Appendix Two - **London Borough of Harrow Pension Fund** Annual Report and Financial Statements for the year ended 31 March 2022

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INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund (‘the Fund’) for the financial year to 31 March 2022. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Appointed Actuary on page 50/51.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee regularly reviews the Fund’s investment strategy seeking to achieve appropriate returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the Fund to meet future liabilities.

The Fund is a shareholder of the London LGPS Collective Investment Vehicle Ltd (LCIV) (the organisation set up to run pooled LGPS investments in London in 2015) and holds £150,000 of regulatory capital in the company in the form of unlisted UK equity shares The Pension Fund Committee has committed to investing in LCIV as and when suitable pool investment solutions become available through LCIV and has been active in the transfer of assets under management to LCIV to access new asset classes and to gain efficiencies and fee reductions.

During 2021-22, the Pension Fund Committee continued its review of the Fund’s Investment strategy. The realignment of the passive equity holdings managed by Blackrock into a Low Carbon passive equity fund was completed, as was the realignment of the Bond portfolio – which is now divided between passive Index Linked Gilts, Sterling corporate bonds (both managed by Blackrock) and the LCIV Global Bond Fund. A commitment of £50m was made to the LCIV Renewables Infrastructure Fund - of which approximately £13m was drawn down in 2021-22. There were further drawdowns against the earlier commitment to invest £68m of fund assets in the LCIV Infrastructure Fund, a total of £31m being invested at 31 March 2022. Finally, the Committee decided to redeem its Emerging Market Equity Portfolio with GMO, and to invest the proceeds in the LCIV Emerging Market equity Fund. That realignment will be completed in July 2022.

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. During 2021-22, the Pension Board met four times and considered a range of reports on pension administration performance and pension fund governance arrangements, as well as reviewing four policies before these were adopted by the Committee.

Pension Board and Pension Fund Committee members attended training courses and seminars during the year to meet the knowledge and skills requirements of their respective roles.

Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) with effect from 3 January 2018, the Pension Fund Committee elected to opt up to professional client status with all its fund managers. This status has been maintained in 2021-22.

The net assets of the Fund as at 31 March 2022 were £1,018m compared to £968m as at 31 March 2021. The Fund’s overall investment return for the year was 5.7%.

D. Calvert

Dawn Calvert - CPFA
Director of Finance and Assurance
13th July 2022

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Nitin Parekh (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Keith Ferry Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	Vacant - Unison Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance & Assurance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon
Investment Managers	LaSalle Global Partner Solutions BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Pantheon Ventures Record Currency Management Limited London LGPS CIV Ltd
AVC Providers	Clerical Medical Utmost (Previously Equitable Life) Prudential Assurance
Custodian	JP Morgan
Auditor	Mazars
Performance Measurement	Pensions and Investment Research Consultants
Bankers	Natwest PLC

GOVERNANCE ARRANGEMENTS

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee met four times during the year. It comprises four Councillors with full voting rights and a non-voting co-optee. Representatives from the trade unions are able to participate as observers of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1297&Year=0

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. In particular it oversees:

a) the effectiveness of the decision-making process
b) the direction of the Fund and its overall objectives
c) the level of transparency in the conduct of the Fund's activities
d) the administration of benefits and contributions

The dates of the Pension Board meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1336&Year=0

PENSION SCHEME ADMINISTRATION AND PERFORMANCE

Pension Section overview

The Pensions Team acts as the main point of contact for any membership enquiries. The team is responsible for all aspects of Local Government Pension Scheme administration; setting up new members, monitoring and maintenance of pension member records, employer contributions payment of benefits, transfer payments and Additional Voluntary Contributions. The team is also responsible for monitoring and cleansing members' data to ensure it is fit for purpose and meets the requirements imposed on the Fund by the regulators, the Fund Actuary and HMRC. The team produces annual benefits statements, newsletters and maintains the pensions website https://www.harrowpensionfund.org

The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2021-22 all Annual Benefit Statements were issued on time.

Performance Monitoring 2021-22

SERVICE	National Benchmarking Target	Harrow Achievement %
Issue letter notifying of dependent's benefit	5 days	76.47
Calculation and notification of ill health estimate	10 days	100
Calculation and notification of retirement benefits estimate	10 days	95.51
Issue letter to new pension provider detailing transfer-out quote	10 days	98.53
Calculation and notification of deferred benefits	10 days	96.72
Calculation and notification of retirement benefits	5 days	91.67
Process refund and issue payment	5 days	87.50
Calculation and notification of ill health benefits	5 days	90
Issue statutory notification on receipt of transfer funds	10 days	83.33

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law during 2021-22.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. There was one new complaint referred through the internal procedure during the year – this complaint was resolved in June 2022.

The costs of running the Pension Fund are shown below:

Process	2019-20	2020-21	2021-22
Investment management expenses			
Total Cost (£000)	4,050	3,840	3,828
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	219	207	201
Administration costs			
Total Cost (£000)	721	713	888
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	39	38	47
Oversight & governance costs			
Total Cost (£000)	634	602	615
Total Membership (No.)	18,451	18,577	19,003
Sub Cost per member (£)	34	32	32
Total cost per member (£)	**292**	**277**	**281**

Investment management costs include fund manager fees and the additional costs of fund transition on restructuring and fund re-balancing. The reduction in total management expenses, which has occurred despite the rise in the value of investments during the year, reflects the benefit of fee reductions negotiated by the London Collective Investment Vehicle, as more of the Fund is now invested in the LCIV or in passive funds at rates negotiated by LCIV.

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs. The significant increase in 2021-22 reflects the new contract for the Pensions Administration system and the initial licensing fee payable.

Oversight and governance costs include staff salaries for pension fund manager performance monitoring and committee support and external costs for investment advisers, actuarial review and external audit. The increase in these costs in 2021-22 reflected the initial work required for the triennial valuation as at 31 March 2022.

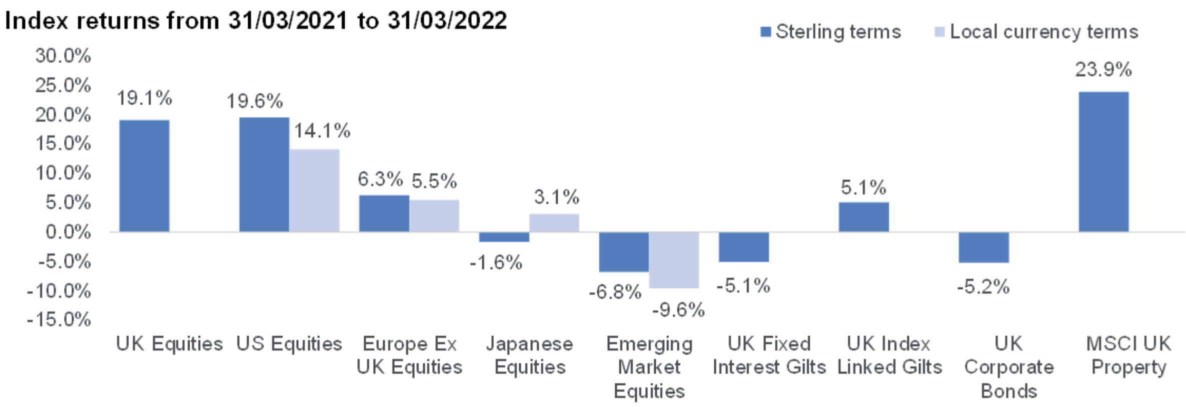
INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon, April 22)

- Global equities generated positive returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.
- The Russian invasion of Ukraine created significant market volatility and economic uncertainty over Q1 2022. G7 sanctions against Russia are likely to slow GDP growth this year and cause further supply chain disruption. While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence. The UK indicated it would phase out Russian oil imports by the end of the year, and the European Union stated that it would reduce dependency on Russian energy by two-thirds this year. Germany also halted approval for the commercial use of Nord Stream 2, their natural gas pipeline sourced from Russia, although Nord Stream 1 remains operational.
- US equities posted the strongest local and sterling returns over the year, helped by their high exposure to large technology companies. After approving a $1.9tn economic relief package, the US Senate passed a $1.2tn bipartisan infrastructure bill. However, President Biden's ambitious $1.75tn "Build Back Better" bill suffered a significant setback after his fellow Democratic Senator, Joe Manchin, opposed the bill due to rising inflation, a surging pandemic, and global uncertainty. In Q1 2022, the US equity market started poorly as inflation concerns led to the expectation of a faster than anticipated tightening of monetary policy, which weighed on the performance of sectors such as Information Technology and Consumer Discretionary. However, Economic data continue to be robust. The US economy added 678,000 jobs in February 2022 (above the previous month's upwardly revised 481,000 jobs) and the unemployment rate fell to 3.8%.
- UK equities were the second-best performing equity market in sterling terms over the last year. The reopening of the global economy bolstered the UK's Energy and Industrials sectors during 2021. However, the UK reported approximately 5 million Covid-19 cases in Q4 2021 due to the newly discovered Omicron variant, dampening equity returns relative to other regions such as the US and Europe over Q4. UK equities rebounded strongly over Q1 due to their tilt towards the Energy and Materials sectors. This performance was driven by fears over the supply of oil and other key commodities impacted by the conflict in Ukraine.
- Emerging markets (EM) were the worst-performing market in local currency and sterling terms over the last twelve months. The rise in interest rates by major central banks resulted in EM returns lagging other markets. State regulatory clampdowns across many of China's corporate sectors, and China's zero-tolerance covid policy causing several Chinese cities to enter strict lockdown dampened economic growth. Russian equities collapsed in price and MSCI and FTSE Russell removed "uninvestable" Russian equities from their widely-tracked emerging markets indices although the weight of Russia is not that large in the equity universe.
- On a global sector level, Energy (43.3%), Health Care (13.7%) and Technology (13.3%) were the best performing sectors in local currency terms. Communication Services (-6.4%) was the worst-performing sector, followed by Consumer Discretionary (-3.9%) and Industrials (4.1%).
- Sterling ended the twelve months 1.1% lower on a trade-weighted basis. In Q4 2021, the Bank of England (BoE) raised its benchmark interest rate by 15bps to 0.25% to combat inflation. In Q1 2022, the BoE increased its benchmark interest by another 50 bps to 0.75%. The expectation of higher interest rates and diminishing Brexit fears had improved sentiment over much of 2021, but the outbreak of war in Ukraine led to significant flows towards the US dollar.
- Brent crude oil prices rose by 69.8% to $108/BBL over the last twelve months. Economic recovery and a cutback in production over the pandemic supported oil prices. In Q3 2021, OPEC+ reached an agreement to increase crude oil production by 400,000 barrels a day from August until the end of 2022, although this pace disappointed expectations. In the fourth quarter, the momentum in oil prices dropped as Omicron, and resurgent Covid fears surfaced. However, crude oil prices rose sharply during the first quarter as geopolitical tensions due to the Russia-Ukraine war further exacerbated supply fears.
- Yields fell in Q2 2021 as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter of 2021, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike

expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding Omicron. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In Q1 2022, yields rose strongly across maturities due to expectations of future rate hikes. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.1%, whilst index-linked gilts rose by 5.1% over the last twelve months. Index-linked gilts significantly outperformed nominal gilts due to increased breakevens driven by expectations of more persistent inflation.

- Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 24bps to 130bps.
- UK commercial property returned 23.9% over the period, supported by an income return of 5.1% and an 18.0% increase in capital values. The easing of lockdown restrictions helped the retail sector as it returned 20.8% over the year. Meanwhile, the office sector returned 6.7% over the year, whilst industrials continued to outperform with a return of 42.3%.



Source: FactSet, MSCI (Equities, Property), iBoxx (Corporate Bonds), FTSE (Gilts)

Investment Policy

The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

The assets of the Fund are invested with the primary objective of being to achieve a return that is sufficient to meet the funding objective, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks, including currency fluctuations.

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

The cumulative cost of pooling for the Pension Fund to 31 March 2022 is £0.614m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2022 to the agreed allocation

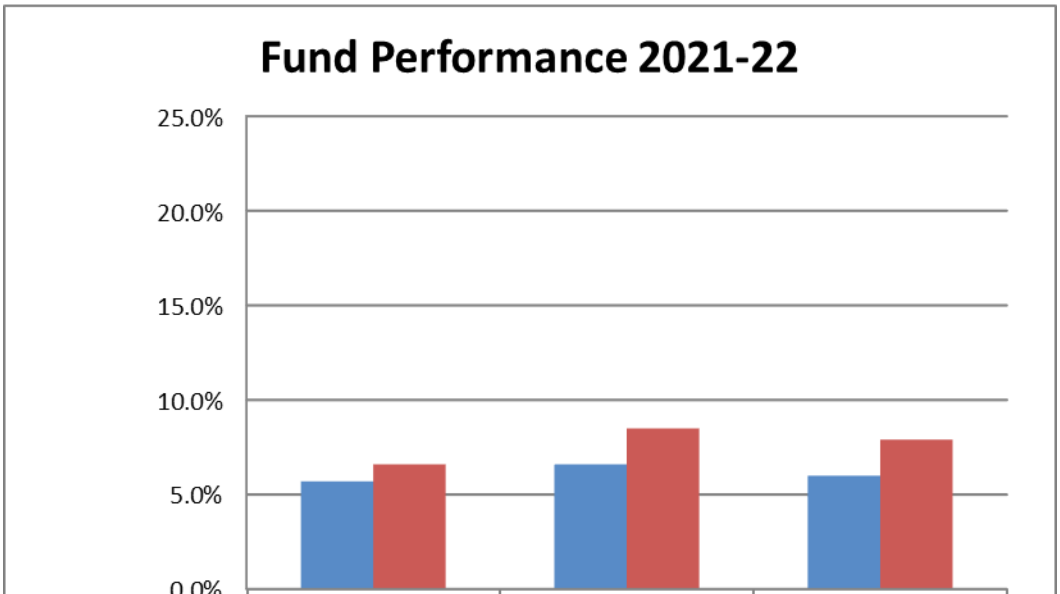
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	26	24
Developed world equities-active	20	18
Emerging markets equities-active	7	8
Fixed interest securities	5	5
Global Bonds	5	5
Index linked securities	4	5
Private equity	1	1
Cash	2	0
Forward currency contracts	(0)	0
Diversified growth funds	9	5.5
Multi Asset Credit	10	10
Pooled property	7	6
Infrastructure	4	12.5
Total	**100**	**100**

The investment style is to appoint fund managers with appropriate performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's managers are appointed to give diversification of investment approach and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and through performance related fees.

Fund performance

The Fund uses Pensions and Investment Research Consultants (PIRC) as its independent investment performance measurement consultant.

Investment returns over 1, 3, and 5 years at 31st March 2022 are shown below.



	1 Year	3 Years to March 2022	5 Years to March 2022
Fund	5.7%	6.6%	6.0%
BM	6.6%	8.5%	7.9%

The Fund's return of 5.7% during 2021-22 reflected the more modest growth in asset prices in the year, following the return of 24.9% in the previous year. The previous year's figure was an outlier reflecting the recovery in asset values from the "low point" of 31 March 2021 which was in turn the result of a significant fall in asset prices experienced during the last two months of 2019-20 as the Covid-19 pandemic impacted across all asset classes. Since March 2020, asset prices have increased to a level above their "pre-pandemic" level, although they have fallen back from their peak in December 2021.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 1.

https://www.harrowpensionfund.org/resources/governance-compliance-statement-march-2021/

Communications Policy Statement

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 24 March 2021 and can be found as Appendix 2.

https://www.harrowpensionfund.org/resources/communications-policy-statement-march-2021/

Funding Strategy Statement

Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund;
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement as approved by the Pension Fund Committee on 18 December 2019, and was updated to reflect the changes in Regulations which came into force in March 2020. It can be found as Appendix 3.

https://www.harrowpensionfund.org/resources/funding-strategy-statement-march-2020/

Investment Strategy Statement

Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS Funds'.

The current Statement as approved by the Pension Fund Committee on 13 September 2021 can be found as Appendix 4.

https://www.harrowpensionfund.org/resources/investment-strategy-statement-september-2021/

Local Government Pension Scheme Guide

A brief guide to the Local Government Pension Scheme can be found as Appendix 5

https://www.harrowpensionfund.org/resources/brief-guide-to-the-lgps-2021/

RISK MANAGEMENT

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and are operating effectively. The aim of risk management is to limit risks to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

Governance and Regulatory Risk

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Advisers and Investment Consultant and from officers;
- Regular reviews of the Investment Strategy Statement and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

The Fund was in deficit at the 2019 triennial valuation. Strong investment performance since that date suggests that the position has improved, although this may not be the same for all employers. However, as the scheme is open to future accrual, the key objective is to be fully funded in the future. The Actuary reviews the required level of contributions every three years, with the next review being carried out as at 31 March 2022. To protect the Fund and the Administering Authority, bonds and other forms of security are required from some of the Admitted employers.

Investment Risk

The Fund is invested in a range of asset classes as detailed in Note 14 to the accounts. This is done in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk. The largest asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

Pricing Risk

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments decreased in value by 8.1% in 2019-20, largely due to the Covid-19 pandemic in the last quarter of the year, increased by 24.9% in 2020-21. Changes of a similar magnitude are possible in future, and this risk cannot be eliminated.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes, economic sectors and geographical areas to include equities, fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers with different styles and one passive manager to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non-Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

Liquidity Risk

Investments in some asset classes e.g. private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Around 12% of Harrow's Funds are in illiquid assets. This is deemed appropriate for the fund even though it has a slightly negative Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently readily accessible without notice.

Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

Actuarial Risk

The value of the liability for future benefits is affected by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Changes to the benefits structure in 2014 had reduced some of these risks, although the recent "McCloud Judgement" is likely to have an adverse impact. These risks are all monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each manager together with annual assessments of the control environment including reviews of internal controls reports certified by reporting auditors.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

INTERNAL CONTROLS

To mitigate the risks regarding investment management, the Council obtains independent internal controls assurance reports from the reporting accountants of the relevant Investment manager.

These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported to the Pension Committee.

The results of the latest reviews are summarised below.

Fund Manager	Type of report	Assurance obtained	Reporting Accountant
Blackrock Inv Man UK Ltd	ISAE 3402	Reasonable assurance	Deloitte LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402/AT-C 320	Reasonable assurance	RSM Risk Assurance Services LLP
LCIV MAC Fund	Internal Controls Report	Reasonable assurance	Deloitte LLP
LCIV Global Equity Focus Fund	Internal Controls Report	Reasonable assurance	EY
LCIV Infrastructure	Internal Controls Report	Reasonable assurance	EY

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email : Pension@harrow.gov.uk Telephone Number: 020 8424 1186 Website: www.harrowpensionfund.org
Complaints and Advice	The Money and Pension Service 120 Holborn London EC1N 2TD Pensions Help line: 01159 659570 Website: www.moneyandpensionsservice.org.uk The Pensions Regulator Telephone Number: 0345 600 1011 Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU Telephone Number: 0800 917 4487 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service Telephone Number: 0800 731 0193 Website: www.gov.uk/find-pension-contact-details

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance and Assurance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the Financial Statements.

The Director of Finance and Assurance's Responsibilities

The Director of Finance and Assurance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance & Assurance 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; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2022 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance and assurance
13th July 2022

Harrow Pension Fund Account as at 31 March 2022

2020-21 £'000		Notes	2021-22 £'000
	Dealings with members, employers and others directly involved in the fund		
(34,661)	Contributions	7	(36,058)
(2,027)	Transfers in from other pension funds	8	(3,066)
(89)	Other income		(33)
(36,777)			**(39,157)**
35,592	Benefits	9	36,974
3,908	Payments to and on account of leavers	10	6,141
0	Other Expenditure		0
39,500			**43,115**
2,723	**Net (additions)/withdrawals from dealings with members**		**3,958**
5,155	Management expenses	11	5,331
7,878	**Net (additions)/withdrawals including fund management expenses**		**9,289**
	Return on investments		
(6,745)	Investment income	12	(7,030)
(191,359)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(52,286)
(198,104)	**Net return on investments**		**(59,316)**
(190,226)	**Net (increase)/decrease in the net assets available for benefits during the year**		(50,027)
(777,758)	**Opening net assets of the scheme**		(967,984)
(967,984)	**Closing net assets of the scheme**		**(1,018,011)**

Net Assets Statement as at 31 March 2022

31 March 2021 £'000		Notes	31 March 2022 £'000
	Investment assets		
933,374	Investments	14	996,706
9,083	Derivative contracts	14	1,191
20,675	Cash with investment managers	14	17,004
963,132			**1,014,901**
4,399	Cash deposits	14	7,288
967,531			**1,022,189**
	Investment liabilities		
(947)	Derivative contracts	14	(5,232)
966,584			**1,016,957**
1,662	Current assets	21	2,154
140	Long Term Debtors	21A	140
968,386			**1,019,251**
(402)	Current liabilities	22	(1,240)
967,984	**Net assets of fund available to fund benefits at the period end**		**1,018,011**

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

D. Calvert

Dawn Calvert – CPFA
Director of Finance & Assurance
13th July 2022

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2022

NOTE 1: DESCRIPTION OF FUND

The Harrow Pension Fund (‘the Fund’) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Membership

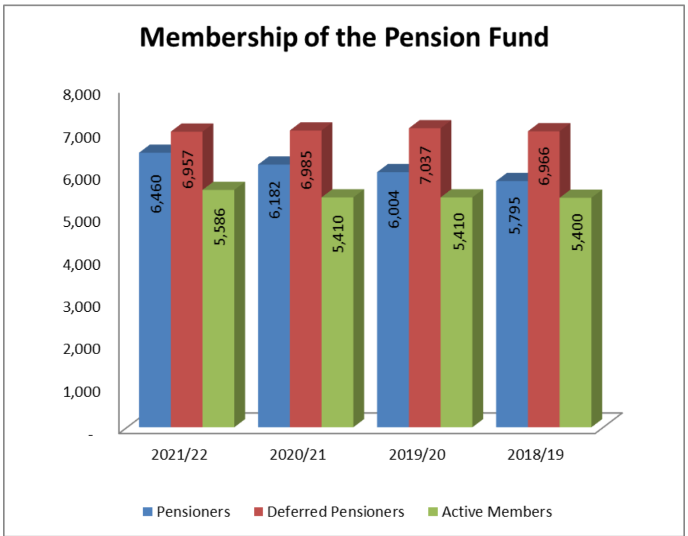
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff, are automatically entitled to be members of the Fund.

- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

There are 44 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	6011	5741	3574	15,326	80.64
Nower Hill	Scheduled Body	38	143	168	349	1.83
Stanmore College	Scheduled Body	99	153	92	344	1.80
Heathland and Whitefriars	Scheduled Body	19	86	190	295	1.54
Hatch End High	Scheduled Body	36	131	77	244	1.28
Rooks Heath	Scheduled Body	27	98	115	240	1.26
Park High	Scheduled Body	15	84	116	215	1.13
Canons High	Scheduled Body	17	80	112	209	1.10
Bentley Wood	Scheduled Body	12	90	68	170	0.89
Harrow High	Scheduled Body	17	59	80	156	0.82
St Dominics 6th form college	Scheduled Body	45	33	54	132	0.69
Aylward Primary School	Scheduled Body	9	32	76	117	0.62
Pinner High School	Scheduled Body	3	8	104	115	0.61
Priestmead School	Scheduled Body	4	6	93	103	0.54
Salvatorian Academy	Scheduled Body	21	51	17	89	0.47
St Georges Primary	Scheduled Body	5	5	78	88	0.46
St John Fisher	Scheduled Body	3	8	60	71	0.37
St Josephs Primary	Scheduled Body	4	4	62	70	0.37
Welldon Park School	Scheduled Body	3	5	56	64	0.34
Earlsmead Academy	Scheduled Body	7	11	37	55	0.29
Alexandra Academy	Scheduled Body	5	16	30	51	0.27
Sacred Heart High School	Scheduled Body	2	6	35	43	0.23
Avanti House Secondary Scho	Scheduled Body	0	4	38	42	0.22
St Bernadettes	Scheduled Body	7	5	30	42	0.22
St Jerome	Scheduled Body	1	2	38	41	0.22
Krishna Avanti Academy	Scheduled Body	0	16	18	34	0.18
Jubilee Academy	Scheduled Body	0	16	16	32	0.17
Avanti House Primary School	Scheduled Body	1	11	18	30	0.16
Avanti School Trust	Scheduled Body	0	2	7	9	0.05
Hujjat Primary School	Scheduled Body	0	0	7	7	0.04
NLCS	Community Admission Body	43	46	47	136	0.72
Evergreen	Admitted Body	0	0	19	19	0.10
ISS Catering	Admitted Body	3	1	11	15	0.08
SOS Ltd	Admitted Body	0	0	7	7	0.04
Brayborne Facilities Services	Admitted Body	0	0	6	6	0.03
SOS Longfield	Admitted Body	0	0	5	5	0.03
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Evergreen Harrow High	Admitted Body	1	0	4	5	0.03
PSC Ltd	Admitted Body	0	0	4	4	0.02
PSC Roxeth	Admitted Body	0	0	4	4	0.02
PSC Vaughan	Admitted Body	0	0	3	3	0.02
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Aylward	Admitted Body	1	0	2	3	0.02
Evergreen LBH	Admitted Body	0	1	2	3	0.02
		6,460	6,957	5,586	19,003	100

c) Funding

Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to “opt out” if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member’s full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2019 and showed that the Fund was 94% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 18.0% to 26.5% of pensionable pay with the largest employers paying between 19.3% and 20.1%.

d) Benefits

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

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

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

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 5.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021-22 financial year and its position as at 31 March 2022. The Accounts have been prepared on a going concern basis in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2021-22' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the financial year to which they relate.

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

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 will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (see notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

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

c) Investment income

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

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

iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.

Fund account – Expense items

a) Benefits payable

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

b) Taxation

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

c) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

<u>Administrative expenses</u>

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

<u>Oversight and governance costs</u>

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

<u>Investment management expenses</u>

All investment management expenses are accounted for on an accruals basis.

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

Where an investment manager's fee invoice or fee information has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2021-22.

Net Assets Statement

a) 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 an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)'*

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

b) 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. (See note 15). Derivatives are used by the Fund to reduce its exposure to the risk of fluctuations in currency values in its global equity portfolio. They are valued on the basis of the change in the relative values of sterling and the currency being hedged between the point at which the derivatives were purchased and the balance sheet date.

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

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.

d) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date with the exception of current liabilities. 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. Current Liabilities are shown at amortised cost - given the short-term nature of these liabilities there are unlikely to be any gains or losses arising from these before settlement.

e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund 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 (Note 20).

f) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with section 4 (1)(b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

g) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

h) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

i) Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2021-22 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented on 1st April 2024;
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
- Property, Plant and Equipment – Proceeds before intended use (Amendments to IAS16)

These changes in accounting standards are in our view unlikely to have a material impact on the Pension Fund accounts and might be subject to change

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future employer contribution rates and underpin the Fund’s most significant management policies.

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £23.4m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £1.6m • a 0.1% increase in Pension benefits would increase the liability by approximately £21.6m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £5.4m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.
Fair value – basis of valuation (Note 16)	In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets. This fall in asset prices/values was more than offset by the subsequent recovery during 2020 and 2021. However, there has been a fall back in 2022 to date, due in part to geopolitical events (the Russian invasion of Ukraine and its impact on commodity prices) and their knock-on effect on inflation. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. At the current time, it is still not possible to predict accurately the long term impact of Covid-19 on property investments in some locations and sectors of the economy.	Any reduction in investment values will result in a reduction in the Fund's net asset position.
Pooled Property Fund	Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. For 2020/21, following the impact of Covid-19 on global markets, our fund managers advised that valuations were reported on the basis of ' material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight could be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – was attached to valuations of pooled property fund assets than would normally be the case. They have not applied the same caveat to the valuations reported as at 31 March 2022.	The total property pooled investments in the financial accounts are £71.33m. There is a risk that these investments may be understated or overstated in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2021-22 for which the accounts have been adjusted.

The valuation of the Pension Fund's investment assets will fluctuate from time to time as a result of economic factors and market movements. Since March 2022, global investment markets have been volatile for a number of reasons. As a result, the value of the Fund's investment assets had fallen from £1018.011million at 31 March 2022 to £950.884million at 30 November 2022 (a fall of 6.6%). However, the Fund's actuary advises that the impact of the increase in Gilt yields in the same period is likely to have reduced the Fund's liabilities significantly. Furthermore, the Fund is an "open" pension scheme, which means it has a long time horizon before many of its liabilities will fall due for payment. Therefore, the change in asset valuations is treated as a non-adjusting post balance sheet event.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2020-21 £'000		2021-22 £'000
(7,402)	**Employees' contributions**	**(7,659)**
	Employers' contributions:	
(18,995)	Normal contributions	(19,646)
(8,192)	Deficit recovery contributions	(8,564)
(72)	Pension strain contributions	(189)
(27,259)	**Total employers' contributions**	**(28,399)**
(34,661)	**Total contributions receivable**	**(36,058)**

By type of employer

2020-21 £'000		2021-22 £'000
(26,336)	Administering Authority	(27,028)
(7,385)	Scheduled bodies	(7,765)
(796)	Community admission body	(746)
(144)	Transferee admission bodies	(519)
(34,661)		**(36,058)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2020-21 £'000		2021-22 £'000
0	Group transfers	(2,499)
(2,027)	Individual transfers	(567)
(2,027)		**(3,066)**

NOTE 9: BENEFITS PAYABLE

By category

2020-21		2021-22
£'000		**£'000**
30,791	Pensions	31,640
4,097	Commutation and lump sum retirement benefits	4,672
704	Lump sum death benefits	662
35,592		**36,974**

By type of employer

2020-21		2021-22
£'000		**£'000**
33,505	Administering Authority	34,367
1,711	Scheduled bodies	2,214
313	Community admission body	250
63	Transferee admission bodies	143
35,592		**36,974**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020-21		2021-22
£'000		**£'000**
43	Refunds to members leaving service	54
228	Group transfers	2,350
3,637	Individual transfers	3,737
3,908		**6,141**

NOTE 11: MANAGEMENT EXPENSES

2020-21		2021-22
£'000		**£'000**
713	Administrative costs	888
3,840	Investment management expenses	3,828
602	Oversight and governance costs	615
5,155		**5,331**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2021-22	Total	Management Fees	Other Fees
		£'000	**£'000**
Pooled Investments - Equities	1,773	1,735	38
Pooled Investments - Alternatives	948	937	11
Pooled Investments - Other	1,034	963	71
Derivatives	63	63	0
Custodian	10	10	0
	3,828	**3,708**	**120**

The Fund does not pay any of its investment managers through performance fee arrangements.

2020-21	Total	Management Fees	Other Fees
		£'000	£'000
Pooled Investments - Equities	2,012	1,767	245
Pooled Investments - Alternatives	926	848	78
Pooled Investments - Other	841	771	70
Derivatives	51	51	0
Custodian	10	0	10
	3,840	**3,437**	**403**

NOTE 12: INVESTMENT INCOME

2020-21		2021-22
£'000		£'000
(2,899)	Pooled Investments - Private equity	(2,975)
(859)	Pooled Investments - Property	(1,712)
(2,987)	Pooled investments - Other	(2,343)
(6,745)		**(7,030)**

NOTE 13: EXTERNAL AUDIT COSTS

2020-21		2021-22
£'000		£'000
(19)	Payable in respect of external audit	(16)
(19)		**(16)**

NOTE 14: INVESTMENTS

Market value 31 March 2021 £'000		Market value 31 March 2022 £'000
	Investment assets (Pooled)	
525,161	Pooled equities investments	541,760
122,361	Pooled bonds investments	135,362
201,053	Pooled alternative investments	197,553
16,099	Pooled infrastructure	45,180
61,561	Pooled property investments	71,330
926,235		**991,185**
	Investment assets (Other)	
150	Equity in London CIV	150
6,989	Private equity	5,371
9,083	Derivative contracts: forward currency	1,191
20,675	Cash with investment managers	17,004
963,132		**1,014,901**
4,399	**Cash deposits**	7,288
967,531	Total investment assets	**1,022,189**
	Investment liabilities	
(947)	Derivative contracts: forward currency	(5,232)
(947)	Total investment liabilities	**(5,232)**
966,584	All investments	**1,016,957**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	525,161	235,605	(267,409)	48,403	**541,760**
Pooled bonds investments	122,361	101,876	(80,730)	(8,145)	**135,362**
Pooled alternative investments	201,053	101,512	(112,309)	7,297	**197,553**
Pooled property investments	61,561	0	(448)	10,217	**71,330**
Pooled infrastructure	16,099	25,582	0	3,499	**45,180**
Equity in London CIV	150	0	0	0	**150**
Private equity	6,989	0	(273)	(1,345)	**5,371**
Derivative contracts	8,136	3,571	(8,108)	(7,640)	**(4,041)**
	941,510	**468,146**	**(469,277)**	**52,286**	**992,665**
Cash with investment managers	20,675				**17,004**
Cash deposits	4,399				**7,288**
	25,074				**24,292**
Net investment assets	**966,584**				**1,016,957**

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	394,247	68,000	(75,447)	138,361	**525,161**
Pooled bonds investments	111,463	2,937	(70)	8,031	**122,361**
Pooled alternative investments	171,230	0	(4,271)	34,094	**201,053**
Pooled property investments	64,140	0	(258)	(2,321)	**61,561**
Pooled infrastructure	700	16,227		(828)	**16,099**
Equity in London CIV	150	0		0	**150**
Private equity	8,025	0	(303)	(733)	**6,989**
Derivative contracts	(4,760)	6,069	(7,928)	14,755	**8,136**
	745,195	**93,233**	**(88,277)**	**191,359**	**941,510**
Cash with investment managers	28,153				**20,675**
Cash deposits	2,641				**4,399**
	30,794				**25,074**
Net investment assets	**775,989**				**966,584**

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021	Percentage of Fund	Manager	Investment assets	Market value 31 March 2022	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
120,618	12	LCIV	Developed world equities-active	127,495	13
101,226	10	LCIV	Multi asset credit	0	0
0	0	LCIV	Alternative credit fund	103,777	10
67,238	7	LCIV	Sustainable equities	73,314	7
16,099	2	LCIV	Infrastructure funds	45,180	4
0	0	LCIV	Global bond fund	46,816	5
247,574	26	BlackRock	Global equities - passive	269,113	26
552,755	57		Total LCIV	665,695	65
Investments managed outside of the London CIV					
61,561	6	LaSalle	Pooled property	71,330	7
12,726	1	BlackRock	Cash with investment managers	11,027	1
97,538	10	BlackRock	Bonds - fixed interest	46,463	5
24,823	3	BlackRock	Bonds - index-linked active	42,083	4
4,399	1	Cash Deposits	Cash with Banks	7,288	0.5
89,731	9	GMO	Emerging markets equities-active	71,838	7
99,827	10	Insight	Diversified growth fund	93,776	9
7,949	1	JP Morgan	Cash with investment managers	5,977	0.5
150	0	LCIV	UK equities-passive	150	0
6,989	1	Pantheon	Private equity	5,371	1
8,136	1	Record	Forward currency contracts	(4,041)	(0)
413,829	43		Total - Managers	351,262	35
966,584	**100**		**Total Investments**	**1,016,957**	**100**

NOTE 14C: INVESTMENTS MORE THAN 5% of the net assets of the Fund:

Market value 31 March 2021	% of total fund	Investment assets	Market value 31 March 2022	% of total fund
£'000			£'000	
247,574	26	Blackrock Equity Beta Portfolio	269,113	26
97,538	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	46,463	5
89,731	9	GMO Emerging Domestic Opportunities Equity Fund	71,838	7
99,827	10	Insight Broad Opportunities Fund	93,776	9
61,561	6	LaSalle Investors UK Real Estate Fund of Funds	71,330	7
120,618	12	LCIV Global Equity Focus Fund	127,495	13
101,226	10	LCIV Multi Asset Credit	0	0
0	0	LCIV Alternative Credit Fund	103,777	10
67,238	7	LCIV Sustainable Equity Fund	73,314	7
0	0	LCIV Global bond fund	46,816	5
885,313	**90**	**Total over 5% holdings**	**903,922**	**89**

NOTE 14D: STOCK LENDING

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the Blackrock Portfolio.

The Blackrock lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from Blackrock pursuant to its Securities Lending Authorisation Agreement

Value of Stock on Loan as at 31 March 2022 £25.9m (7.25%) compared to £24.4m (6.60%) as at 31 March 2021.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund’s equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Analysis of Open forward currency contracts:-

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £'000	liability value £'000
Up to one month	CHF	7,201	GBP	(5,914)	32	
One to six months	GBP	2,433	AUD	(4,244)	7	
One to six months	GBP	5,842	CAD	(9,569)	22	
Over six months	GBP	25,543	EUR	(29,670)	346	
One to six months	GBP	5,045	HKD	(51,712)	20	
Over six months	GBP	10,912	JPY	(1,662,200)	491	
One to six months	GBP	726	NOK	(8,249)	10	
One to six months	GBP	109	NZD	(205)	0	
One to six months	GBP	2,810	SEK	(34,259)	13	
One to six months	GBP	907	SGD	(1,612)	2	
Over six months	GBP	86,414	USD	(113,445)	241	
Up to one month	JPY	765,400	GBP	(4,785)	7	
Up to one month	AUD	4,244	GBP	(2,429)		(8)
Up to one month	CAD	9,569	GBP	(5,843)		(22)
Up to one month	EUR	14,979	GBP	(12,695)		(32)
One to six months	GBP	2,287	AUD	(4,244)		(135)
One to six months	GBP	5,552	CAD	(9,569)		(268)
One to six months	GBP	11,778	CHF	(14,402)		(140)
One to six months	GBP	241	EUR	(288)		(2)
Over six months	GBP	12,646	EUR	(14,979)		(69)
One to six months	GBP	4,930	HKD	(51,712)		(86)
Over six months	GBP	4,820	JPY	(765,400)		(8)
One to six months	GBP	692	NOK	(8,249)		(25)
One to six months	GBP	103	NZD	(205)		(5)
One to six months	GBP	249	SEK	(3,077)		(2)
One to six months	GBP	883	SGD	(1,612)		(22)
One to six months	GBP	5,416	USD	(7,323)		(147)
Over six months	GBP	162,875	USD	(219,567)		(3,943)
Up to one month	HKD	51,712	GBP	(5,037)		(20)
One to six months	JPY	65,700	GBP	(420)		(9)
Over six months	JPY	65,700	GBP	(421)		(9)
Up to one month	NOK	8,249	GBP	(727)		(10)
Up to one month	NZD	205	GBP	(109)		(0)
Up to one month	SEK	18,668	GBP	(1,529)		(7)
Up to one month	SGD	1,612	GBP	(907)		(2)
Up to one month	USD	113,445	GBP	(86,440)		(261)
Open forward currency contracts at 31 March 2022					**1,191**	**(5,232)**
Net forward currency contracts at 31 March 2022						**(4,041)**
Prior year comparative						
Open forward currency contracts at 31 March 2021					**9,083**	**(947)**
Net forward currency contracts at 31 March 2021						**8,136**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investments - Alternative Credit / Bonds	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2022 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2022	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	6.52%	5,371	5,722	5,021
Pooled investments - Infrastructure	7.03%	45,180	48,357	42,004
Pooled investments - property funds	4.10%	71,330	74,255	68,406
		121,881	128,334	115,431

	Assessed valuation range (+/-)	Valuation at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	7.47%	6,989	7,511	6,467
Pooled investments - Infrastructure	7.11%	16,099	17,243	14,954
Pooled investments - property funds	2.20%	61,561	62,913	60,209
		84,649	87,667	81,630

NOTE 16A: FAIR VALUE HIERARCHY

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

Level 1

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

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2022	**Level 1** **£'000**	**Level 2** **£'000**	**Level 3** **£'000**	**Total** **£'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	541,760			541,760
Pooled bonds investments	88,546	46,816		135,362
Pooled alternative investments	93,776	103,777		197,553
Pooled property investments			71,330	71,330
Pooled infrastructure			45,180	45,180
Private equity			5,371	5,371
Derivative contracts: forward currency		(4,041)		(4,041)
Cash Deposits / Other	24,292	150		24,442
Total	**748,374**	**146,702**	**121,881**	**1,016,957**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1** **£'000**	**Level 2** **£'000**	**Level 3** **£'000**	**Total** **£'000**
Financial assets at fair value through profit and loss				
Pooled equities investments	525,161			525,161
Pooled bonds investments	122,361			122,361
Pooled alternative investments	99,827	101,226		201,053
Pooled property investments			61,561	61,561
Pooled infrastructure			16,099	16,099
Private equity			6,989	6,989
Derivative contracts: forward currency		8,136		8,136
Cash Deposits / Other	25,074	150		25,224
Total	**772,423**	**109,512**	**84,649**	**966,584**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2021/22	Market Value 31 March 2021	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Private Equity	6,989	0	0	0	(273)	(1,345)	5,371
Pooled - Infrastructure	16,099	0	0	25,582	0	3,499	45,180
Pooled - property	61,561	0	0	0	(448)	10,217	71,330
	84,649	0	0	25,582	(721)	12,371	121,881

Period 2020/21	Market Value 31 March 2020	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Gains/ (losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Private Equity	8,025	0	0	0	(303)	(733)	6,989
Pooled - Infrastructure	700	0	0	16,227	0	(828)	16,099
Pooled - property	64,140	0	0	0	(258)	(2,321)	61,561
	72,865	0	0	16,227	(561)	(3,882)	84,649

NOTE 17: FINANCIAL INSTRUMENTS

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

31 March 2021				31 March 2022		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
525,161	0	0	Pooled equities investments	541,760	0	0
122,361	0	0	Pooled bonds investments	135,362	0	0
201,053	0	0	Pooled alternative investments	197,553	0	0
16,099	0	0	Pooled Infrastructure	45,180	0	0
61,561	0	0	Pooled property investments	71,330	0	0
150	0	0	Equity in London CIV	150	0	0
6,989	0	0	Private equity	5,371	0	0
9,083	0	0	Derivative contracts	1,191	0	0
0	26,109	0	Cash	0	25,676	0
0	767	0	Debtors	0	910	0
942,457	**26,876**	**0**		**997,897**	**26,586**	**0**
			Financial liabilities			
(947)	0	0	Derivative contracts	(5,232)	0	0
0	0	(402)	Creditors	0	0	(1,240)
(947)	**0**	**(402)**		**(5,232)**	**0**	**(1,240)**
941,510	**26,876**	**(402)**		**992,665**	**26,586**	**(1,240)**
	967,984		**Grand Total**		**1,018,011**	

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on a regular basis.

Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

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

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Equities	14.10
Bonds	7.90
Alternatives	7.00
Pooled Property	4.10
Private Equity	6.50

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2022	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	537,719	14.10	613,538	461,901
Pooled bond investments	135,362	7.90	146,056	124,669
Pooled alternative investments	197,553	7.00	211,382	183,724
Pooled property investments	71,330	4.10	74,255	68,406
Private Equity	5,371	6.50	5,721	5,022
Pooled Infrastructure	45,180	7.00	48,343	42,018
Equity - London CIV	150	0.00	150	150
Total	**992,665**		**1,099,445**	**885,890**

Asset type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Pooled equities investments	533,297	14.20	609,025	457,569
Pooled bond investments	122,361	7.70	131,783	112,939
Pooled alternative investments	201,053	7.10	215,328	186,778
Pooled property investments	61,561	2.20	62,915	60,207
Private Equity	6,989	7.50	7,513	6,465
Pooled Infrastructure	16,099	7.10	17,242	14,956
Equity - London CIV	150	0.00	150	150
Total	**941,510**		**1,043,956**	**839,064**

Interest rate risk

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

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	24,292	0	24,292	24,292
Fixed interest securities	46,463	465	46,928	45,998
Global bond fund	46,816	468	47,284	46,348
Total change in assets available	**117,571**	**933**	**118,504**	**116,638**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	25,074	0	25,074	25,074
Fixed interest securities	97,538	975	98,513	96,562
Total change in assets available	**122,612**	**975**	**123,587**	**121,636**

This analysis demonstrates that changes in interest rates do not impact on the value of cash and cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.2%

A 7.2% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

The Fund is now invested in the LCIV Global Bond. The underlying manager hedges currency exposure within its mandate.

Currency Exposure - asset type	Asset Value as at 31 March 2022	Change to net assets	
		Value on increase	Value on decrease
		+7.2%	-7.20%
	£'000	£'000	£'000
Overseas Pooled Equities	516,310	553,484	479,136

Currency Exposure - asset type	Asset Value as at 31 March 2021	Change to net assets	
		Value on increase	Value on decrease
		+7.1%	-7.1%
	£'000	£'000	£'000
Overseas Pooled Equities	496,012	531,229	460,795

Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria

The Council believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2022 was £24.3m (31 March 2021: £25.1m). This was held with the following institutions.

Summary	Rating	Balances at 31 March 2021	Balances at 31 March 2022
		£'000	£'000
Bank accounts			
Royal Bank of Scotland	A+ (Fitch)	4,399	7,288
JP Morgan	Aa1 (Moodys)	7,949	5,977
BlackRock	AAAmmf (Fitch)	12,726	11,027
		25,074	**24,292**

Liquidity risk

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

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £121.9m. This represented 11.98% of the total Fund assets (31 March 2021: £84.6m).

Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2022. The next valuation takes place as at 31 March 2025.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers).
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2022 actuarial valuation, the Fund was assessed as 96% funded (94% at the March 2019 valuation). This corresponded to a deficit of £39m (2019 valuation: £52m).

Contribution increases for some employers are being phased in over the 3 years' ending 31 March 2026.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer.

The valuation of the Fund has been undertaken using the projected unit method under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

Financial assumptions

Other financial assumptions	2016	2019	2022
	%	%	%
Price inflation (CPI)	2.1	2.3	2.7
Salary increases	2.4	3.0	3.7
Pension increases	2.1	2.3	2.7
Funded basis discount rate	3.8	4.3	4.4

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2021 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.5% p.a.

The average future life expectancy at age 65 based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0	24.3
Future pensioners (assumed to be aged 45)	23.1	26.3

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2021		31 March 2022
£m		**£m**
(1,556)	Present value of promised retirement benefits	(1,502)
967	Fair value of scheme assets	1,017
(589)	**Net Liability**	**(485)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2022 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2020-21	2021-22
	% pa	**% pa**
Inflation/pensions increase rate assumption	2.9	3.2
Salary increase rate	3.6	3.9
Discount rate	2.0	2.7

NOTE 21: CURRENT ASSETS

31 March 2021		31 March 2022
£'000		**£'000**
	Short Term Debtors:	
561	Contributions due - employers	768
66	Sundry debtors	2
1,035	Cash owed to Fund	1,384
1,662		**2,154**

NOTE 21A: LONG TERM DEBTORS

31 March 2021		31 March 2022
£'000		**£'000**
140	Lifetime Tax Allowances	140
140		**140**

NOTE 22: CURRENT LIABILITIES

31 March 2021		31 March 2022
£'000		**£'000**
(119)	Sundry creditors	(191)
0	Transfer values	(752)
(283)	Benefits payable	(297)
(402)		**(1,240)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31 March 2021		Market value 31 March 2022
£'000		**£'000**
2,676	Prudential Assurance	2,681
617	Clerical Medical	577
237	Utmost (Previously Equitable Life)	237
3,530		**3,495**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However, to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled monthly, and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2021		31 March 2022
£'000		£'000
(20,663)	Employer's Pension Contributions to the Fund	(21,187)
908	Administration expenses paid to the Council	1,078
1,035	Cash held by the Council	1,384

Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Councils' Director of Finance & Assurance (S151 Officer) and the Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2021		31 March 2022
£'000		£'000
105	Short-term benefits	112
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2022 totalled £77.8m (31 March 2021: £53.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and commitments in the LCIV Infrastructure Fund and LCIV Renewable Infrastructure Fund.

NOTE 27: CONTINGENT ASSETS

One admitted body employer in the Fund holds an insurance bond/guarantee to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

London Borough of Harrow Pension Fund ("the Fund") Actuarial Statement for 2021/22

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised 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 at least a 72% likelihood 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 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 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 2019 valuation report.

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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Laura McInroy FFA

24 June 2022

For and on behalf of Hymans Robertson LLP