

2012/2013

Staffordshire Pension Fund  
**ANNUAL REPORT  
& ACCOUNTS**



**Staffordshire  
Pension Fund**  
Local Government Pension Scheme

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## Chairman's report

We are pleased to present Staffordshire Pension Fund's Annual Report for the year ending 31 March 2013. The Report highlights the important issues affecting the Fund over the last twelve months as well as providing general information about the Pension Scheme.

As most readers will know Staffordshire County Council administers the Staffordshire Pension Fund on behalf of well in excess of 100 public sector bodies. This number has grown significantly over the last year as schools move from Local Authority control to independent academy status. We are grateful to the administration team for the training they have provided to schools converting to academy status as well as the additional training that has been offered to employers ahead of the introduction of automatic-enrolment for qualifying employees.

Investment markets had a tremendous run and made significant gains in 2012/2013. This meant that at 31 March 2013, the Fund had broken the £3 billion barrier; its highest ever market value. The investment section of the report provides more details on the Fund's investments and investment activity throughout the year.

With the introduction of a brand new Local Government Pension Scheme (LPGS) from April 2014, new challenges lie ahead for the team, communication with scheme members and employers has already commenced with presentations and newsletters and this will continue in the build up to April next year.

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



Phillip E B Atkins  
Chairman  
(Pensions Panel)



Stephen Sweeney  
Chairman  
(Pensions Committee)

**“Investment markets had a tremendous run and made significant gains in 2012/2013. This meant that at 31 March 2013, the Fund had broken the £3 billion barrier; its highest ever market value”**

## Governance

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

## Pensions Committee

The main tasks of the Pensions Committee are to;

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

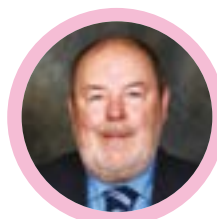
## Pensions Committee council members at 31 March 2013



Philip E B Atkins



Ray Barron



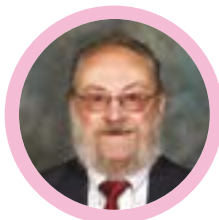
Pat Corfield



Christina Jebb



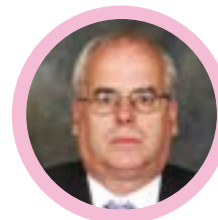
Michael Lawrence



Geoffrey Locke



Mike Maryon



Stephen Sweeney

## The Pensions Committee during 2012/2013:

- Reviewed and updated the Statement of Investment Principles and Risk Register.
- Received regular updates on the new LGPS scheme, planned to be introduced in 2014.
- Responded to a consultation by central government to amend the LGPS investment regulations.
- Approved the Pensions Business Plan for 2013/2014.

## Involving others in governance

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

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

- Steve Elsey (Employees) • Will Enes – Borlace (Employers)
- David Loades (Employers) • Eric Shaw (Pensioners)



### Tamworth Castle

From the 600s to the middle of the 9th century Tamworth Castle was the principal royal and administrative centre of the Mercian kings.

As in those days, good governance is important. In the Local Government Pension Scheme, the emphasis on the decision-making structures that surround the Scheme is critical to the exercise of sound stewardship and good financial performance.



## Pensions Panel

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

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

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

## Pensions Panel council members at 31 March 2013



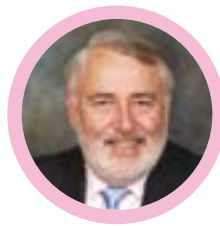
Philip E B Atkins



Christina Jebb



Michael Lawrence



Mike Maryon



Stephen Sweeney

## The Pensions Panel during 2012/2013:

- Approved an annual investment strategy for managing the Pension Fund's cash.
- Approved the Fund joining the Local Authority Pension Fund Forum (See page 20 for more details).
- Reviewed the Fund's investment in tobacco stocks.
- Approved the sale of the Fund's investment in UK government bonds and the reinvestment of proceeds in corporate bonds.

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

## Members update

As a result of the County Council elections on 2nd May 2013, the make up of the Pensions Committee and Pensions Panel has changed in 2013/2014. For more information on the change in members please visit [www.staffspf.org.uk/governance](http://www.staffspf.org.uk/governance) where a link to these regulatory committees is available.

## Attendance

The table below sets out the attendance at quarterly Pensions Committee and Pensions Panel meetings in 2012/2013.

Pensions Committee member	22/06/2012	26/10/2012	14/12/2012	22/03/2013
Phillip Atkins	✓	✗	✓	✗
Ray Barron	✓	✓	✗	✗
Brian Beale	✗	✗	✗	n/a
Pat Corfield	✗	✓	✓	✓
Mike Maryon	✓	✗	✓	✗
Michael Lawrence	✓	✗	✓	✓
Stephen Sweeney	✓	✓	✓	✓
Christina Jebb	✓	✓	✗	✗
Geoffrey Locke	✓	✓	✓	✓
Alan Knight	✓	✓	✗	n/a
Will Enes-Borlace	✗	✓	✗	✗
David Loades	✓	✓	✓	✗
Eric Shaw	✓	✓	✗	✓
Steve Elsey	✗	✓	✓	✗
Alison Elsmore	✗	✓	✗	n/a

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

Pensions Panel member	22/05/2012	12/09/2012	4/12/2012	4/03/2013
Phillip Atkins	✓	✓	✓	✗
Christina Jebb	✓	✓	✓	✓
Mike Maryon	✓	✗	✗	✗
Michael Lawrence	✓	✓	✓	✓
Stephen Sweeney	✓	✓	✓	✓

## Administration

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

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

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

## Advice

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

## Training

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

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

During the year the Pensions Committee received training on the governance of pension funds and on actuarial methods in preparation for the 2013 valuation. The Pensions Panel received training on currency hedging and on investing in hedge funds.

## Communication

The Fund produces a Communications Policy that it reviews annually and is available at [www.staffspf.org.uk](http://www.staffspf.org.uk). The document has been significantly altered recently to meet the increased need for effective communication in the light of the reforms to the LGPS.

Full details on how the Fund communicates with its members are available on page 31.



## Risk management

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

Below is a selection of some the largest risks that the Fund faces and how they are managed:

- The largest risk the Fund faces is having a large proportion invested in equities. The Fund invests heavily in equities as they are expected to provide better returns than government bonds over the long term. The risk with this strategy is that equities are not guaranteed to provide better returns than government bonds and that a stock market crash, like those seen periodically over the last fifteen years, will seriously impact the value of the Fund's investments.

This investment risk is managed through reliance on the funding strategy which details the positive cash flows of the Fund and the long term agreement of the main employing bodies. This then allows the Fund to take a long-term investment perspective and maintain a high exposure to equities over time for them to deliver the expected returns. The market environment and individual investment managers are also constantly monitored and changes made to the asset allocation to take account of changing conditions.

- Another risk the Fund faces is that of an ageing population, meaning that people are receiving their pensions for longer. This is an area which is difficult to forecast accurately, but as people are living longer the cost to the Fund increases.

To reduce this risk we have made assumptions on future life expectancy with allowances for future increases. The Fund actuary also has access to information on the experiences of other local authority pension Funds, which allow changes that would affect our Fund to be identified early.

- The Fund also faces a high risk from inflation rates. For example, an increase in the rate of inflation increases the value of future payments the Fund has to make as they are linked to the level of inflation.

In 2010 the Government announced it was linking future pension increases to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). CPI is generally lower than RPI, which will reduce the future liabilities for the Fund. The Fund also invests in assets which are linked to inflation to reduce this risk. This reduces risk as it matches the return on these assets to actual increases in inflation.

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

**“The primary objective of the Fund is to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment”**

# Scheme management and advisors

## Advisers

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

## Actuary

Hymans Robertson LLP

## Auditors

PricewaterhouseCoopers LLP

## AVC providers

Clerical Medical  
Standard Life Assurance Ltd  
The Equitable Life Assurance Society

## Bankers

The Co-operative Bank plc

## Custodian

The Northern Trust Company

## Investment managers

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

Insight Investment

JP Morgan Asset Management

Knightsbridge Advisors LLC

Lazard Technology Partners LP

Legal & General Investment Management

Longview Partners Limited

Morgan Stanley Investment Management Limited

Partners Group LP

Record Currency Management

Russell Investments Limited

Sarasin & Partners LLP

Schroder Investment Management Limited

Standard Life Investments Limited

State Street Global Advisors Limited

## Legal adviser

John Tradewell, LLB, MBA

Director of Democracy, Law and Transformation

## Official responsible for the Fund

Andrew Burns BSc (Hons), CPFA, MBA

Director of Finance and Resources

## Performance measurement

Portfolio Evaluation Ltd

WM Performance Services

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

## Global economic review

2012/2013 began in subdued fashion. Disappointing economic data was released by the US which raised question marks over their growth prospects, and in April, the UK confirmed it was back in recession. Uncertainty also surrounded the future of the Euro, centred around concerns about bad debts in the Spanish banking sector and an inconclusive outcome to Greek elections.

Over the summer of 2012 global central banks took centre stage - The Bank of England boosted their asset purchase programme, known as Quantitative Easing, by a further £50bn, bringing it to a total of £375bn. They also launched a scheme which encouraged banks to lend to homeowners and businesses; known as the Funding for Lending Scheme. In the US, the Federal Reserve made an open-ended pledge to buy \$40bn of bonds each month until the US employment situation improved substantially.

The European Central Bank (ECB), in response to continued weakness in the Eurozone, reduced bank rate to 0.75% in July, a new record low. ECB President Mario Draghi also pledged to do 'whatever it takes' to save the euro and announced the introduction of Outright Monetary Transactions, whereby the ECB would buy the bonds of Eurozone countries.

Despite the continued weaker than expected economic news, global markets were buoyed by the actions of central banks and performed well as they moved into the second half of 2012.

In the Autumn the Bank of England appointed then current Bank of Canada Chief, Mark Carney, to take over from Mervyn King as Governor in July 2013. The Governor-elect created immediate interest on appointment by talking about the possibility of targeting economic output rather than inflation.

Economic news towards the end of 2012 was heavily influenced by political factors. A new Prime Minister of Japan was elected and Barack Obama was re-elected as US President in November 2012. After the US election all attention turned to automatic spending cuts and tax rises which were to be introduced in the US on 1 January 2013, referred to as the 'fiscal cliff'. A last minute deal was made to avert the fiscal cliff and this provided a platform for better economic news as global markets began 2013 strongly.

Eurozone concerns resurfaced towards the end of the financial year as an inconclusive outcome to the Italian general election in February raised doubts about the countries commitment to austerity and in March Cyprus had to request a bailout for its stricken banking sector.

The UK ended the financial year with mixed news as it suffered a downgrade to its credit rating from 'Aaa' to 'Aa1' from one of the world's leading credit rating agencies, Moody's, but avoided what at the time would have been an unprecedented 'triple dip' recession by recording 0.3% GDP growth for Q1 2013.

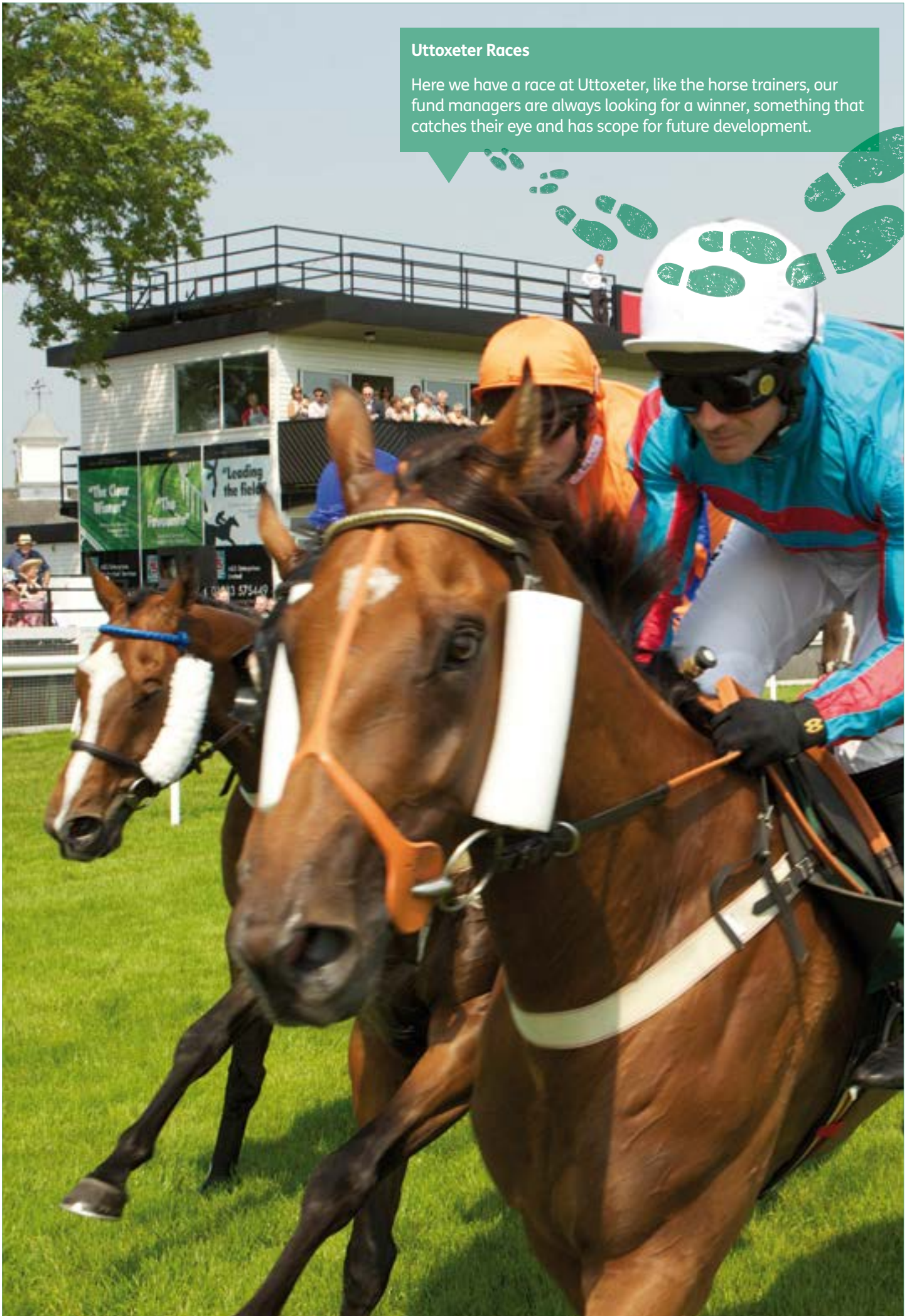
**“ Over the summer of 2012 global central banks took centre stage - The Bank of England boosted their asset purchase programme, known as Quantitative Easing, by a further £50bn, bringing it to a total of**

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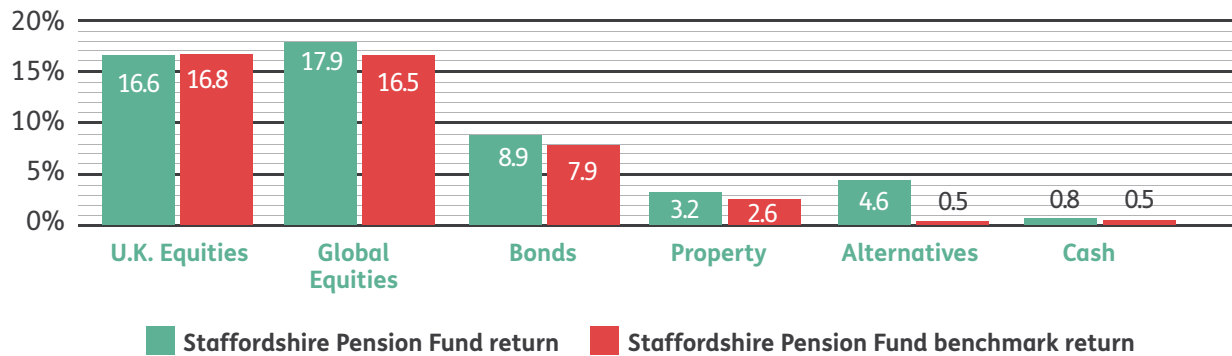


## Uttoxeter Races

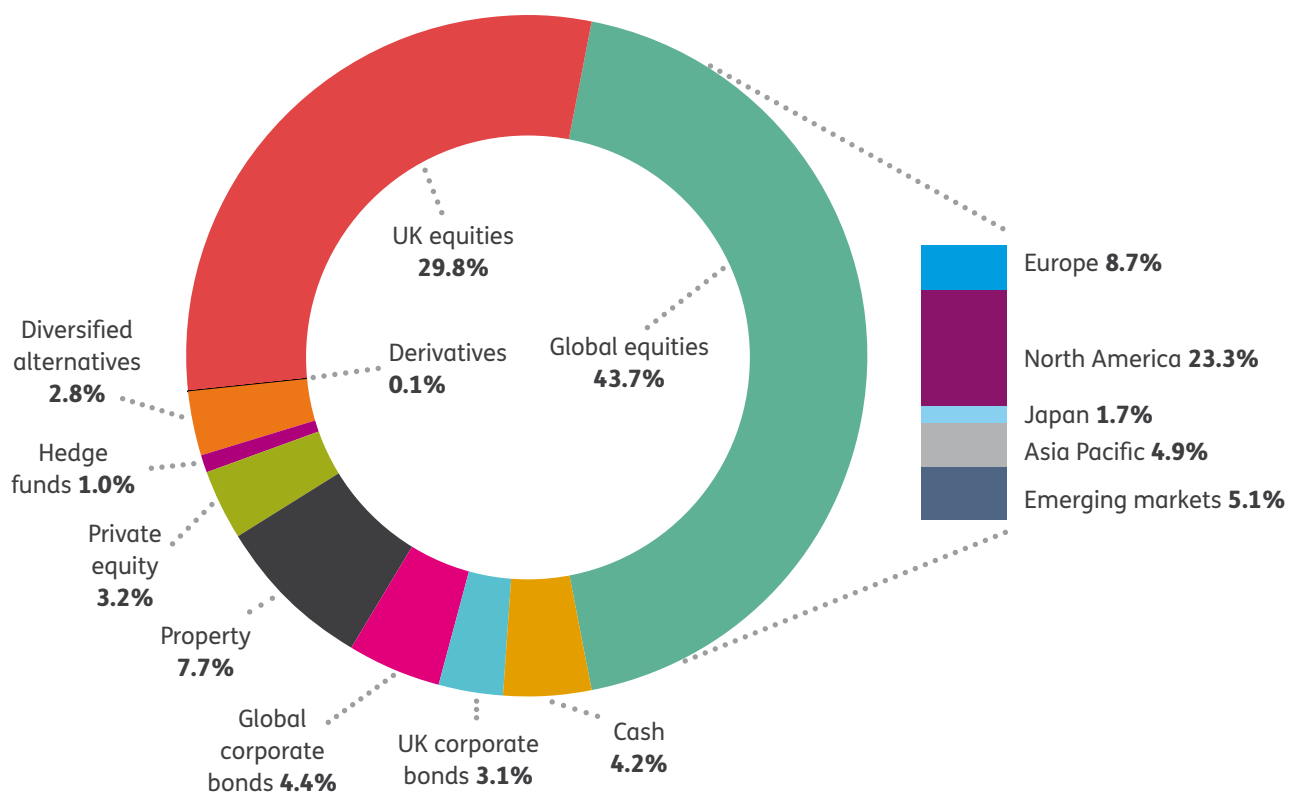
Here we have a race at Uttoxeter, like the horse trainers, our fund managers are always looking for a winner, something that catches their eye and has scope for future development.



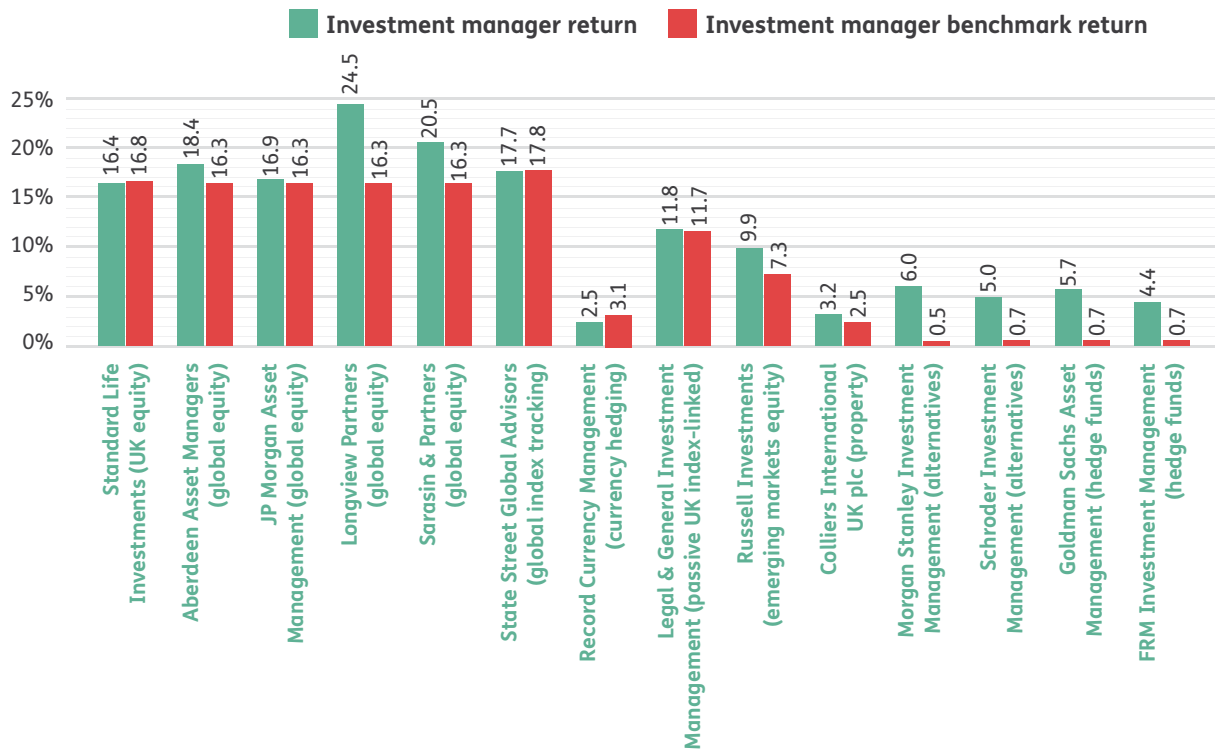
## Major asset class returns for year ended 31 March 2013



## Percentage breakdown of investment type at 31 March 2013



## Investment manager return for year ended 31 March 2013



## Global equities

Global equities had a very positive year in 2012/2013 due to the actions of central banks lowering risk in the financial environment. Global equities also offered healthy returns (via dividend), making them a more attractive asset class when compared to others.

The Fund's UK equity holdings returned 16.6% and global equities returned 17.9% for the year (see graph on page 13). The Fund's return on global equity can be broken down into US equities returning 19.4%, Europe (excluding the UK) 24.7%, Japan 11.6%, Asia Pacific (excluding Japan) 23.5% and emerging markets 10.0%.

## The 10 largest equity holdings

Name of company	Market value on 31 March 2013
HSBC	£ 29,757,408
Vodafone	£ 24,654,917
British American Tobacco	£ 17,933,384
Royal Dutch Shell	£ 15,968,723
Standard Chartered	£ 15,672,200
BP	£ 13,508,169
Pfizer	£ 13,238,633
Roche	£ 12,407,786
Time Warner	£ 11,557,621
Glaxosmithkline	£ 11,378,623



## Bonds

The Fund changed its bond holdings during 2012/2013, selling its UK government bonds and reinvesting the proceeds in corporate bonds. Since the Fund purchased its UK government bonds in 2010, demand had steadily increased for perceived 'safe haven' assets such as UK government bonds away from the troubles in the Eurozone. This meant the price had risen significantly and the opportunity to lock into the capital gains was taken before there was any fall in price.

The reinvestment in Corporate bonds was on a 'buy and hold' strategy where there would be limited trading after purchase as bonds would be held to maturity. This strategy was deemed appropriate to increase the yield on the Fund's investment for a small increase in risk.

Since the Fund's investment in corporate bonds the market for these assets has been mixed. They performed well up until Christmas 2012, delivering better returns than government bonds, but performance fell away afterwards as Eurozone worries affected the market, and in particular banks corporate bonds as a result of the Cyprus bailout.

Over the course of 2012/2013 the Fund's bond holdings returned 8.9% (see graph on page 13), this was made up of a return on UK government bonds and corporate bonds due to the investment changes mentioned above. The Fund's corporate bonds since purchase returned 2.4% (annualised).

## Property

Overseas buyers dominated the UK commercial property investment market during 2012/2013 as international economic and political uncertainty and weak sterling supported safe haven investments in the UK. As in previous years London, and in particular offices, continued to outperform the other property sectors.

During the year the Fund purchased one high street retail property in line with its strategy and did not sell any existing properties. The Fund's total property investments returned 3.2% for the period 2012/2013.

Going forward the returns offered by commercial property (in the form of rents) are likely to remain at a constrained level until there is a broad based recovery in the UK economy and a decrease in the number of empty units.

## Largest direct property holdings

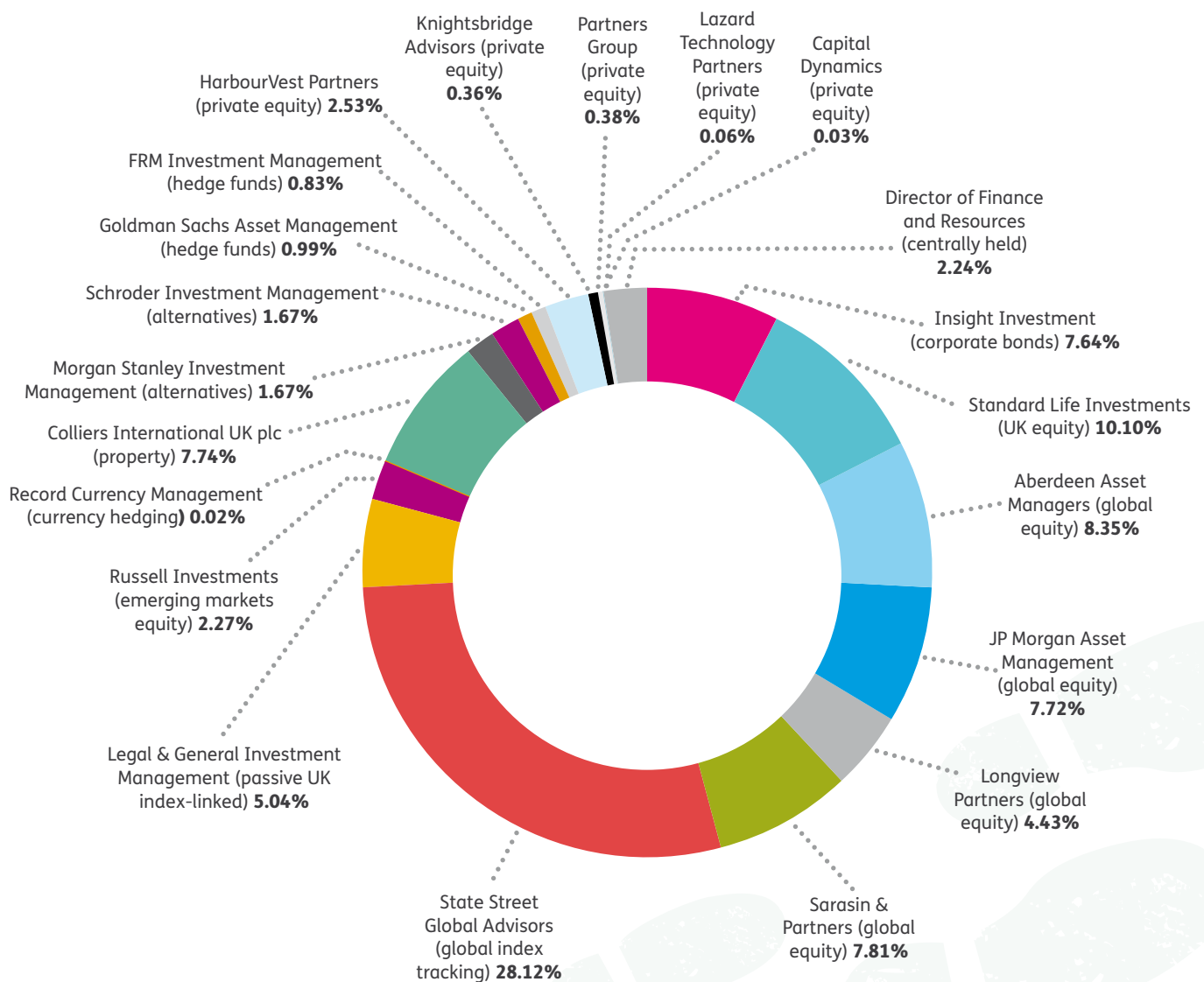
Location	Market value on 31 March 2013
Upper Woburn Place, London WC1	£ 17,900,000
Bridge Street, Dover	£ 17,400,000
Burwood House, London SW1	£ 16,800,000
Killingbeck Retail Park, Leeds	£ 15,500,000
Lexington Street, London W1	£ 12,600,000

## Alternative investments

During the year the Fund increased its strategic allocation to the largest element of its alternative investments, private equity, by a further 1% of Fund size. Private equity gives the Fund access to companies not publicly traded on a stock exchange and via this method the Fund has had early exposure to large global success stories such as Twitter and Facebook.

The market for alternative assets is a diverse one and depending on asset class and manager selection investors can be rewarded with varying returns. The Fund's investment in alternative assets returned 4.6% in 2012/2013 (see graph on page 13). This consisted of the Fund's diversified alternative funds returning 5.5%, hedge funds 5.7% and private equity 4.1%.

## How much of the investments each manager looks after (by market value on 31 March 2013)



# Stepping into a more valuable retirement

The Fund's investment in  
alternative assets returned

# 4.6%

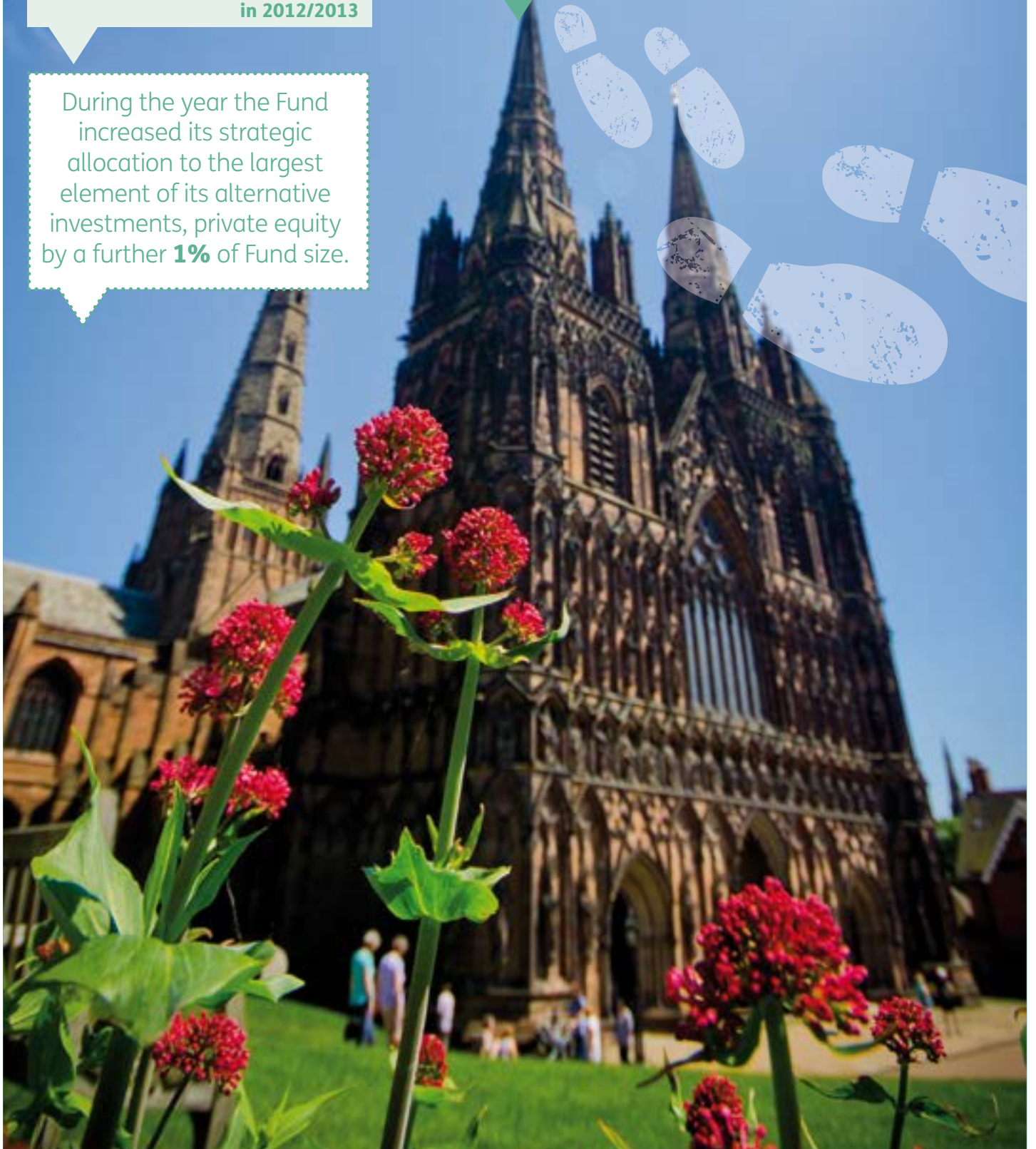
in 2012/2013

During the year the Fund  
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by a further **1%** of Fund size.

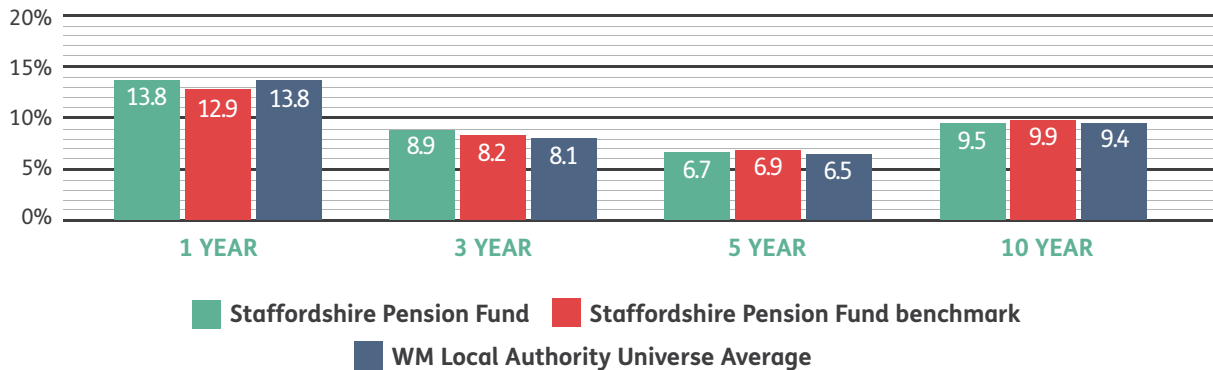
The first cathedral in Lichfield to be built on the present site was in 700AD. Unlike other medieval English cathedrals it is the only one with three spires.

Pension funds throughout the years were mainly invested in stocks and shares, but over time their investment portfolios have become a lot more diverse as you can see from our list of alternative investments.

Over time our investment portfolio with advice from our managers may become as different and unique as the Cathedral in an attempt to achieve maximum returns for the Fund.



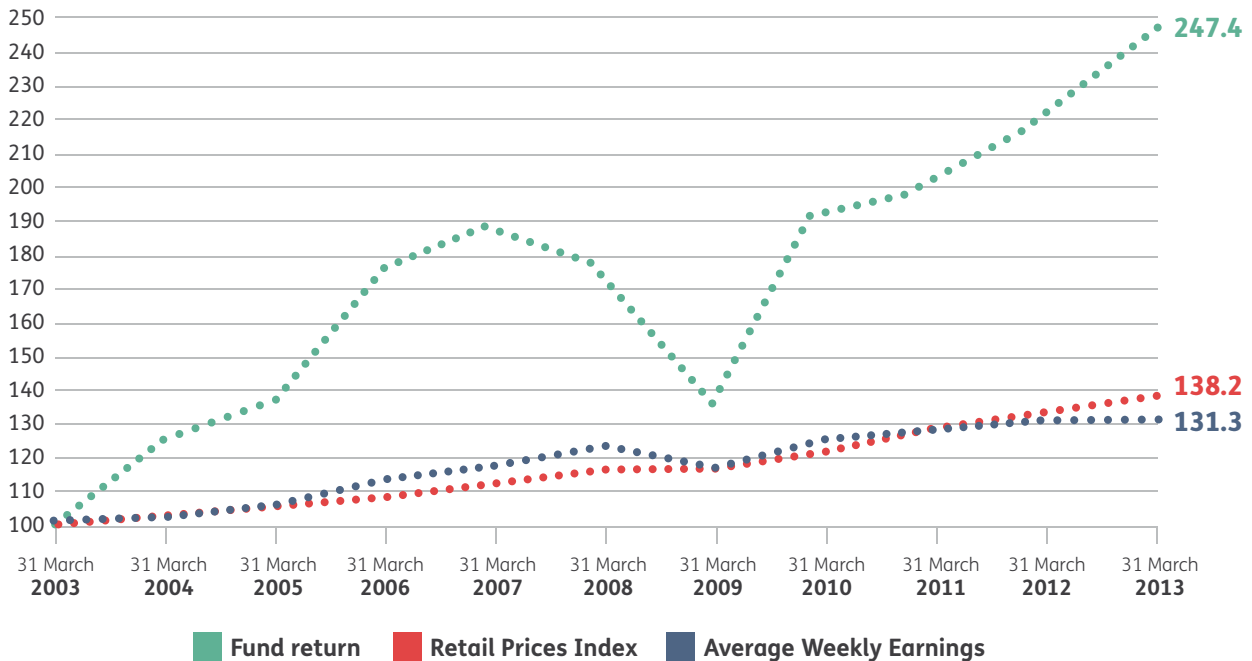
## Pension Fund investment returns



For the year ending 31 March 2013 the Fund’s total investments earned a return of 13.8%. This was ahead of the Fund’s benchmark of 12.9% and increased the Fund value to £3,051.5m. The average return for all local authorities for the year was also 13.8% as measured by WM Performance Services. This information is shown above alongside 3, 5 and 10 year return information.

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

## Investment performance



The graph above compares the Fund return over the past 10 years against Average Weekly Earnings and inflation, via the Retail Prices Index. The value of all three measures were rebased to 100 at 31 March 2003 and indexed at 31 March for every year thereafter.

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

## Market value versus book cost



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

For the year ending 31 March 2013 the Fund's total investments earned a return of

# 13.8%

This was ahead of the Fund's benchmark of 12.9% and increased the Fund value to

# £3,051.5m



## Corporate governance and socially responsible investment

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

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

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

## Local Authority Pension Fund Forum

To further enhance the Fund's commitment to matters of corporate governance and socially responsible investment, towards the end of the year the Fund joined the Local Authority Pension Fund Forum (LAPFF). LAPFF is a voluntary association of 56 LGPS Funds with total assets under management of around £115bn. The forum seeks to protect its member's investments by promoting the highest standards of corporate governance and corporate social responsibility from the organisations they are invested in.

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

## Annual voting summary

The Pensions Panel receives quarterly updates from managers on details of votes cast on corporate resolutions for holdings in their relevant portfolios. Below is a summary of their activity in 2012/2013. To see the managers quarterly voting summaries in full please contact the Treasury and Pension Fund team at: [treasury.pensionfund@staffordshire.gov.uk](mailto:treasury.pensionfund@staffordshire.gov.uk) or 01785 276330.

	Total resolutions	Vote with management	Votes against management	Abstain	Not voted
<b>JP Morgan</b>	35,427	31,325	3,279	823	0
<b>Standard Life</b>	1,487	1,438	12	37	0
<b>Aberdeen</b>	594	543	22	8	21
<b>Sarasin</b>	1,274	585	184	39	466*
<b>Longview</b>	442	369	54	3	16
<b>State Street</b>	9,243	8,927	263	53	0

\*Due to restrictions on trading.



## Current issues

Below is a small selection of issues that were topical in the pensions industry during the year and created media headlines: -

- The Kay Review of UK Equity Markets was published in July 2012; “It is time to re-establish a financial system that is designed around the needs of savers and companies rather than the interests of market participants” was the headline conclusion of the year-long independent review into short-termism conducted by Professor John Kay.

Amongst 17 recommendations, the review proposed expanding the definition of stewardship in the UK Stewardship Code and the creation of an investors’ forum to facilitate collaboration by investors in UK companies. The Business Secretary, Vince Cable welcomed the report and in November 2012 set out the government response to the recommendations in the report.

You can view the original report and the government’s response in full at:

[www.bis.gov.uk/kayreview](http://www.bis.gov.uk/kayreview)

- The issue of tobacco investment by LGPS funds has attracted attention during the year. From 1 April 2013 the responsibility for Public Health transferred to local authority control from the NHS under the Health and Social Care Bill 2013; Public Health duties include reducing smoking rates.

During the past year the Fund has looked in great detail at the legal, financial and ethical dimensions of investing in tobacco companies and came to the conclusion that it would only be possible to have an ethical exclusion policy if the Fund does not suffer financially as a result. The decision on whether tobacco shares add value to the Fund is currently delegated to expert investment managers. This position is kept under review.

*“During the past year the Fund has looked in great detail at the legal, financial and ethical dimensions of investing in tobacco companies and came to the conclusion that it would only be possible to have an ethical exclusion policy if the Fund does not suffer financially as a result.”*

LAPFF is a voluntary association of 56 LGPS Funds with total assets under management of around

**£115bn**

## Fund administration

Staffordshire Pension Fund administers the Local Government Pension Scheme (LGPS). This Scheme provides an occupational pension for local authority employees, other than teachers, police officers and fire fighters, within the Staffordshire area. It also operates the Scheme for members of other public bodies and organisations which have agreements with the Fund.

A list of the participating employers is shown on page 34 and 35.

The Scheme is a statutory public service pension scheme regulated by Government. It is a defined benefit final salary scheme to which both employees and employers contribute. During the period covered by this Annual Report, minor changes to the LGPS regulations have been made in order to comply with overriding Government legislation.

- the Government's new flagship policy requiring employers to make pension arrangements available to all of their employees (automatic enrolment).
- a change to tax legislation in respect of pension savings requires that all members receive an annual benefit statement by 5th October following the last tax year.

In addition to members' benefits the LGPS currently provides benefits for spouses, eligible children and partners however the Scheme continues to evolve and adapt to modern day needs and demands. A new LGPS is to be introduced from 1 April 2014, however the new scheme is still going through a period of consultation.

The **key features** of the new scheme:

A pension scheme design based on career average and actual pay

Average member contribution rate of **6.5%**, with tiered contributions

An accrual rate of **1/49th** of pensionable earnings each year

A Normal Pension Age equal to the State Pension Age so that if a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service

Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)

Optional lump sum commutation at a rate of **£12** of lump sum for every **£1 per annum** of pension given up in accordance with HMRC limits and regulations

A low cost optional arrangement allowing **50%** of main benefits to be accrued on a **50%** contribution rate

Early/late retirement factors from age 55 on an actuarially neutral basis  
**A vesting period of two years**

Spouse and partner pensions to continue to be based on an **accrual rate of 1/160** and three times death in service benefit

**Ill-health retirement pensions to be based on the current ill-health retirement arrangements**

There will be **transitional protection** in respect of:

All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme

**Protection underpin for members aged 57 to 59**

Rule of 85 protection as in the current scheme

(This was the Fund's understanding as at 1st September 2013)

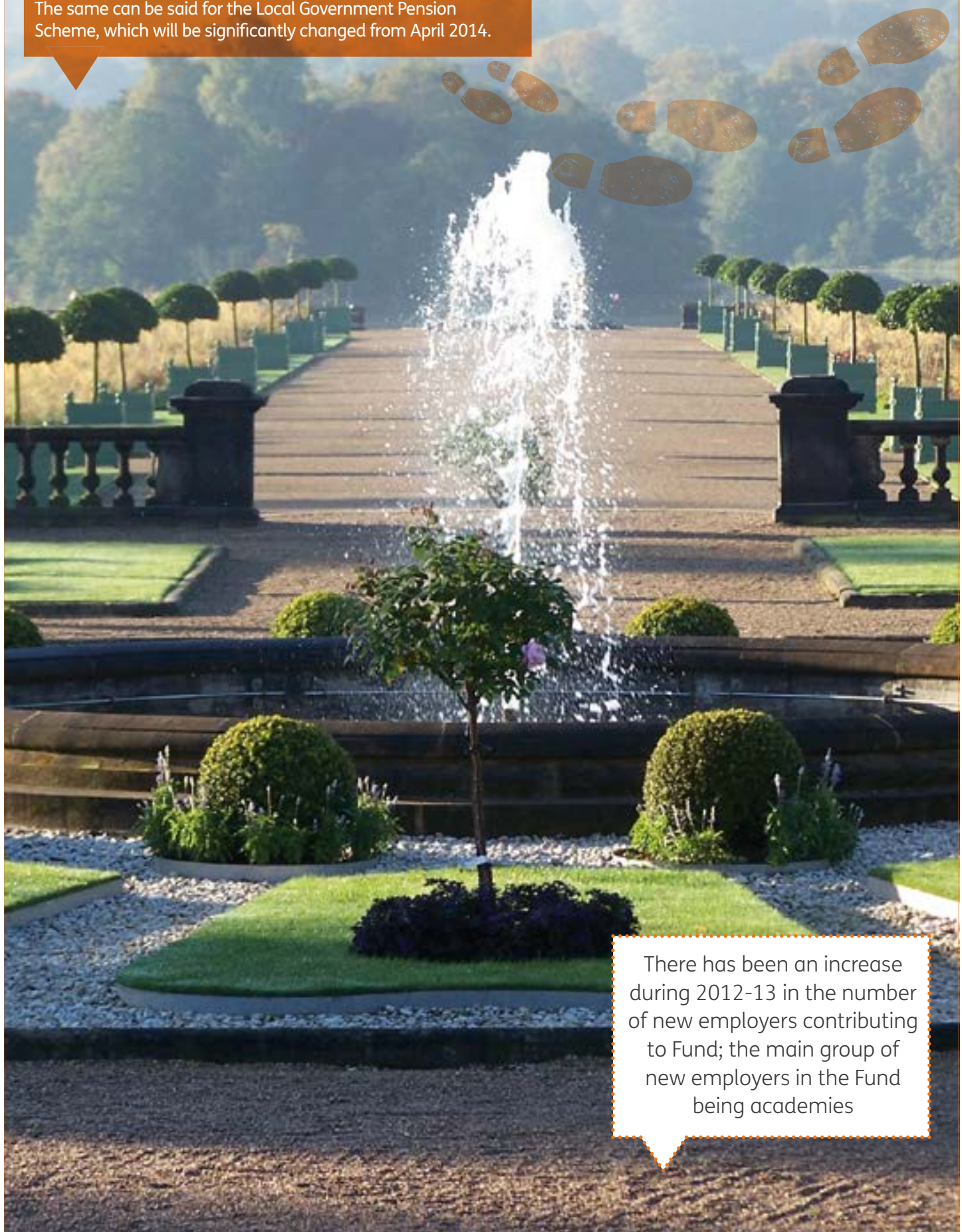


## Trentham Gardens

The development of the Italian Garden on the Trentham Estate has never stood still, it has been important to allow the garden to continue to move forward, not back.

The same can be said for the Local Government Pension Scheme, which will be significantly changed from April 2014.

Step into a comfortable retirement



There has been an increase during 2012-13 in the number of new employers contributing to Fund; the main group of new employers in the Fund being academies

## Membership

The Fund's active membership is split between 41% full-time members of which 43% are Male and 57% are Female and 59% part-time members of which 10% are male and 90% female.

There has been a gradual change in the profile of the Fund in recent years with the number of deferred and pensioner members increasing at a faster rate than our active members. The introduction of Automatic Enrolment legislation by the Government, requiring all eligible new employees to be automatically enrolled into LGPS may however cause this trend to change in the future.

There has been an increase during 2012-13 in the number of new employers contributing to Fund; the main group of new employers in the Fund being academies. There have also been new employers admitted through Admission Agreements which allow existing scheme members who are outsourced by a local authority or other scheme employer to a private sector contractor to continue as members of the scheme.

Summaries of how the Fund membership has grown over the last few years and the age profile of the membership are shown below and overleaf.

	31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
Active pensionable employees	38,043	37,633	36,218	34,846	35,008
Pensioners and Dependents	21,599	22,983	24,201	25,821	26,637
Deferred pensioners (people who no longer pay into the scheme)	25,445	27,565	29,922	31,535	33,857
Total membership	85,087	88,181	90,341	92,202	95,502

### Membership Statistics as at 31/03/2013

Active Contributors



**35,008**

Deferred Beneficiaries



**33,857**

Pensioners and Dependents



**26,637**



## Age profile of members at 31/03/2013

Age group	Active	Deferred Beneficiaries	Retired	Spouse/Dependent
0-15	0	0	0	86
15-19	208	79	0	102
20-24	1,111	941	0	39
25-29	2,214	2,377	0	1
30-34	2,882	2,949	1	5
35-39	3,736	3,623	7	8
40-44	5,676	5,452	42	28
45-49	6,523	6,473	84	57
50-54	5,811	5,972	232	120
55-59	4,439	4,298	1,493	174
60-64	1,924	1,567	5,237	232
65-69	405	91	6,733	389
70-74	79	35	3,982	424
75-79	0	0	2,513	576
80-84	0	0	1,533	594
85-89	0	0	821	455
90+	0	0	375	294
<b>Total</b>	<b>35,008</b>	<b>33,857</b>	<b>23,053</b>	<b>3,584</b>

## Work loads & benchmarking

As in previous years, the workload of the pension administration section continued to expand, with an increase in the number of scheme employers participating in the Staffordshire Pension Fund.

Staff are committed to providing the best possible service to customers, and will continue to work to ensure that Staffordshire's service represents best value to all its stakeholders.

### THE COST OF THE PENSION'S ADMINISTRATION SERVICE IN STAFFORDSHIRE

when compared with all other local-authority pension funds

**WAS**  
**£22**  
**PER MEMBER IN 2011/12**

**WHICH WAS**  
**EQUAL TO**  
**THE NATIONAL**  
**AVERAGE AT**

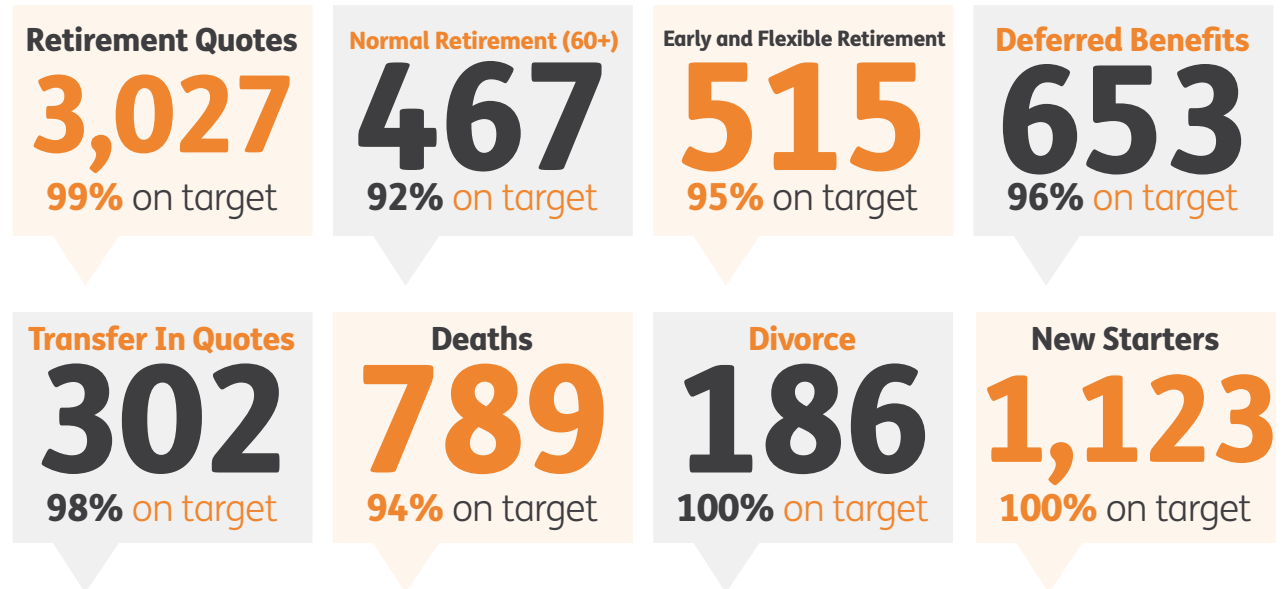
**£22**

The Fund continues to look to see where cost savings can be made.



The information below shows the actual casework volumes processed during the year and the amount completed within performance targets.

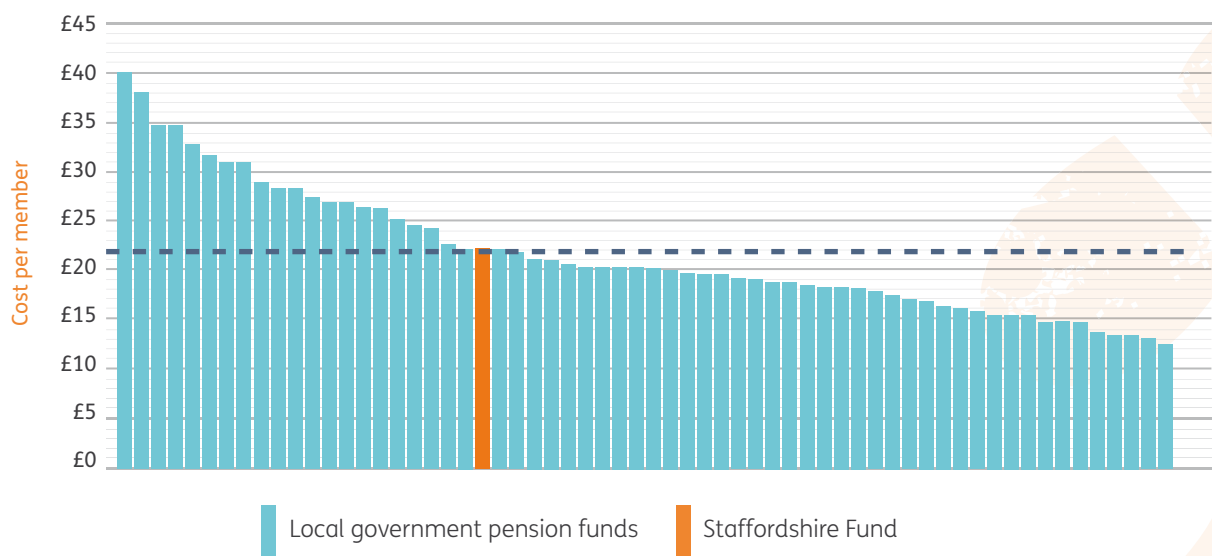
## Number of cases processed in the year



At a local level we have continued to meet our targets and we are delighted to report that at our Customer Service Excellence annual review we attained 100% compliance in all the areas under scrutiny.

## Benchmarking

The Fund continues to participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) annual benchmarking survey.



The graph above illustrates the cost per member of providing a service to active, retired and deferred members, as you can see the Fund is equal to the average cost per member when compared with similar local authority pension funds.

## Year end procedures

At the end of each financial year all the Fund employers have to disclose details of the contributions paid by each of their employees who are members of the LGPS. The data is used to update the individual member records and will provide the basis of the information requirements for both the Fund valuation and the production of the Annual Benefit Illustrations.

Nearly all our employers successfully returned their data within the deadline. This has been of great assistance to the Pensions Team in allowing them to carry out the data posting sooner than anticipated.

## Automatic enrolment

Workplace Pension Law changed significantly in October 2012 when the introduction of new legislation required all employers to automatically enrol employees into a qualifying pension scheme that meets certain minimum standards. The Local Government Pension Scheme is such a 'qualifying pension scheme'. Each of the scheme employers in the Fund will have different dates by which they must comply with the new requirements.

During the run up to the introduction of Automatic Enrolment, the Pensions Team gave considerable support to our employers with personal visits and training sessions. Further training sessions will be arranged through out the year as each employer needs to comply.

## Technological advances

The Fund seeks to maximise the use of technology wherever possible. The Fund's website is currently being significantly improved with the move to a new platform and members will shortly be experiencing an improved service.

The website currently contains sections dedicated to the following:

- Current members
- Deferred members
- Retired members
- Councillor members
- Employers



## Member Self Service (“MSS”)

This is the web-based member self service facility allowing members access to their pensions information with the facility to perform “what if” calculations. With an improved, simpler registration process it is hoped that more members will be encouraged to sign up to this service. We aim to promote this facility during the run up to the introduction of the new pension scheme in April 2014.



**The Fund seeks to maximise the use of technology wherever possible**

**At the Potteries Museum & Art Gallery** you can travel back in time to discover the history of The Potteries including the world’s greatest collection of Staffordshire ceramics. Time however has moved on and pottery production has changed.

The administration of the Pension Fund has also changed over time, with improvements in technology enabling the Fund to process information much quicker and more accurately.

## Training

In preparation for 2014 a training and education package has been launched for employees, employers and staff, this will continue over the coming months.

As well as regular training sessions for the employers in general, we have developed a programme of specific training for our academies at which the Scheme Actuary has spoken on a number of occasions about the issue of funding.

During the last twelve months the pensions team has received both group and individual training on a whole series of different issues relating to the administration of the Scheme. A number of staff have also successfully completed the related pension qualifications.

## Feedback

Our members and employers regularly contacts us with their thoughts about the service that they receive and this is something that we encourage.

We use this feedback to improve the service that we offer, some of the comments we have received can be seen below:

***The pension staff were very efficient and made it very clear for me to understand...***  
(Member)

*I wanted to thank the section, as every time I have called the staff have been very helpful and taken the time to explain exactly what is happening about my pension*  
(Member)

***I would like to express my thanks for the excellent presentation given by Pension Services to our MPO Branch Meeting. The members attending the meeting found the presentation extremely interesting and helped them to understand the changes that are taking place to the Local Government Pension Scheme.*** (Organisation)

***Thank you for the excellent service which I have received this last 19 years! Which I hope will be able to continue for some little while yet!***  
(Pensioner)

## Complaints and appeals

Despite our best efforts we do, sometimes, receive complaints from our members when they have not been satisfied with scheme decisions. Members have the right to ask for the decision to be looked at again under the formal complaint procedure and also have the right to use the procedure if a decision has not been made by their employer or the Fund. The complaint procedure's official name is the Internal Dispute Resolution Procedure.

## Internal Dispute Resolution Procedure 2012/13



## Communication

The Staffordshire Pension Fund is fully committed to providing Scheme Members and Scheme Employers with as much information as possible concerning the operation of the Local Government Pension Scheme (LGPS).

During the year, the Fund continued to look at new ways to communicate with our members. The basis of our communication is the formal communications policy required by the Scheme's rules. This policy currently sets out the following:

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

The Fund continues to develop this document. The policy is to review this statement annually, with it being formally agreed by the Pension Committee to ensure it reflects the wishes of the members and utilises any available advancements in technology.

A specific policy has also been produced to cover the 2014 Scheme and this can be viewed, like our main policy, on the pension fund website.

The primary communication activity is to educate and inform members in relation to the LGPS and the options available by virtue of their membership.

A significant number of Fund publications were updated throughout the year, bringing them in line with revised legislation.



We hope that our continuing drive to obtain member e-mail addresses will help us make significant savings on printing and postage costs and improve the speed at which we can communicate at the same time.

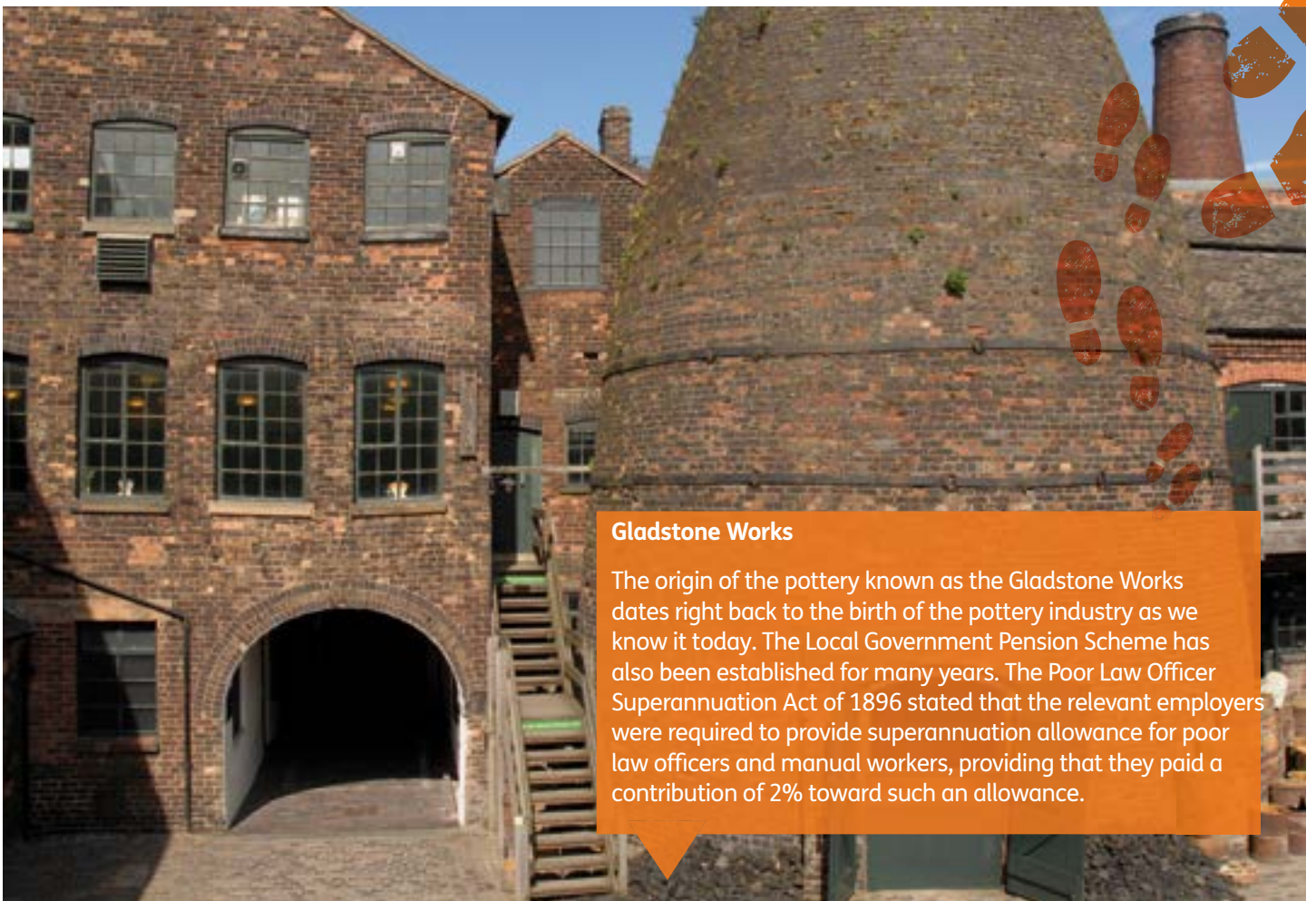
Staffordshire Pension Fund currently work in conjunction with neighbouring local authority pension funds to produce certain aspects of its communication material. This joint working enables experience and knowledge to be shared as well as reductions to design and production costs. Such partnership working between funds is encouraged by central government.

We have already held a number of presentations around the county on the introduction of the 2014 Scheme, these proved successful, but we will be looking at introducing a revised presentation for the forthcoming months.



## Newsletters

During the last twelve months we have produced a number of newsletters for our active, deferred and retired members. The main purpose of the newsletters to the active members was to satisfy our disclosure requirements, by informing members about changes in the regulations of the LGPS. These publications for active members were not produced at fixed times, but rather in response to changes in the regulations. To ensure delivery both paper and electronic versions were produced depending on the contact details held.



### Gladstone Works

The origin of the pottery known as the Gladstone Works dates right back to the birth of the pottery industry as we know it today. The Local Government Pension Scheme has also been established for many years. The Poor Law Officer Superannuation Act of 1896 stated that the relevant employers were required to provide superannuation allowance for poor law officers and manual workers, providing that they paid a contribution of 2% toward such an allowance.



## Welcome packs

Each new scheme member receives a welcome pack, following notification from their employer or the member themselves that they are joining the scheme. These packs have been updated and will continue to be over the next couple of years.

## Annual benefit statements

Each active and deferred member of the pension scheme received an annual benefit statement. This statement provided details of benefits accrued to 31st March 2012 along with estimated benefits to retirement age and death in service benefits. We also hope in the future to include details of their State Pension entitlement, which includes the date from which their State Pension is payable, where this information is available from the Department of Works and Pension.



## Retirement courses

Presentations are provided on an ad hoc basis to members following requests from scheme employers and their employees.

## Regular updates on the LGPS

During the year the pensions team have circulated monthly employer bulletins and a number of 'Infolets' covering issues such as:

- Pension Reform
- Contribution Bandings
- Policies
- Revised Procedures for Year End and Opting-Out

An email is distributed to all employers in the Fund providing an electronic version, the documents are then stored on the website for future reference.

**“ Each active and deferred member of the pension scheme received an annual benefit statement. This statement provided details of benefits accrued to 31st March of the previous year along with estimated benefits to retirement age and death in service benefits. ”**

# Organisations which were employers of the Fund during 2012/2013

Existing employers

New employers since April 2012

Employers who have left prior to March 2013

Staffordshire County Council  
(as employing authority)

Academy Enterprise Trust

Alrewas Parish Council

Anglesey Parish Council

APCOA Parking UK Limited

Aspire Housing Limited  
(Newcastle)

Audley Rural Parish Council

Belgrave Academy

Biddulph Town Council

Brereton and Ravenhill Parish  
Council

Brewood and Coven Parish  
Council

Bridgtown Parish Council

Burntwood Town Council

Bursley Academy

Burton and South Derbyshire  
College

C W Audit Services

Cannock Chase Academy

Cannock Chase District Council

Chadsmead Primary Academy

Cheadle Town Council

Cheddleton Parish Council

Christchurch Academy

Codsall Parish Council

Colwich Parish Council

De Ferrers Academy

Draycott in the Clay Parish  
Council

East Staffordshire Borough  
Council

Eccleshall Parish Council

Essington Parish Council

Erasmus Darwin Academy

Evolve Young People

Fradley and Streethay Parish  
Council

Gnosall Parish Council

Great Wyrley Parish Council

Haywood Engineering College

Heath Hayes & Wimblebury  
Parish Council

Hednesford Town Council

Homezone Housing Limited  
(Lichfield)

Horninglow and Eton Parish  
Council

Housing Plus

Inspace Partnerships

J & S Seddon (Building) Limited

John Taylor Academy

JDM Accord Limited

Keele University

KGB Cleaning Services Limited  
(ex Newcastle College)

Kidsgrove Town Council

Kier Group

Kinver Parish Council

Landau Forte Woodhouse  
Academy

Lapley, Stretton & Wheaton  
Aston Parish Council

Leek College

Leek Town Council

Lichfield City Council

Lichfield Diocese Woodard  
Academy

Lichfield District Council

Lichfield Garrick Theatre Ltd

Liverpool Personal Services  
Society

Lovell Partnerships Limited

Make Some Noise West  
Midlands Limited

**Mears Ltd**

Mencap

Moorlands Housing

**Mosley Academy**

Newcastle-under-Lyme  
Borough Council

Newcastle-under-Lyme College

North Staffordshire Combined  
Healthcare

Northgate Information  
Solutions Limited (Lichfield)

Northgate Information  
Solutions Limited (Moorlands)

Office of the Police and Crime  
Commissioner Staffordshire

**Painsley Catholic College**

Penkridge Parish Council

Perton Parish Council

**R M Education**

Rugeley Town Council

Sixth Form College, Stoke on  
Trent

South Staffordshire and  
Shropshire NHS Foundation  
Trust

South Staffordshire College

South Staffordshire District  
Council

South Staffordshire Housing  
Association

**St Edward's Church of England  
Academy**

St Joseph's College Edmund  
Rice Academy Trust

St Margaret Ward School

St Thomas More Catholic  
College

Stafford and Rural Homes  
Limited

Stafford Borough Council

Stafford College

Staffordshire and Shropshire  
Valuation Tribunal

**Staffordshire and Stoke on  
Trent NHS Partnership Trust**

Staffordshire Moorlands District  
Council

Staffordshire University

Staffordshire University  
Academy

Stoke-on-Trent and  
Staffordshire Fire Authority

Stoke-on-Trent City Council

Stoke-on-Trent College

Stone Town Council

Swinfen and Packington Parish  
Council

Tamworth Borough Council

Taylor Shaw (Alleyne)

**Taylor Shaw (Chasetown)**

The Biddulph Academy

The Cheadle Academy

**The College Academies Trust**

The Co-operative Community  
Academy

The Creative Education  
Academy Trust

**The Crescent Academy**

The Discovery Academy

The Eaton Park Academy

The JCB Academy

The Landau Forte Academy

The Ormiston Horizon Academy

The Ormiston Sir Stanley  
Matthews Academy

**The Rural Enterprise Academy**

**The Sutherland Academy**

Thistley Hough High School

Trent and Dove Housing  
Association

Uttoxeter Town Council

Violet Way Academy

Wates Group Ltd

Weston Road Academy

**Wigan Leisure and Culture Trust**

**Wilnecote High School**

Wombourne Parish Council

# Financial statements

## 1 April 2012 to 31 March 2013

### Pension Fund account

Staffordshire Pension Fund account for the year ended 31 March 2013

Contributions and benefits	Notes	2011/2012 £ 000	2012/2013 £ 000
Contributions receivable	4	153,491	145,233
Transfers in	5	9,382	6,741
		<b>162,873</b>	<b>151,974</b>
Benefits payable	6	(137,413)	(137,290)
Leavers	7	(52,772)	(10,644)
Administrative expenses	8	(2,696)	(2,339)
		<b>(192,881)</b>	<b>(150,273)</b>
<b>Net additions / (withdrawals) from dealings with Fund members</b>		<b>(30,008)</b>	<b>1,701</b>
<b>Returns on investments</b>			
Investment income	9	46,852	51,710
Change in the market value of investments	10	53,764	328,291
Investment management expenses	12	(8,505)	(9,565)
<b>Net returns on investments</b>		<b>92,111</b>	<b>370,436</b>
Net increase in the Fund during the year		62,103	372,137
Opening net assets of the Fund		2,617,263	2,679,366
<b>Closing net assets of the Fund</b>		<b>2,679,366</b>	<b>3,051,503</b>

# Net assets statement

## Net assets statement at 31 March 2013

	Notes	2011/2012 £ 000	2012/2013 £ 000
<b>Investment assets</b>			
Fixed interest securities	10/10a	164,834	226,831
Equities	10/10a	916,765	1,143,621
Index-linked securities	10/10a	100,213	0
Pooled investment vehicles	10/10a	993,420	1,078,121
Property	10/10a	234,363	234,136
Cash deposits	10/10a	72,125	126,142
Other investment balances	10/10a	185,145	226,250
Derivatives	11	33,399	45,292
		<b>2,700,264</b>	<b>3,080,393</b>
<b>Investment liabilities</b>			
Derivatives	11	(31,628)	(43,849)
		<b>2,668,636</b>	<b>3,036,544</b>
Current assets	15	<b>21,186</b>	<b>22,751</b>
Current liabilities	16	<b>(10,456)</b>	<b>(7,792)</b>
<b>Net assets of the Fund at 31 March</b>		<b>2,679,366</b>	<b>3,051,503</b>

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

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



## Actuarial statement

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

### Description of Funding Policy

The Funding Policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2011. In summary, the key funding principles are as follows:

- 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;
- to ensure that employer contribution rates are stable;
- to minimise the long-term cost of the Fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years.

### Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. An estimate was also carried out as at 31 March 2013.

Date	31 March 2010	31 March 2013
Liabilities – ongoing basis	£m	£m
Assets	2,435	3,352
Liabilities	3,257	4,988
(Deficit)	(822)	(1,636)
Funding level	74.8%	67.2%

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's Funding Policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2011.

### Method

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

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010		31 March 2013	
	% p.a. Nominal	% p.a. Real	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%	4.6%	1.8%
Pay increases	5.3%*	2.0%	4.8%	1.9%
Price inflation/Pension increases	3.3%	-	2.8%	-

\*Salary increases are assumed to be 1% p.a. until 31 March 2012 reverting to the long term assumption shown thereafter.

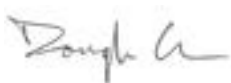
The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.2 years	23.4 years
Future Pensioners*	23.3 years	25.6 years

\*Currently aged 45

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Staffordshire County Council, administering authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



**Douglas Green FFA**  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
16 May 2013

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

# Pension Fund Accounts Reporting Requirement

## Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS Funds that prepare Pension Fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; 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 Pension Fund's funding assumptions.

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

## Balance sheet

Year Ended	31 March 2012 £m	31 March 2013 £m
Present Value of Promised Retirement Benefits	4,027	4,869

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £2,787m in respect of employee members, £667m in respect of deferred pensioners and £1,415m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

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

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £571m.

## Financial assumptions

My recommended financial assumptions are summarised below:

Year Ended	31 March 2012 % p.a.	31 March 2013 % p.a.
Inflation / Pension Increase Rate	2.5%	2.8%
Salary Increase Rate*	4.8%	5.1%
Discount Rate	4.8%	4.5%

\*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.2 years	23.4 years
Future Pensioners*	23.3 years	25.6 years

\*Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

## Commutation assumption

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

## Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated 11 April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Prepared by:-  
**Douglas Green FFA**  
 16 May 2013  
 For and on behalf of Hymans Robertson LLP

# Notes to the accounts

## 1. Basis of preparation

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

The financial statements follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector and issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

## 2. Accounting policies

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

### Investments

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

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

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

UK directly held property investments are stated at their value on the open-market based on an annual independent valuation (by Jones Lang Lasalle dated 11 April 2013), as at 31 March 2013. The valuation has been made in accordance with the RICS Valuation - Professional Standards, March 2012, published by the Royal Institute of Chartered Surveyors (RICS).

The private-equity, hedge-fund and alternatives fund valuations are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds up to 31 March 2013. Investments quoted on the stock market are valued at the bid market price quoted on that stock market.

Derivative contracts are valued at bid market price.



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

Investment income is recognised as follows:

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

## Contributions

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

## Transfer values

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

## Foreign currency transactions

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

Surpluses and deficits arising when converting currency are dealt with as part of the change in market value of investments (see note 10).

## Investment management expenses

Investment management expenses, including performance-related fees, are accounted for on an accruals basis and are recognised before any VAT the Fund can recover. Performance related fees were £1.18m in 2012/2013 (£1.27m in 2011/2012).

## Administrative expenses

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

## Taxation

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

## Benefits payable

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

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

## Cash and cash equivalents

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

## Financial instruments

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

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

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

### 3. Pension Fund investments 2012/2013

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

External fund manager	31 March 2012		31 March 2013	
	£ 000		£ 000	
Insight Investment (corporate bonds)	265,077	10%	231,287	8%
Standard Life Investments (UK equity)	262,787	10%	305,840	10%
Aberdeen Asset Managers (global equity)	200,302	8%	252,995	8%
JP Morgan Asset Management (global equity)	187,207	7%	233,824	8%
Longview Partners (global equity)	100,908	4%	134,037	4%
Sarasin & Partners (global equity)	182,796	7%	236,415	8%
State Street Global Advisors (global index tracking)	808,253	30%	851,734	28%
Legal & General Investment Management (passive UK index-linked)	68,452	3%	152,576	5%
Russell Investments (emerging markets equity)	62,461	2%	68,651	2%
Pictet Asset Management (emerging markets equity)	50,001	2%	0	0%
Record Currency Management (currency hedging)	1,809	0%	729	0%
Colliers International UK plc (property)	234,669	9%	234,267	8%
Morgan Stanley Investment Management (alternatives funds)	33,250	1%	50,538	2%
Schroder Investment Management (alternatives funds)	33,250	1%	50,628	2%
Goldman Sachs Asset Management (hedge funds)	28,350	1%	30,025	1%
FRM Investment Management (hedge funds)	24,120	1%	25,188	1%
HarbourVest Partners (private equity)	68,742	3%	76,757	3%
Knightsbridge Advisors (private equity)	10,512	0%	10,815	0%
Partners Group (private equity)	11,494	0%	11,430	0%
Lazard Technology Partners (private equity)	2,020	0%	1,902	0%
Capital Dynamics (private equity)	1,413	0%	1,031	0%
Director of Finance and Resources (centrally held)	25,519	1%	67,750	2%
	<b>2,663,392</b>	<b>100%</b>	<b>3,028,419</b>	<b>100%</b>

During 2012/2013 the following major changes were made to the Fund’s investment management structure:

- The contract with Pictet Asset Management was terminated and the funds reinvested with the four global equity managers.
- The FRM contract was terminated on 28 March 2013 with the cash held by FRM pending payment back to the Fund at 31 March 2013.
- The contract with Insight Investment was changed from UK government bonds to corporate bonds.

## Stock Lending

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

	<b>31 March 2012</b>	<b>31 March 2013</b>
	<b>£ 000</b>	<b>£ 000</b>
Equities - UK	44,583	23,693
Equities - Overseas	43,609	40,682
Index-linked - UK	7,519	0
Fixed interest - UK	92,044	12,958
Fixed interest - Overseas	0	14,628
	<b>187,755</b>	<b>91,961</b>

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

Collateral holdings, supporting the loans, are not identified as individual loans, but are kept in a pooled structure. As security for the stocks on loan, as at 31 March 2013, the Fund held £100.31 million (£200.18 million at 31 March 2012) of collateral in the form of government obligations (such as gilts) and equities.

Income received from stock-lending activities was £0.234 million for the year ending 31 March 2013 (£0.179 million for year ending 31 March 2012). This is included within the investment income figure shown on the Pension Fund account.

## 4. Contributions receivable

	2011/2012 £ 000	2012/2013 £ 000
<b>Employers</b>		
Normal	99,492	100,792
Actuarial strain	17,707	7,724
Additional*	0	1,340
<b>Scheme members</b>		
Normal	36,292	35,377
*The additional contribution in 2012/2013 was made to the Fund by Staffordshire County Council on behalf of Staffordshire and Stoke on Trent NHS Partnership Trust.		
<b>Total</b>	<b>153,491</b>	<b>145,233</b>

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

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

Staffordshire County Council	66,741	61,334
Scheduled bodies	77,695	69,234
Admitted bodies	9,055	14,665
<b>Total</b>	<b>153,491</b>	<b>145,233</b>

## 5. Transfers in

	2011/2012 £ 000	2012/2013 £ 000
Individual transfers in from other schemes	9,382	6,741



## 6. Benefits payable

	2011/2012 £ 000	2012/2013 £ 000
Pensions	98,863	107,587
Commutations and lump-sum retirement benefits	35,603	25,928
Lump-sum death benefits	2,947	3,775
<b>Total</b>	<b>137,413</b>	<b>137,290</b>

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

Staffordshire County Council	60,161	62,321
Scheduled bodies	71,043	68,164
Admitted bodies	6,209	6,805
<b>Total</b>	<b>137,413</b>	<b>137,290</b>

## 7. Payments to and on account of leavers

	2011/2012 £ 000	2012/2013 £ 000
Individual transfers to other schemes	6,744	6,873
Group transfers to other schemes*	46,000	3,749
Payments for members joining / (leaving) state scheme	1	(6)
Refunds to members leaving service	27	28
<b>Total</b>	<b>52,772</b>	<b>10,644</b>

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

## 8. Administrative expenses

	2011/2012 £ 000	2012/2013 £ 000
Administration and processing	2,033	1,900
Actuarial services	195	186
External Audit fee	43	26
Other expenses	396	207
Printing and publications	29	20
<b>Total</b>	<b>2,696</b>	<b>2,339</b>

## 9. Investment income

	2011/2012 £ 000	2012/2013 £ 000
Fixed interest securities	6,478	7,093
Dividends from equities	24,631	28,778
Income from index-linked securities	1,278	478
Income from pooled investment vehicles	946	1,360
Rents from property	12,832	13,535
Interest on cash deposits	613	230
Stock lending	179	234
Other	357	626
	<b>47,314</b>	<b>52,334</b>
Withholding tax we cannot recover	(462)	(624)
<b>Total</b>	<b>46,852</b>	<b>51,710</b>

## 10. Investment reconciliation

	Value at 1 April 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£ 000	£ 000	£ 000	£ 000	£ 000
Fixed interest securities	164,834	239,537	(188,433)	10,893	226,831
Equities	916,765	417,140	(345,144)	154,860	1,143,621
Index-linked securities	100,213	10,931	(109,436)	(1,708)	0
Pooled investment vehicles	993,420	67,238	(142,760)	160,223	1,078,121
Derivatives	1,771	6,113,929	(6,107,115)	(7,142)	1,443
Property	234,363	7,961	(1,574)	(6,614)	234,136
Other	179,901	59,735	(37,989)	16,478	218,125
	<b>2,591,267</b>	<b>6,916,471</b>	<b>(6,932,451)</b>	<b>326,990</b>	<b>2,902,277</b>
External cash deposits (centrally held)	25,452				67,720
Investment manager and central cash	46,673			1,301	58,422
	<b>2,663,392</b>			<b>328,291</b>	<b>3,028,419</b>
Outstanding dividend entitlements and recoverable withholding tax	5,900				8,523
Amount receivable for sales of investments	2,702				2,313
Amounts payable for purchases of investments	(3,358)				(2,711)
<b>Total</b>	<b>2,668,636</b>				<b>3,036,544</b>

Transaction costs are included in the cost of purchases and sales proceeds and include fees, commissions, stamp duty and other fees. Transaction costs we were charged during 2012/2013 were £1.69 million (£3.28 million in 2011/2012). As well as the transaction costs shown, we were also charged indirectly through the bid-offer spread (the difference between bid prices and offer prices) on investments and within pooled investment vehicles.

The Fund holds the following pooled investments that exceed 5% of the total value of net assets at 31 March 2013 (also at 31 March 2012):

- (9.4%) State Street Global Advisors, Passive UK Equity Portfolio - £286.3m (£280.7m at 31 March 2012);
- (18.5%) State Street Global Advisors, Passive All World Equity Portfolio - £565.5m (£527.6m at 31 March 2012).

As at 31 March 2013 the Fund was committed to entering into the following investments:

- £46.69m of private equity investments (£57.12m at 31 March 2012);
- £3.44m of UK pooled property fund investments (£1.62m at 31 March 2012);
- 1.56m of UK directly held property investments (£0.57m at 31 March 2012).

**A further analysis of the market value of investments at 31 March 2013 is given overleaf.**

## 10a. Analysis of investments

	31 March 2012 £ 000		31 March 2013 £ 000	
<b>Fixed interest securities</b>				
UK public sector quoted	164,834	6%	0	0%
UK corporate quoted	0	0%	94,730	3%
Overseas corporate quoted	0	0%	132,101	4%
	<b>164,834</b>	<b>6%</b>	<b>226,831</b>	<b>7%</b>
<b>Equities</b>				
UK quoted	337,761	13%	405,535	13%
Overseas quoted	579,004	22%	738,086	25%
	<b>916,765</b>	<b>35%</b>	<b>1,143,621</b>	<b>38%</b>
<b>Index-linked</b>				
UK public sector	100,213	4%	0	0%
	<b>100,213</b>	<b>4%</b>	<b>0</b>	<b>0%</b>
<b>Pooled investment vehicles</b>				
UK	332,757	12%	341,795	11%
UK index-linked	68,452	3%	152,576	5%
Overseas	592,211	22%	583,750	20%
	<b>993,420</b>	<b>37%</b>	<b>1,078,121</b>	<b>36%</b>
All companies operating unit trusts or managed funds are registered in the United Kingdom.				
<b>Derivatives (see note 11)</b>				
Forward foreign currency	1,771	0%	1,087	0%
Futures	0	0%	356	0%
	<b>1,771</b>	<b>0%</b>	<b>1,443</b>	<b>0%</b>
<b>Property</b>				
UK directly held property	206,595	8%	206,910	7%
UK pooled property funds	27,768	1%	27,226	1%
	<b>234,363</b>	<b>9%</b>	<b>234,136</b>	<b>8%</b>
<b>Other</b>				
Alternatives funds	33,250	1%	86,165	3%
Hedge funds	52,470	2%	30,025	1%
Private equity	94,181	3%	101,935	3%
	<b>179,901</b>	<b>6%</b>	<b>218,125</b>	<b>7%</b>
<b>Cash</b>				
External deposits	25,452	1%	67,720	2%
Investment manager and central (£)	40,079	2%	52,218	2%
Investment manager and central (overseas)	6,594	0%	6,204	0%
	<b>72,125</b>	<b>3%</b>	<b>126,142</b>	<b>4%</b>
<b>Total</b>	<b>2,663,392</b>	<b>100%</b>	<b>3,028,419</b>	<b>100%</b>

## 11. Derivative contracts

### Forward foreign currency contracts

The open forward foreign currency contracts at 31 March are analysed in Pound Sterling (£) against other major currencies below.

	31 March 2012	31 March 2012	31 March 2013	31 March 2013
	Assets	Liabilities	Assets	Liabilities
	£ 000	£ 000	£ 000	£ 000
Canadian Dollar	278	(481)	67	(259)
Swiss Franc	1,568	(1,206)	1,611	(1,994)
Euro	5,239	(4,523)	9,548	(10,332)
Japanese Yen	12,198	(10,028)	16,522	(12,689)
United States Dollar	14,116	(15,389)	17,068	(18,456)
Other	0	(1)	1	0
	<b>33,399</b>	<b>(31,628)</b>	<b>44,817</b>	<b>(43,730)</b>

### Futures contracts

	nominal value	31 March 2012	31 March 2012	31 March 2013	31 March 2013
	£ 000	Assets	Liabilities	Assets	Liabilities
	£ 000	£ 000	£ 000	£ 000	£ 000
Euro Bund Future (euro)					
- June 2013	5,960	0	0	0	(79)
Long Gilt Future (sterling)					
- June 2013	14,373	0	0	475	0
US 10 year Note (US\$)					
- June 2013	9,573	0	0	0	(35)
US 5 year Note (US\$)					
- June 2013	2,787	0	0	0	(5)
		<b>0</b>	<b>0</b>	<b>475</b>	<b>(119)</b>

Futures contracts were used for efficient portfolio management within the Insight portfolio. All were traded on a stock exchange.



## 12. Investment management expenses

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

	2011/2012 £ 000	2012/2013 £ 000
Management and administration fees	7,152	7,876
Custody fees	176	145
Performance measurement services	81	88
Other	1,096	1,456
<b>Total</b>	<b>8,505</b>	<b>9,565</b>

## 13. Directly held property net asset account

The Fund had investments in property of £234.14m at 31 March 2013 (£234.36m at 31 March 2012), of which £206.91m was in directly held property (£206.60m at 31 March 2012). The account below reconciles the movement in the Fund's investments in directly held property.

	2011/2012 £ 000	2012/2013 £ 000
Balance at start of year	163,135	206,595
Purchases at cost	47,291	7,961
Sale proceeds	0	0
Change in market value	(3,831)	(7,646)
<b>Balance at 31 March</b>	<b>206,595</b>	<b>206,910</b>

## 14. Directly held property fund account

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

	2011/2012 £ 000	2012/2013 £ 000
Rental income	12,832	13,535
Direct operating expenses	(1,139)	(1,413)
<b>Net income</b>	<b>11,693</b>	<b>12,122</b>

## 15. Current assets

	2011/2012 £ 000	2012/2013 £ 000
<b>Contributions due</b>		
Employers	16,278	17,124
Members	2,667	2,589
Cash balances	1,332	1,150
HM Revenue & Customs	11	11
Payments made in advance	0	17
Other	898	1,860
<b>Total</b>	<b>21,186</b>	<b>22,751</b>

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

	2011/2012 £ 000	2012/2013 £ 000
Central government bodies	9,309	8,453
Other local authorities	10,714	12,429
NHS bodies	47	46
Public corporations and trading funds	0	432
Other entities and individuals	1,116	1,391
<b>Total</b>	<b>21,186</b>	<b>22,751</b>

## 16. Current liabilities

	2011/2012 £ 000	2012/2013 £ 000
Investment management expenses	(2,756)	(2,524)
Income received in advance	(3,837)	(2,001)
Benefits payable	(3,251)	(2,490)
Other	(612)	(777)
<b>Total</b>	<b>(10,456)</b>	<b>(7,792)</b>

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

	2011/2012 £ 000	2012/2013 £ 000
Central government bodies	(26)	(1,018)
Other local authorities	(123)	0
NHS bodies	(30)	0
Public corporations and trading funds	0	0
Other entities and individuals	(10,277)	(6,774)
<b>Total</b>	<b>(10,456)</b>	<b>(7,792)</b>

## 17. Additional voluntary contributions

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

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

	Clerical Medical £ 000	Equitable Life £ 000	Standard Life £ 000
<b>Opening value</b>	<b>1,057</b>	<b>868</b>	<b>2,457</b>
Income	104	0	273
Expenditure	(236)	(8)	(307)
Change in market value	114	(87)	212
<b>Closing value</b>	<b>1,039</b>	<b>773</b>	<b>2,635</b>

## 18. Related-party disclosure

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

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

Staffordshire County Councillors can join the Fund. As at 31 March 2013, five members of the Pensions Committee and the Pensions Panel had taken up this option.

## 19. Deferred debtor

A transfer was made from the Fund to the Civil Service Pension Scheme on 1 April 2005 in respect of magistrates courts. As at 31 March 2011 agreement had been reached that the Fund was due a payment that represented the shortfall between the assets held and the liabilities retained within the Fund. The shortfall of £8.512 million, including an allowance for the delay in receipt of 3.765%, meant ten payments were due to the Fund of £1.004m. These payments commenced in 2011/2012 and the current assets figure at note 15 (Employers) records the £8.032 million due at 31 March 2013.

During 2012/2013 two payments of £1.004m were received. One of these payments related to 2013/2014 and has been included under the current liabilities figure at note 16 (income received in advance). This income received in advance has not been deducted from the debtor of £8.032m at 31 March 2013.

## 20. Deferred liability

A cash transfer was made to the Fund in 2011/2012 by the Environment Agency of £0.188m. The transfer was in respect of Pre-1974 Water Company Pensions increase recharges and represents income received in advance. £0.013m has been transferred to the revenue account in 2012/2013 and £0.013m will be released per year until 2025/2026. The current liabilities figure at note 16 (Income received in advance) includes the remaining £0.162m to be released at 31 March 2013.

## 21. Events after the balance sheet date

There have been no significant events since 31 March 2013 that require any adjustment to these accounts.

## 22. Critical judgements in applying accounting policies

### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. The value of unquoted private equity investments at 31 March 2013 was £101.94m (£94.18m at 31 March 2012).

### Pension Fund liability

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

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

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

The items in the net assets statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below.

Item	Uncertainty	Effect if actual results differ from assumptions
Private equity	Private equity funds are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £101.94m. There is a risk that this investment may be under or overstated in the accounts.
Hedge funds	Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of hedge funds in the financial statements is £30.03m. There is a risk that this investment may be under or overstated in the accounts.
Alternatives Funds	The Fund invests in two diversified alternatives funds which are valued in accordance with each investment managers valuation policy. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of the Fund's investments in alternatives funds in the financial statements is £86.17m. There is a risk that this investment may be under or overstated in the accounts.



## 24. Classification of financial instruments

The net assets of the Fund disclosed in the net assets statement and under note 10 are made up of the following categories of financial instruments. No financial instruments were reclassified during 2012/2013.

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

### 31 March 2013

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

The previous years data is given overleaf.

31 March 2012

	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£ 000	£ 000	£ 000	£ 000
<b>Financial assets</b>				
Fixed interest securities	164,834	0	0	164,834
Equities	916,765	0	0	916,765
Index-linked securities	100,213	0	0	100,213
Pooled investment vehicles	993,420	0	0	993,420
UK pooled property funds	27,768	0	0	27,768
Hedge funds	52,470	0	0	52,470
Private equity	94,181	0	0	94,181
Alternatives funds	33,250	0	0	33,250
Derivatives	1,771	0	0	1,771
Cash	0	73,457	0	73,457
Other investment balances	8,602	0	0	8,602
Current assets	0	19,854	0	19,854
	<b>2,393,274</b>	<b>93,311</b>	<b>0</b>	<b>2,486,585</b>
<b>Financial liabilities</b>				
Current liabilities	0	0	(10,456)	(10,456)
Other investment balances	(3,358)	0	0	(3,358)
	<b>(3,358)</b>	<b>0</b>	<b>(10,456)</b>	<b>(13,814)</b>
	<b>2,389,916</b>	<b>93,311</b>	<b>(10,456)</b>	<b>2,472,771</b>

## 25. Net gains and losses on financial instruments

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

	2011/2012 £ 000	2012/2013 £ 000
<b>Financial assets</b>		
Designated as fair value through profit and loss	56,779	334,636
Loans and receivables	816	1,301
	<b>57,595</b>	<b>335,937</b>

## 26. Fair value of financial instruments

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

	31 March 2012		31 March 2013	
	Carrying value £ 000	Fair value £ 000	Carrying value £ 000	Fair value £ 000
<b>Financial assets</b>				
Fair value through profit and loss	2,062,269	2,393,274	2,148,535	2,706,203
Loans and receivables	93,311	93,311	148,893	148,893
<b>Financial Liabilities</b>				
Fair value through profit and loss	(3,358)	(3,358)	(2,711)	(2,711)
Financial liabilities measured at amortised cost	(10,456)	(10,456)	(7,792)	(7,792)
	<b>2,141,766</b>	<b>2,472,771</b>	<b>2,286,925</b>	<b>2,844,593</b>

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

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

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

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

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

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

### 31 March 2013

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

The previous years data is given below.

### 31 March 2012

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
<b>Financial assets</b>				
Designated as fair value through profit and loss	2,183,834	29,539	179,901	2,393,274
Loans and receivables	93,311	0	0	93,311
<b>Financial liabilities</b>				
Designated as fair value through profit and loss	(3,358)	0	0	(3,358)
Financial liabilities at amortised cost	(10,456)	0	0	(10,456)
	<b>2,263,331</b>	<b>29,539</b>	<b>179,901</b>	<b>2,472,771</b>

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

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

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

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

### Market risk

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

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

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

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



## Market risk – sensitivity analysis

In consultation with the Fund's investment advisor the following movements in market prices have been judged as possible for the 2013/2014 financial year. The potential market movements figures also allow for interest rate and currency rate fluctuations.

Asset type	Potential market movements
UK equity	+/- 16%
Overseas equity	+/- 20%
Private equity	+/- 28%
UK fixed interest bonds	+/- 13%
UK Index-linked bonds	+/- 8%
Corporate bonds	+/- 13%
Cash	+/- 1%
UK pooled property funds	+/- 14%
Alternatives	+/- 9%

This movement in the market prices would increase or decrease the net assets at 31 March 2013 to the amounts shown below.

Asset type	31 March 2013 £ 000	Percentage change %	Value on increase £ 000	Value on decrease £ 000
UK corporate bonds	94,730	13%	107,045	82,415
Overseas corporate bonds	132,101	13%	149,274	114,928
UK equities	405,535	16%	470,421	340,649
Overseas equities	738,086	20%	885,703	590,469
UK pooled investments	341,795	16%	396,482	287,108
UK index-linked pooled investments	152,576	8%	164,782	140,370
Overseas pooled investments	583,750	20%	700,500	467,000
Forward foreign currency	1,087	0%	1,087	1,087
Futures	356	0%	356	356
UK pooled property funds	27,226	14%	31,038	23,414
Hedge funds	30,025	9%	32,727	27,323
Private equity	101,935	28%	130,477	73,393
Alternatives funds	86,165	9%	93,920	78,410
Cash	126,142	1%	127,403	124,881
Outstanding dividend entitlements and recoverable withholding tax	8,523	0%	8,523	8,523
Amount receivable for sales of investments	2,313	0%	2,313	2,313
Amounts payable for purchases of investments	(2,711)	0%	(2,711)	(2,711)
Current assets	22,751	0%	22,751	22,751
Current liabilities	(7,792)	0%	(7,792)	(7,792)
	<b>2,844,593</b>		<b>3,314,299</b>	<b>2,374,887</b>

## Interest rate risk

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

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

## Foreign currency risk

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

A significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed Record Currency Management to manage a dynamic currency hedging mandate.

## Credit risk

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

During the year the Fund switched some of its bond investments from government to corporate bonds. The additional risk of investing in corporate bonds was deemed appropriate due to the additional return they currently generate over government bonds.

The Fund is also exposed to credit risk through the custodian and other investment managers that hold assets. The Fund minimises credit risk through the careful selection and monitoring of high quality counterparties. Assets and cash held by the custodian are in the Pension Fund's name.

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

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

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

In 2012/2013 investments were made with:

- Staffordshire County Council's banker, The Co-operative Bank (up to £5m - maximum one week)
- "AAA" rated Pound Sterling (£) Money Market Funds with same day access (lower of £20m or 50% of cash held)
- Banks and Building Societies that met the Fund's credit criteria (lower of £10m or 25% of cash held - maximum 12 months)

At 31 March 2013, £67.72m was held in this way (£25.45m at 31 March 2012).

## Liquidity risk

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

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

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

## Statement of Director of Finance and Resources Responsibilities

In preparing this Pension Fund report, the Director of Finance and Resources has;

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting
- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Director of Finance and Resources certificate

I certify that the Pension Fund report presents fairly the financial position of the Pension Fund as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

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

# Independent Auditors' Report to the Members of Staffordshire County Council

We have audited the pension fund accounting statements included in the pension fund annual report of Staffordshire County Council for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

## Respective responsibilities of the Director of Finance and the auditor

The Director of Finance is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## Scope of the audit of the accounting statement

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Staffordshire County Council and the overall presentation of the accounting statement. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited accounting statement. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013: and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### Opinion on other matter

In our opinion, the information given in the Annual Report for the financial year for which the pension fund accounting statements are prepared is consistent with the accounting statements.

*Richard Bacon*

Richard Bacon  
for and on behalf of PricewaterhouseCoopers LLP  
Appointed Auditors  
Birmingham  
October 2013

### Notes:

(a) The maintenance and integrity of the Staffordshire Pension Fund website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





## Glossary of terms

### **Actuarial valuation**

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

### **Actuarial strain**

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

### **Additional voluntary contributions (AVCs)**

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

### **Alternative investments**

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

### **Benchmarks**

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

### **Bid-market price**

The price a buyer pays for a stock.

### **Collateral holdings**

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

### **Corporate governance**

The systems by which companies are directed and controlled.

### **Derivatives**

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

### **Equities**

Stocks representing ownership interest in companies.

### **Financial instrument**

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

### **Fixed-interest investments**

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

### **Hedge funds**

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

### **Index-linked securities**

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

### **Investment management expenses**

All expenses relating to managing the Fund's investments.

### **Investment managers**

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

### **Pensions Committee**

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

### **Pensions Panel**

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

### **Pooled investment vehicles**

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

### **Private equity**

Ownership in a company that is not publicly-traded.

### **Property**

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

### **Refunds of contributions**

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

### **Socially responsible investment**

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

### **Stock lending**

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

### **Transfer values**

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

### **Withholding tax**

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

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

## Investment and Fund management

Melanie Stokes – Treasury and Pension Fund Manager

**Phone:** 01785 276330

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

## Benefits and contributions

Janet Caiazzo – Pensions Manager

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

## Pensions payment

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

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

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

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







**Staffordshire**  
**Pension Fund**  
Local Government Pension Scheme

Pension Scheme registration number: 10011745

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