615
Currency	4,613	-	4,797	-	184	-
Cash & Short Term Investments	14,944	13,612	19,441	5	-132	8,988
	<b>371,705</b>	<b>72,936</b>	<b>66,797</b>	<b>-1,349</b>	<b>49,412</b>	<b>425,907</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at anytime during the year, including profits and losses realised on sales of investments during the year. Some transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

These transaction costs incurred in the year are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme. All equities held by the fund are now in unit trusts.

**11. Breakdown of Investments**

	2011/12 £'000	2012/13 £'000
<b>Fixed Interest Securities</b>		
UK Public Sector Quoted	11,527	10,334
UK Quoted	36,674	42,949
Overseas Public Sector	-	-
Overseas Quoted	54	56
	48,255	53,339
<b>Index Linked Securities</b>		
UK Quoted	53,643	60,155
Overseas Quoted	-	-
	53,643	60,155
<b>Equities – Pooled</b>	184,514	229,118
<b>Hedge Fund of Funds</b>	25,511	34,615
<b>Currency</b>	4,613	-
<b>Private Equity</b>	13,554	13,226
<b>Property</b>	26,671	26,466
<b>Cash</b>	14,868	8,993
<b>Derivatives (see below)</b>		
Futures Options	-	-
Forward Foreign Exchange Contracts	76	-5
	<b>371,705</b>	<b>425,907</b>

The objective of a derivative is to decrease risk in a portfolio by entering into future positions to match assets that are already held in the portfolio without disturbing the underlying asset. The foreign exchange contracts above are further analysed below.

Forward Foreign Exchange Contracts	Expiration	Market Value £'000
Sterling	Less than 1 year	344
<u>Hedged against:</u>		
Euro	Less than 1 year	-59
US	Less than 1 year	-290

**12. Investment Management Expenses**

	2011/12 £'000	2012/13 £'000
Administrative Management and Custody	1,515	1,546
Performance Measurement Charges	21	22
	<b>1,536</b>	<b>1,568</b>

**13. Current Assets and Liabilities**

	2011/12 £`000	2012/13 £`000
Contributions Due From Employers In Respect Of:		
Employers and Members	1,446	191
Cash Balances	-40	471
Accrued Income	-	3,006
Accrued Expenses	-823	-4,155
	<b>583</b>	<b>-487</b>

Amounts unpaid at the year end are subsequently paid within a reasonable time frame, i.e. the majority of the balances are paid within a 3 month period.

**14. Related Party Transactions**

Details of Members and officers of the Council represented on the Pensions and Investment Committee are shown in Appendix 1. Their combined contributions into the scheme were £25k in 2012/13.

The Fund is administered by Powys County Council. Consequently there is a relationship between the Authority and the Fund.

The Authority incurred costs of £0.7 million (2011-2012: £0.7 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £15.9 million to the Fund in 2012-2013 (2011-2012: £15.9 million).

**Governance**

There are five councillor members of the Pensions & Investment Committee. In 2012-13 these were Councillor T Thomas, Councillor P Ashton Councillor G Vaughan, Councillor A Jones, & Councillor T Turner.

The Director of Finance and Infrastructure, Mr Geoff Petty, who has the role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.

Councillors are required to declare their interest at each meeting.

The Committee members and Director of Finance and Infrastructure accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

The full Governance Policy of the Powys Pension Fund is available on the Powys County Council website.

**15. Additional Voluntary Contributions (AVC)**

Although not included in these accounts the Authority has three AVC providers – Standard Life, Equitable Life and Prudential. The amounts below represent monthly contributions from employees and do not include any transfers from private pension schemes. The employing Authorities make no contribution.

	2011/12 £`000	2012/13 £`000
Powys County Council	48	105
Other Bodies	2	2
	<b>50</b>	<b>107</b>



## 16. Contingent Liabilities

No contingent liabilities were known to exist at the Balance Sheet date.

## 17. Post Balance Sheet Events

The accounts outlined in these financial statements represent the financial position of the Fund as at 31 March 2013. Since this date, the performance of the global equity markets may have affected the financial value of pension fund investments.

## 18. Capital Commitments

	2011/12 £'000	2012/13 £'000
Private Equity and Property Mandate		
Standard Life (Private Equity)	1,163	1,055
Harbourvest (Private Equity)	1,715	1,398
CBRE (Property)	375	375
	<b>3,253</b>	<b>2,829</b>

## 19. Financial Instruments

### 19a. Fair value of financial instruments & liabilities

The table below summarises the carrying values of the financial assets & liabilities compared with their fair values.

31 March 2012			31 March 2013	
Cost	Fair Value		Cost	Fair Value
£'000	£'000		£'000	£'000
		<b>Financial assets</b>		
324,942	371,705	Fair value through profit & loss	333,125	425,907
1,406	1,406	Current assets	3,668	3,668
<b>326,348</b>	<b>373,111</b>	<b>Total financial assets</b>	<b>336,793</b>	<b>429,575</b>
		<b>Financial liabilities</b>		
-823	-823	Current liabilities	-4,155	-4,155
<b>-823</b>	<b>-823</b>	<b>Total financial liabilities</b>	<b>-4,155</b>	<b>-4,155</b>

### 19b. 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 securities, quoted index linked securities and unit trusts.

## Level 2

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

## Level 3

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

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

The private equity values are based on valuations provided by the general partners to the private equity funds in which the Powys Pension Fund has invested.

The hedge fund values are based on the net asset value provided by the fund manager.

The tables below show 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 as at 31 March 2013	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments	351,606	26,466	47,835	425,907
Current assets	3,668			3,668
Current liabilities	-4,155			-4,155
<b>Net financial assets</b>	<b>352,332</b>	<b>26,466</b>	<b>47,835</b>	<b>425,420</b>

Values as at 31 March 2012	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments	305,893	26,671	39,141	371,705
Current assets	1,406			1,406
Current liabilities	-823			-823
<b>Net financial assets</b>	<b>306,476</b>	<b>26,671</b>	<b>39,141</b>	<b>372,288</b>

## 20. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2013 of the actuarial valuation of promised retirement benefits as set out in IAS26. The actuarial present value should be calculated on an IAS 19 basis. IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

Actuarial present value of the promised retirement benefits as at 31 March 2010 is £568.8M

Actuarial present value of the promised retirement benefits as at 31 March 2007 is £434.0M

## **21. Nature and Extent of Risks Arising from Financial Instruments**

### **Risk and risk management**

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

### **Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The 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 price and yield movements and the asset mix.

The objective of the fund's risk management is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether 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 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification.

## Other price risk – sensitivity analysis

The following movements in market price risk are reasonably possible for 2013/14 as determined by WM. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain unchanged.

Asset Type	Potential Market Movement (+ / -)
Overseas Equities	11.9 %
Global Pooled Equities	12.6 %
Total Bonds	5.0 %
Index Linked Gilts	8.3 %
Cash	0.0 %
Property	2.8 %
Alternatives	4.2 %

The table below shows the Fund's value at 31 March 2014 should the investments increase/decrease in line with the above.

Asset Type	Value at 31.03.13 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Fixed Interest Securities	53,339	5.0	56,006	50,672
Index Linked Securities	60,155	8.3	65,148	55,162
Pooled Vehicles – Equities	229,118	12.6	257,987	200,249
Hedge Fund of Funds	34,615	4.2	36,069	33,161
Private Equity	13,226	11.9	14,800	11,652
Property	26,466	2.8	27,207	25,725
Cash	8,993	0.0	8,993	8,993
Derivatives	-5	4.2	-5	-5
<b>Total Assets</b>	<b>425,907</b>		<b>466,205</b>	<b>385,609</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 represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate and return are monitored by the council and its investment advisors as part of the monthly and quarterly reporting and assessment of interest rate return against benchmark.

The fund's exposure to interest rate movements as at 31 March 2012 and 31 March 2013 is set out below.

Asset Type	As at	As at
	31.03.12	31.03.13
	£'000	£'000
Cash	14,868	8,993
Cash Balances	-40	471
Fixed Interest Securities	48,255	53,339
<b>Total</b>	<b>63,083</b>	<b>62,803</b>

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 +/- 0.5% change in interest rates.

Asset Type	Value at 31.03.13 £'000	Change to net assets available to pay benefits	
		+0.5% £'000	-0.5% £'000
Cash	8,993	9,038	8,948
Cash Balances	471	473	469
Fixed Interest Securities	53,339	53,606	53,072
<b>Total Assets</b>	<b>62,803</b>	<b>63,117</b>	<b>62,489</b>

### 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 the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management, including monitoring the range of exposure to currency fluctuations.

The fund's currency exposure as at 31 March 2012 and 31 March 2013 is set out below.

Asset Type	As at	As at
	31.03.12	31.03.13
	£'000	£'000
Private Equity	13,554	13,226
Currency	4,856	360
Derivatives	630	-349
<b>Total</b>	<b>19,040</b>	<b>13,237</b>

A 9% volatility associated with exchange rates is considered likely, based on the fund advisor's analysis of historical movements in the month end exchange rates over a 3 year period.

A 9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value at 31.03.13 £'000	Change to net assets available to pay benefits	
		+9% £'000	-9% £'000
Private Equity	13,226	14,416	12,036
Currency	360	392	328
Derivatives	-348	-380	-318
<b>Total Assets</b>	<b>13,237</b>	<b>14,428</b>	<b>12,046</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. In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The table below shows the funds cash holding as at 31 March 2012 and 31 March 2013.

Summary	Rating	As at 31.03.12 £'000	As at 31.03.13 £'000
<b>Bank Current Account</b>			
HSBC	AA-	-40	9
<b>Bank Deposit Account</b>			
HSBC	AA -	0	462

## **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 therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for meeting the pensioner payroll costs; and also cash to meet investment commitments.

The Council has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2013 the value of illiquid assets was £416.9m, which represented 97.9% of the total fund assets - (31 March 2012 - £356.8m, which represented 96% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

## **Refinancing risk**

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## **22. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted.**

There are no accounting standards that have been issued but have yet to be adopted.

## **23. Future Liabilities**

Coleg Powys will be transferring out of the Fund in 2013-14 as a result of its merger with Neath and Port Talbot College. The transfer amount is estimated to be between £7m and £10m.

## **Powys County Council Pension Fund**

### **Statement of the Actuary for the year ended 31 March 2013**

#### **Introduction**

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Powys County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### **Actuarial Position**

1. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £323.8m) covering 71% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

2. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:

- 14.8% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### **Plus**

- Additional contributions expressed as a mixture of percentage of salary and monetary amounts to be paid as set out in the valuation report to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011. The estimated monetary amounts to be paid as set out in the valuation report are £6.6m in 2011/12, £6.9m in 2012/13 and £7.1m in 2013/14, increasing broadly by 5.3% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate	6.5% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.



6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.
8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.  
This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.  
Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Powys County Council, the Administering Authority of the Fund, in respect of this statement.
9. The report on the actuarial valuation as at 31 March 2010 is available on request from Powys County Council, the Administering Authority of the Fund.

Aon Hewitt Limited

23 May 2013

## **APPENDIX 1 – PENSIONS AND INVESTMENT COMMITTEE**

The Pensions and Investment Committee meet on a quarterly basis. During 2012/13 it consisted of the following:-

### County Councillors:

Mr T. Thomas (Chairman)  
Mr P. Ashton (Vice Chair)  
Mr A. Jones  
Mr G. Vaughan  
Mr T Turner

### Members Representative:

Mr G. Jones

### Outside Bodies Employers Representative:

Mr J. Steadman

### County Council Officers In Attendance:

Mr G. Petty (Strategic Director – Finance & Infrastructure)  
Mrs J Thomas (Accountancy Manager)  
Mr J. Rollin (Pensions Manager)  
Mr S Offa (Pensions Accounts)

### Fund Managers:

Aberdeen Asset Management	Aviva Investors
Bank of Scotland	Blackrock Global Investors (BGI)
CBRE	Fauchier Partners
GAM	Goldman Sachs
HarbourVest Partners LLC	MFS
Schroders Investment Management	Standard Life Investments
Western Asset Management	

### Global Custodian

### Independent Advisor to the Fund

### Actuary

### Performance Measurement

J.P. Morgan  
Mr S. Cole (Aon Hewitt Limited)  
Aon Hewitt Limited  
WM Performance Services

The Global Custodians hold the investments in the name of the Pension Fund.

## APPENDIX 2 – OTHER BODIES

Powys County Council administers the scheme for employees and ex employees of the following bodies:

### **Scheduled Bodies**

Brecon Beacons National Park  
 Brecon Town Council  
 Coleg Powys  
 Knighton Town Council  
 Llandrindod Wells Town Council  
 Llanidloes Burial Joint Committee  
 Newtown and Llanllwchaearn Town Council  
 Powys County Council  
 Welshpool Town Council  
 Ystradfellte Community Council  
 Ystradgynlais Town Council

### **Admitted Bodies**

BUPA Care Homes  
 Careers Wales Powys  
 Development Board for Rural Wales  
 MENCAP  
 Menter Maldwyn  
 Mirus Wales  
 Powys Association of Voluntary Organisations  
 Powys Valuation Panel  
 Presteigne Shire Hall Museum Trust  
 Theatr Brycheiniog  
 Wales European Centre

Community Councils and various other statutory bodies have the right to be included in the fund. Other bodies can be admitted at the discretion of the County Council.

### **Contact List and Communications**

A copy of this report is sent automatically to all participating bodies. A copy is available to anyone else on demand, subject to a small administration charge. A full copy of the report can be viewed at [www.powyspensionfund.org](http://www.powyspensionfund.org). Should you have any comments on the financial statement or any other pension matter please contact the appropriate officer in the following list:

<b>Pensions Administration</b>		
Pensions Manager:	Joe Rollin	08708 510264
<b>Accounts and Investments</b>		
Accountancy Manager	Jane Thomas	01597 826341
Pensions Accounts	Stephen Offa	01597 826727

**APPENDIX 3 – CONTRIBUTIONS BY SCHEDULED AND ADMITTED BODIES**

2012/13	No of Contributors	Employers Normal £	Additional £	Members Normal £	Total £
<b>Scheduled Bodies</b>					
Brecon Beacons National Park	122	494,411	-	170,056	664,467
Brecon Town Council	4	12,012	-	3,131	15,143
Coleg Powys	160	332,927	-	118,159	451,086
Llandrindod Wells Town Council	1	4,143	-	1,105	5,648
Llanidloes Burial Joint Committee	1	3,026	-	680	3,706
Newtown Town Council	2	9,267	-	2,482	11,749
Welshpool Town Council	2	7,224	-	1,165	8,389
Ystradfellte Community Council	1	499	-	118	617
Ystradgynlais Town Council	3	12,950	-	3,833	16,783
	<b>296</b>	<b>876,459</b>	<b>-</b>	<b>301,129</b>	<b>1,177,588</b>
<b>Admitted Bodies</b>					
BUPA	57	294,449	-	48,263	342,712
Mencap	1	822	-	211	1,033
Menter Maldwyn	3	10,309	-	3,904	14,213
Mirus Wales Ltd	7	2,299	-	757	3,056
P.A.V.O (Former P.R.C)	8	32,334	-	9,549	41,883
Careers Wales Powys	24	663,493	153,809	51,178	868,480
Presteigne Shirehall	1	3,036	-	721	3,757
Theatr Brycheiniog	5	12,596	-	5,408	18,364
	<b>106</b>	<b>1,019,698</b>	<b>153,809</b>	<b>119,991</b>	<b>1,293,498</b>
<b>2011/12</b>					
<b>Scheduled Bodies</b>					
Brecon Beacons National Park	116	481,952	121,147	170,243	773,342
Brecon Town Council	4	12,481	-	3,045	15,526
Coleg Powys	149	325,602	13,602	116,301	455,505
Llandrindod Wells Town Council	1	4,054	-	1,372	5,426
Llanidloes Burial Joint Committee	1	3,111	-	670	3,781
Newtown Town Council	3	11,672	-	3,358	15,030
Welshpool Town Council	2	7,065	-	1,140	8,205
Ystradfellte Community Council	1	494	-	121	615
Ystradgynlais Town Council	3	12,478	-	3,655	16,133
	<b>280</b>	<b>858,909</b>	<b>134,749</b>	<b>299,905</b>	<b>1,293,563</b>
<b>Admitted Bodies</b>					
BUPA	65	250,974	-	53,681	304,655
Mencap	1	987	-	267	1,254
Menter Maldwyn	3	9,614	-	3,511	13,125
P.A.V.O (Former P.R.C)	8	32,071	15,625	9,805	57,501
Careers Wales Powys	40	209,093	-	63,109	272,202
Presteigne Shirehall	1	2,992	-	705	3,697
Theatr Brycheiniog	6	15,933	-	6,872	22,805
	<b>124</b>	<b>521,664</b>	<b>15,625</b>	<b>137,950</b>	<b>675,239</b>

**APPENDIX 4 – BENEFITS PAID TO SCHEDULED & ADMITTED BODIES**

2012/13	Retirement Pensions £	Commutations & Lump Sums £	Death Benefits £	Total £
<b>Scheduled Bodies</b>				
Brecknock B.C.	730,172	211	-	730,383
Brecon Beacons National Park	284,431	29,360	-	313,791
Brecon Town Council	218	-	-	218
Coleg Powys	136,683	50,554	-	187,237
Knighton Town Council	7,558	-	-	7,558
Llandrindod Wells Town Council	1,808	-	-	1,808
Llanidloes Burial Committee	529	-	-	529
Magistrates Courts Committee	8,819	26,046	-	34,865
Montgomeryshire D.C.	988,276	81,452	-	1,069,728
Newtown Town Council	7,148	-	-	7,148
Powys CC (pre 1/4/96)	5,052,923	87,924	5,849	5,146,696
Probation Committee	69,588	-	-	69,588
Radnorshire D.C.	496,735	11,261	-	507,996
Welshpool Town Council	35,471	-	-	35,471
Ystradgynlais Town Council	41	-	-	41
	<b>7,820,400</b>	<b>286,808</b>	<b>5,849</b>	<b>8,113,057</b>
<b>Admitted Bodies</b>				
BUPA	258,347	53,167	48,745	360,259
D.B.R.W.	240,519	7,276	-	247,795
P.A.V.O.	43,590	-	-	43,590
Careers Wales Powys	115,332	172,862	-	288,194
Powys Valuation Panel	24,225	-	-	24,225
Theatr Brycheiniog	94	-	-	94
Wales European Centre	2,924	40,556	-	43,480
	<b>685,031</b>	<b>273,861</b>	<b>48,745</b>	<b>1,007,637</b>
<b>2011/12</b>				
<b>Scheduled Bodies</b>				
Brecknock B.C.	715,780	19,272	1,438	736,490
Brecon Beacons National Park	270,267	127,124	-	397,391
Brecon Town Council	85	1,451	-	1,536
Coleg Powys	125,268	36,139	-	161,407
Knighton Town Council	7,186	-	-	7,186
Llandrindod Wells Town Council	1,719	-	-	1,719
Llanidloes Burial Committee	508	-	-	508
Magistrates Courts Committee	2,102	-	-	2,102
Montgomeryshire D.C.	961,598	4,529	-	966,127
Newtown Town Council	6,829	-	-	6,829
Powys CC (pre 1/4/96)	5,043,391	117,453	253,868	5,414,712
Probation Committee	66,681	-	-	66,681
Radnorshire D.C.	490,545	7,231	-	497,776
Welshpool Town Council	35,345	189	-	35,534
Ystradgynlais Town Council	38	-	-	38
	<b>7,727,342</b>	<b>313,388</b>	<b>255,306</b>	<b>8,296,036</b>
<b>Admitted Bodies</b>				
BUPA	251,942	77,168	-	329,110
D.B.R.W.	234,881	1,128	-	236,009
P.A.V.O.	41,543	4,477	-	46,020
Careers Wales Powys	88,153	34,006	-	122,159
Powys Valuation Panel	22,151	-	-	22,151
Theatr Brycheiniog	77	-	-	77
Wales European Centre	1,039	-	-	1,039
	<b>639,786</b>	<b>116,779</b>	<b>-</b>	<b>756,565</b>

## APPENDIX 5 - STATEMENT OF INVESTMENT PRINCIPLES

### 1. Introduction

1.1 Local Government Pension Scheme (LGPS) Funds are required to publish a Statement of Investment Principles (SIP)<sup>1</sup> which must include the Fund's policy on the following:

- The types of investment to be held;
- The balance between different types of investment;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy: and
- Stock lending.

1.3 In response to the Treasury report Updating the Myners Principles: A Response to Consultation (October 2008) , LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001 (see Appendix A).

1.2 The SIP will be regularly reviewed and updated as necessary.

1.3 A copy of the SIP will be made available on request to any interested party.

<sup>1</sup> Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)

## **2. Overall Responsibility**

- 2.1 The County Council is the designated statutory body responsible for administering the Powys Pension Fund on behalf of its constituent scheduled and admitted bodies.
- 2.2 Elected members have a fiduciary duty to the Fund, scheme members and local council taxpayers in relation to the LGPS. Functions may be delegated to Officers but they retain overall responsibility for the management of the fund and its investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Councils Constitution delegates these functions to the Pensions & Investment Committee.
- 2.3 The Investment Regulations permit the appointment of one or more investment managers to manage the fund on their behalf, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.
- 2.4 Administering Authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".
- 2.5 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Chief Financial Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.
- 2.6 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the fund. The members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.
- 2.7 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointment).
- 2.8 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.
- 2.9 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.
- 2.10 Investment Committee
  - 2.10.1 Powys County Council delegates responsibility for the Administering Authority role to the Investment Sub-Committee. This includes investing the Funds assets. The Committee is supported by the Fund Administrator and Investment Advisors.

## 2.10.2 The Committee is responsible in respect of investment matters:

- a. To determine the overall strategy relating to the investment of the Pension Fund's assets and to meeting the Fund's liabilities.
- b. To keep under review the performance of the Pension Fund and the Fund's managers.
- c. To approve the appointment of advisers and fund managers.
- d. To publicise its stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

## 2.11 Investment Managers

### 2.11.1 Each Investment Manager will be responsible for:

- a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.
- b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.
- c. Providing the designated provider with the information necessary to calculate performance statistics.

## 2.12 Investment Consultant

### 2.12.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

- a. Reviews of the Statement of Investment Principles.
- b. Presentation and interpretation of investment performance measurement results.
- c. The Potential impact of:
  - any changes in the Investment Managers' organisations that could affect the interests of the Fund
  - any changes in the investment environment that could present either opportunities or problems for the Fund.
- d. Investment manager selection, retention and termination;
- e. Benchmark adjustments;
- f. The appropriate content of Investment Management and other related Agreements;
- g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary.



- h. Ad-hoc project work as required including research reviews of Investment Managers.

### **3. Investment Objectives**

3.1 The long term investment objectives of the fund are to:

- Maximise investment returns over the long term within an acceptable level of risk.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- The cost of administering the Fund will be constrained by the adoption of best management practice
- Employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- The Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- The Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

### **4. The Types of Investment to be held**

4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.

4.2 In making asset allocation decisions the County Council will consider the following asset classes:

- UK Equities
- Overseas Equities
- Private Equity
- Property
- Fixed Interest Securities
- Index Linked Securities
- Cash and Currency
- Other Assets, such as hedge funds.

- 4.3 In reaching its decisions on asset allocation the County Council will:
- Take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study
  - Consider the extent to which the assets should match the liabilities
  - Consider the volatility of returns which it is prepared to accept
  - Determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
  - Have due regard to the diversification and suitability of investments

## 5. The Balance Between Different Types of Investments

- 5.1 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors.
- 5.2 The current Medium Term Asset Allocation (MTAA) project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service will run from early 2011 to early 2014. The MTAA service has an artificial benchmark of 52% equity / 33% bond / 15% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.
- 5.3 The current strategic benchmark is as follows:

### Asset Allocation

Asset Class	%	Benchmark Index
<b>Equities</b>	<b>47</b>	
Active	19	Split one third MSCI World and two thirds MSCI World (NDR) due to different manager benchmarks
Passive	28	FTSE Developed World
<b>Bonds</b>	<b>30</b>	
Corporate Bonds	12	iBoxx Sterling Non-gilts
Index-Linked Gilts	15	FTSE UK Index-Linked over 5 years
Gilts	3	FTSE UK Gilts All Stock
<b>Property</b>	<b>10</b>	IPD Index
<b>Private Equity</b>	<b>5</b>	MSCI AC World ex UK
<b>Hedge Fund of Funds</b>	<b>8</b>	3 Month LIBOR
<b>Total</b>	<b>100</b>	

## 6. Risk

- 6.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.
- 6.2 The operational risk to the Fund is minimised by:
- The use of a regulated, external, third party, professional custodian for custody of assets.
  - Having formal contractual arrangements with investment managers.
  - Having access to the internal audit service of Powys County Council.
  - The activities of the Fund Managers being governed by detailed Investment Management Agreements. Fund Managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)
  - Having formal agreements in place with admitted bodies.
- 6.3 The investment risks to the fund are managed by:
- Diversification of types of investment
  - Diversification of investment managers
  - The setting of a Fund-specific benchmark informed by Asset-Liability modelling of liabilities.
  - The appointment of independent professional advisors
  - The appointed expert Fund Managers being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
  - Fund Managers being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.
- 6.4 Fund managers are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.
- 6.5 Statistics for measuring the performance of the Fund are provided by the WM Company on a quarterly, annual and 3, 5 and 10-year basis to allow regular monitoring against the prescribed benchmarks and against peer groups.
- 6.6 The Fund Managers are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.

- 6.7 The independent investment adviser who attends each Pensions and Investment Committee meeting produces a separate report on investment performance quarterly, based on performance calculated by WM Performance Services. WM provide a performance measurement service of the Fund.
- 6.8 The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall, or asset class specific benchmarks, will be undertaken if the Pensions and Investment Committee considers it appropriate.
- 6.9 The County Council requires the investment managers to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment managers, the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.
- 6.10 Appropriate performance data will be included in the annual report and statement of accounts for the Pension Fund and in the annual members' newsletter.

## 7. The expected return on investments

- 7.1 The Fund Managers have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that the Managers will meet them in the vast majority of periods under consideration.
- 7.2 The performance targets for the Fund managers are shown in the table below:

Investment Manager	Mandate	Benchmark	Objective
Aberdeen	Global Equity	MSCI World	To outperform the benchmark by 3% p.a. (gross of fees) over rolling 3 year periods
MFS	Global Equity	MSCI World (NDR)	To outperform the MSCI World Index over full market cycles while maintaining a consistent style discipline
Schroders	Global Equity	MSCI World (NDR)	To outperform the MSCI World Index by 3-4% p.a. over a market cycle
Barclays Global Investors	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
CB Richard Ellis	European Property	UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes)	Provide investors with a return of 8-10% p.a., net of fees and expenses.
Western Asset Management	Global Corporate Bonds	Merrill Lynch Sterling Non-Gilts Index.	To outperform the benchmark by 0.75% p.a., net of fees, over the medium term (3-7 years)
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.

<b>Investment Manager</b>	<b>Mandate</b>	<b>Benchmark</b>	<b>Objective</b>
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Goldman Sachs	Hedge Fund of Funds	3 month USD LIBOR	To outperform the benchmark by 4 – 9% p.a. net of fees.
Fauchier Partners	Hedge Fund of Funds	3 month GBP LIBOR	To outperform the benchmark by 5% p.a. over a rolling five year period by investing in a diversified portfolio of hedge funds.
GAM	Hedge Fund of Funds	3 month GBP LIBOR	To achieve an absolute return of 8-13% p.a. over the long term.

7.3 The managers' benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and investment managers and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment managers' overall performance objectives.

## **8. The realisation of investments**

8.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Current employer and employee contributions are expected to broadly match or exceed pension income. Thus it is not expected that there will be any need to realise investments in the near future other than to seek higher returns.

8.2.1 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

8.3 The Council would inform the appointed external fund managers of any projected need to withdraw funds in order to enable the fund managers to plan an orderly realisation of assets if this proves necessary.

## **9. Socially Responsible Investment**

9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment managers.

9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.

9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the

discretion of the active investment managers. However the County Council expects that the active investment managers in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

## **10. The exercise of the rights attaching to investments**

10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Managers provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

## **11. Corporate Governance**

11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Each Fund Manager is required to report its actions on a quarterly basis.

## **12. Stock lending**

12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

## **13. Monitoring and Implementing of Investment Policy**

### **13.1 Monitoring and Review**

13.1.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each Investment Manager's portfolio, including past and future policy decisions. The performance of the Investment Managers will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.

13.1.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.

13.1.3 The appointments of the Investment Managers will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment Managers' processes as well as their performance.

13.1.4 The Investment Managers' appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

13.1.5 If an Investment manager performance prompts concerns then the Committee may ask the manager to come to a meeting for a special review meeting.

## Appendix A

### Principles for Institutional Investment Decision Making

#### Compliance with CIPFA Principles for Investment Decision Making in LGPS

##### Compliance with CIPFA Principles for Investment Decision Making in LGPS

<u>Principle</u>	<u>Compliance</u>
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

## **Appendix B**

### **Background to Medium Term Asset Allocation**

#### **Philosophy**

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultants seek to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

#### **Process**

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Investment Committee. The Investment Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultants liaise with the Investment Managers and follow each transaction as it happens to make sure each trade goes through smoothly.

#### **Risk management**

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Investment Committee.



## **APPENDIX 6 - GOVERNANCE STATEMENT**

### **Pension and Investment Committee**

#### **1. Composition.**

- 1.1 The Council will appoint 5 Members of the Council to the Pension and Investment Committee to achieve as far as reasonably practicable a political balance on the committee. The Committee will then co-opt two non-voting members, one staff representative nominated by the Trades Unions and one representative nominated by the Outside Bodies Employers.
- 1.2 The Council shall appoint the Chair of the Committee at the Annual Meeting, and shall fill any vacancy between Annual Meetings at an ordinary meeting. The Chair of the Committee is entitled to a special responsibility allowance.

## SECTION 1.

### The Governance Policy Statement for the Powys County Council Pension Fund

#### 1. Overall Constitutional Arrangements.

- 1.1 The Powys County Council Pension Fund is a local government pension fund. The prime legislation governing the fund is the Superannuation Act 1972 and regulations made there-under.
- 1.2 Powys County Council is the administering authority for the Powys County Council Pension Fund. The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund.

#### 2. Scheme of Delegation.

- 2.1 The County Council will appoint the members of the Pension and Investment Committee. The Committee will consist of 7 members.
- 2.2 The Pension and Investment Committee will meet once every 3 months with special meetings and training workshops as necessary.
- 2.3 The Pension and Investment Committee will be advised by the Council's Investment Adviser (currently Hewitt Associates Limited) and the Council's Actuary (currently Hewitt Associates Limited).
- 2.4 Members of the Pension and Investment Committee will be required to undertake at least 10 hours training and demonstrate competency in accordance with Section 4 of this Appendix.

#### 3. Consultation

- 3.1 The Pension and Investment Committee will engage with stakeholders through the following:
- At least annually the committee will invite outside bodies to a meeting.
  - A triennial meeting between contributing employers and the actuary to discuss the results of the actuarial valuation.
  - Annual benefit statements are sent to all members annually.

**4. Review of the Governance Policy Statement**

4.1 In line with the Regulations, this Statement will be revised and published by the Administering Authority following any material change in the governance policy.

**5. Contacts**

5.1 Any questions, queries or observations on this Statement should be addressed to:

Geoff Petty,  
Strategic Director – Finance and Infrastructure,  
Powys County Council,  
County Hall,  
Llandrindod Wells,  
Powys  
LD1 5LG

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## **SECTION 2.**

### **Terms of Reference**

#### ***Pension Administration Functions***

- To appoint the Fund's Actuary;
- To receive the triennial actuarial valuation and such other valuations that may arise from time to time and set employers' contribution rates arising there-from.
- To manage, monitor and review the overall arrangements for the administration of the Local Government Pension Scheme (LGPS).
- To respond to consultations in respect of the LGPS.
- To undertake the following functions of the LGPS:
  - To act as Scheme Trustees in relation to the Powys County Council Additional Voluntary Contributions (AVC) Scheme
  - To exercise the discretionary powers available to an administering authority under the provisions of the LGPS regulations
  - To develop, publish and review policies as required by the LGPS regulations.

#### ***Investment Functions***

- To determine long-term investment policy.
- To approve the Council's Funding Strategy Statement and Statement of Investment Principles.
- To review the fund's investment structure at least triennially, having regard to the Fund's liabilities and the advice of the Fund's Investment Adviser and the Section 151 Officer.
- To appoint and dismiss investment managers, consultants and advisers.
- To review investment performance at least once every 3 months.
- To appoint the Fund's custodian for its assets and to periodically review custody arrangements.
- To appoint the Performance Measurement Service for the fund.

#### ***General***

- To approve the annual business plan, Statement of Investment Principles and Governance Compliance Statement.
- Assess and approve the annual pension fund accounts, external audit opinion and management representation in relation to annual audit findings.
- To receive internal audit reports on Pension Fund matters.
- Meetings are open to the public except for exempt and confidential items as defined by the Local Government Act 1972. Copies of reports and minutes are available on the Council's website.

## **SECTION 3.**

### **Functions Delegated to the Section 151 Officer**

#### ***Pension Administration Functions***

- To manage the administration of LGPS.
- To undertake the following functions of the LGPS:
  - Award of Death Grants in accordance with the Council's agreed policy.
  - Ensure compliance with the Pensions Act 1995
  - Ensure compliance with the Finance Acts 2004 and 2005, in particular the meeting of HMRC Reporting Requirements
  - Provide active and deferred members of the Scheme with Annual benefit Statements;
  - Manage, monitor and review arrangements in respect of the scheme's internal dispute resolution procedure.

#### ***Investment Functions***

- To undertake regular monitoring and reconciliation of investments and to report matters of significance to the Pensions and Investment Committee.
- To undertake tendering exercises for Fund services and Investment Managers in accordance with the Council's overall governance arrangements and the Pension and Investment Committee's instructions and to present the Committee with shortlists for appointment.

#### ***General***

- To produce the Fund's Annual Accounts in accordance with proper practice.
- To authorise, within limits, expenditure from the Fund.
- To authorise cash or asset movements between the Council, the Fund, custodian and investment managers.
- When necessary, the exercise of the Fund's voting rights by instruction to the investment managers and custodian, after consultation with the Chairman and Vice-Chairman of the Pension and Investment Committee.
- The Pension and Investment Committee has delegated the use of the voting rights attached to its shareholdings to the investment managers but retains a right to exercise those rights on its own account in exceptional circumstances.
- The Section 151 officer may authorise officers in his / her service to exercise, on his / her behalf, functions delegated to him / her. Any decisions taken under this authority shall remain the responsibility of the Section 151 Officer and must be taken in his / her name and he / she shall remain accountable and responsible for such decisions.

## **SECTION 4.**

### **Trustee Training Plan**

Members of the Pension and Investment Committee will be expected to develop the following proficiencies.

To be achieved within 12 months of appointment to the Committee:

- Understanding of the role of the Committee and the quasi-trustee role of its Members.
- A basic understanding of the Local Government Pension Scheme (LGPS), to include;
  - the scheme's benefits;
  - the discretionary powers available to an administering authority
  - the scheme's funding, including the Actuarial valuation;
  - the roles of the administering authority, scheduled and admitted employers.
- A basic understanding of the roles of the following:
  - The Section 151 Officer;
  - The Investment Adviser;
  - The Actuary;
  - The Investment Managers;
  - The Custodian;
  - The Investment Measurement Service.
- A basic understanding of the relationship between the Fund's assets and liabilities, including the Funding Strategy Statement.
- A basic understanding of the investments of the Fund and the use of benchmarks to measure performance, including the Statement of Investment Principles.

Thereafter, Committee Members will be expected to undertake training to develop their competencies in the above areas and to remain abreast of relevant developments in the LGPS and investment opportunities. Members will need to demonstrate that they have completed at least 10 hours training and development per annum and a record will be kept for this purpose. A budget will be available to facilitate training.

Training may take the following forms:

- External courses, conferences and seminars;
- Internal courses and sessions facilitated by Council officers, advisers to the Fund and Investment Managers;
- Reading relevant literature.

If Members do not meet the training requirements, this will be referred to the County Council.

## GLOSSARY OF TERMS

### **Accrual**

An accrual is a sum (provision) shown in the accounts to cover income or expenditure for the accounting period but which was not actually paid or received as at the date of the Balance Sheet.

### **Actuary**

An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

### **Actuarial Valuation**

This is when an actuary checks what the pension scheme assets are worth and compares them with the scheme's liabilities. They then work out how much the contributions from employers and members must be so that there will be enough money in the scheme when people receive their pensions.

### **Additional Voluntary Contributions**

An option to secure additional pension benefits by making regular payments in addition to the % of basic earnings payable.

### **Admitted Bodies**

Voluntary and Charitable bodies that fulfil certain conditions can apply to allow their employees to become members of the Local Government Pension Scheme.

### **Audit**

An audit is an independent examination of the Council's activities.

### **Balance Sheet**

This is a statement of our assets, liabilities and other balances at the date of the Balance Sheet.

### **Contingent Liabilities**

Contingent liabilities exist where it is probable that a future event will result in a material cost to the Council and can be estimated with reasonable accuracy.

### **Creditor**

A Creditor is someone we owed money to at the date of the Balance Sheet for work done, goods received or services rendered.

### **Current Asset**

These are short-term assets that are available for use in the following accounting year.

### **Current Liabilities**

These are short-term liabilities that are due for payment by the Council in the following accounting year.

### **Current Service Costs (Pension)**

The increase in the liability of a defined benefit pensions scheme as a result of employee's service in the current period.

### **Debtor**

A debtor is an organisation/individual that owes the Council money at the Balance Sheet date.

### **Equities - Pooled**

The Pension Fund invests in equities through unit Trusts. It has no direct investments in equities.

### **Financial Reporting Standards (FRS's)**

Financial regulations to be followed as set by the Accounting Standards Board.

### **Financial Year**

This is the accounting period. For local authorities it starts on 01 April and ends on the 31 March in the following year.

### **Gilt Edged Stocks**

These are investments in government or local Authority stocks. They are regarded as risk-free.

### **Liability**

A liability is an amount payable at some time in the future.

### **Past Service Costs (Pension)**

For a defined benefit pension scheme, this is the extra cost resulting from changes or improvements to the proportion of retirement benefit that relates to an employees past service.

## GLOSSARY OF TERMS

### **Post Balance Sheet Events**

Post Balance Sheet events are items that have arisen after the Balance Sheet date. The items did not occur at the time the Balance Sheet was prepared but have subsequently been discovered. To give a fair representation they may need to be disclosed.

### **Securities**

These are investments such as stocks, share and bonds.

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