

## **Note P3 - Statement of Accounting Policies**

### **A. Fund account**

In the Fund Account, income and expenditure are accounted for in the year in which they accrue by the creation of payables and receivables at the year-end where necessary.

### **B. Contribution income**

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Actuary, in the payroll period to which they relate. Additional contributions (including past service deficit contributions and excluding additional voluntary contributions) as notified by employers for the period have also been included. Past service deficit contributions are accounted for in the year in which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset with amounts due after the following year classed as long-term financial assets.

Where employing organisations have not submitted all of the certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns actually received from these bodies.

### **C. Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2022, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid which is normally when the member liability is accepted or discharged. Bulk transfers in and out, where the receiving scheme has agreed to accept the liability prior to receipt and the necessary employee consents have been obtained, are accounted for in accordance with the bulk transfer terms signed by qualified actuaries appointed by the two pension schemes involved in the bulk transfer.

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

### **D. Investment Income**

#### **i) Interest Income**

Interest income is recognised in the Fund Account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination.

**ii) Dividend Income**

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

**iii) Distributions from Pooled Funds**

Distributions (income) from pooled funds are recognised at the date of issue.

Investment income arising from the underlying investments of pooled investment vehicles is distributed back into the pooled investment vehicles throughout the year.

**iv) Property-Related Income**

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

**v) Changes in the Value of Investments**

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

**vi) Stock lending income**

Stock lending income is accounted for on a cash basis.

**E. Taxation**

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

**F. Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2022. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

**G. Financial assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The fair value is established in accordance with IFRS 13 for each category of investment by obtaining sufficient data as follows:

- Market-quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Fixed interest securities are recorded at net market value based on their current yields;

- Unquoted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines. Unquoted private equities are valued by the investment managers in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012) using guidelines of the British Venture Capital Association. This includes the use of discounted cash flow models which are independently valued; and
- Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system, as advised by the respective fund manager.

Investment assets are allocated and disclosed within the fair value hierarchy, being within Levels 1, 2 or 3.

The LGPS Central pool trading company, LGPS Central Limited, only became licensed to trade on 1 April 2018. The Pension Fund's view is that for 31 March 2022, cost is still an appropriate estimate of the fair value of shares held in this company.

#### **H. Freehold and leasehold properties**

Properties including farmlands and commercial properties are valued annually by independent valuers on a fair value basis in accordance with Royal Institute of Chartered Surveyors (RICS) valuation standards.

#### **I. Foreign currencies**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are accounted for as part of the change in market value.

#### **J. Derivatives**

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

Purchases and sales of derivatives are recognised as follows:

Futures – on close out or expiry the variation margins are recognised as cash receipts or payments depending on whether there is a gain or loss.

Forward currency contracts settlements are reported as gross receipts and payments.

#### **K. Movement in the net market value of investments**

Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

#### **L. Cash and cash equivalents**

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

**M. Financial liabilities**

Financial liabilities are included in the Fund Account at fair value if they exist at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**N. Management expenses**

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund along with all other costs incurred directly on Fund activities for corporate support services provided by the administering authority.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments either being managed or in safe custody. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

**O. Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see note P5).

**P. Additional voluntary contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company Limited and Utmost Life and Pensions as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note P22).