Governance, Audit, Risk Management and Standards Committee SUPPLEMENTAL AGENDA

DATE: **Tuesday 16 July 2019**

AGENDA - PART I

12. STATEMENT OF ACCOUNTS 2018-19 (Pages 3 - 366)

Report of the Director of Finance

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda item has been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item	Special Circumstances/Grounds for Urgency
12. Statement of Accounts 2018-19	This report was not available at the time the agenda was printed and circulated as it was being updated and finalised with information from the Council's Pension Fund actuary and the auditor's completion report. Members are requested to consider this item, as a matter of urgency.

AGENDA - PART II - NIL

Harrow COUNCIL LONDON

REPORT FOR:	**Governance, Audit, Risk Management and Standards Committee (GARMS)**
Date of Meeting:	16 July 2019
Subject:	Statement of Accounts 2018-19
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1: Statement of Accounts 2018-19 Appendix 2: Pension Fund Annual Report 2018-19 Appendix 3: Summary Statement of Accounts 2018-19 Appendix 4: External Audit Reports on the Statement of Accounts and the Harrow Pension Fund for the year ended 31 March 2019

Section 1 – Summary and Recommendations

This report presents the Statement of Accounts for 2018-19 subject to the issue of the audit opinion

Recommendations:

1. Consider the reports of the External Auditor on matters arising from the audit of the Statement of Accounts 2018-19 and the Pension Fund Annual Report 2018-19 (appendix 4);
2. Approve the Statement of Accounts 2018-19 (which are subject to the issue of the audit opinion) and the Pension Fund Annual Report 2018-19 and authorise the signing of the accounts by the Chair (appendix 1 and appendix 2);

3. Authorise the Director of Finance, following consultation with the Chair, to make any final amendments to the Statement of Accounts and Pension Fund Annual Report arising from the external audit prior to the issue of the audit opinion and signing of the accounts by the auditor; and
4. Note the Summary Statement of Accounts 2018-19 (appendix 3).

Reason:

Under the Accounts and Audit Regulations 2015, the Statement of Accounts must be approved by a committee of Members. Once approval has been given, the Chair of the Committee is required to sign and date the Statement of Accounts.

Section 2 – Report

Background

1. The Accounts and Audit Regulations 2015, require Local Authorities to prepare the Statement of Accounts in accordance with proper practices. This is the second year that the draft Statement of Accounts is required to be prepared by 31st May (previously the deadline was 30th June). The draft Statement of Accounts must be signed and dated by the responsible financial officer (Director of Finance section 151 officer).

2. The new earlier deadline means that GARMS Members do not have a scheduled meeting to review and ask questions on the draft Statement of Accounts. To enable Members to have the opportunity of discussing and reviewing the draft Statement of Accounts, all Members were provided with an electronic copy and invited to submit questions to the Central Finance Team before todays GARMS meeting. A schedule of questions together with responses has been circulated to all Members of the GARMS committee.

3. Following the public inspection period (3rd June 2019 to 12th July 2019), the Regulations require the Statement of Accounts to be submitted to a committee for approval. The Statement of Accounts must be signed and dated by the Chair of the Committee. At Harrow, the Committee nominated to receive and approve the accounts is the GARMS committee.

4. This is the second year that the audited Statement of Accounts must be published by 31st July (previously 30th September).

5. Publishing the Statement of Accounts makes public the Council's financial performance for the year of account. They are a substantial part of the process by which the Council is held accountable to the public for the proper management and stewardship of the Council's resources.

6. The Pension Fund Annual Report (which includes the Pension Fund Statement of Accounts) is attached as appendix 2 to this report and was previously presented to the Pension Fund Committee in June 2019.

7. In accordance with the International Standard on Auditing (ISA) 260, the external auditor (Mazars LLP) prepares detailed reports on matters arising from the audit of the Statement of Accounts and Pension Fund Annual Report. These reports are required to be considered by "those charged with governance" (GARMS) before the external auditor can sign the accounts.

8. This is the first financial year that Mazars LLP are acting as the Council's external auditors.

9. The Annual Governance Statement is included in the Statement of Accounts. A separate report on the agenda for this meeting recommends its approval in its own right.

Accounts Summary

10. The **Narration Report** at section 1.0 provides an analysis of the performance of the Council and an overview of the future. A balanced outturn position was achieved after contributing just under £11m into reserves. Of this £11m, £2.4m has been carried forward to be spent in 2019-20, leaving the remainder of £8.6m earmarked to help fund the 2019-20 budget and to fund capacity needed to implement future savings and organisational transformation.

11. The **Comprehensive Income and Expenditure Account (CIES)** at section 4.1 shows the true economic cost of providing Council services. There have been no material amendments to the version reported in the original draft accounts.

12. The CIES deficit of £102m explains the net decrease in total Council net assets and reserves. This deficit includes a deficit on Provision of Services of £57m, the revaluation loss on property, plant and equipment (£15m) and re-measurements of the net pension liability (£30m). The main difference between the deficit on Provision of Services of £57m and the balanced outturn report are capital losses and gains that are not shown in the outturn report including for example depreciation expense (£33m) and the loss on transfer of a school to Academy status (£31m).

13. Under statutory regulations some of the costs disclosed in the CIES (e.g. depreciation, re-measurements of the net pension liability etc.) are technical accounting adjustments and these are not taken into account when setting the Council Tax and Dwelling Rents. These are reversed in the **Movement in Reserves Statement** which summarises the Council's total usable and unusable reserves. The increase of £23m in the usable reserves balance reported in section 4.2 of the original draft accounts remains unchanged.

14. The **Balance Sheet** at 4.3 of the financial statements sets out the financial position of the Council as at 31st March 2019. There have been no amendments to the version reported in the original draft accounts.

15. Property, Plant and Equipment has decreased by £46m in valuation compared to 2017-18. This is due primarily to additions (£38m), the net current year revaluation deficit (£15m), and further offset by depreciation (£33m) and disposals (£39m).

16. Short Term Debtors have decreased by £10m compared to 2017-18. Improved invoicing procedures have reduced the level of year end short term debtors.

17. Cash and Cash Equivalents increased by £6m through short term deposits being held with banks and building societies.

18. Other Long Term Liabilities increased by £50m due to an increase in IAS19 Pension Liabilities.

19. As a consequence of the movements within the net assets section of the Balance Sheet usable reserves have increased by £23m to £134m while unusable reserves have decreased by £125m to £298m giving a total balance sheet worth of £432m

20. The **Cash Flow** statement at section 4.4 shows how the Council generates and uses cash. There has been no amendment to the version reported in the original draft accounts.

21. The **Expenditure and Funding Analysis (EFA)** at 5.5 shows how resources and expenditure are allocated for decision making purposes between the Council's directorates and then compared with the true economic cost of providing services in accordance with proper accounting practices set by the regulations.

22. The **Housing Revenue Account (HRA)** at 6.1 shows the transactions relating to the provision, maintenance and management of the Council's housing stock. The account shows a neutral position for the year leaving revenue balances unchanged at £7.5m.

23. The **Collection Fund** statement at 7.1 shows the overall carried forward net surplus of £3.2m.

24. Net assets of the **Pension Fund** at 9.0 of the Pension Fund Financial Statement at year end are £851m. This has increased by £35m from the previous year due mainly to increases in the market value of investments.

25. Officers have recently received updated reports from the Council's actuary on the effects of two national issues for Pension Funds, being the Guaranteed Minimum Pension (GMP) and McCloud cases. Liabilities from the reports are approximately £1.9m for each case, for which the Authority considers these immaterial to be included within the accounts either in the figures or as a disclosure note in the accounts.

26. The Audit Completion Reports contain matters raised by the auditor, their findings, the Value for Money conclusion, the draft management letter and the draft auditors report. Any further update on the status of the audit work will be given verbally at the meeting.

Legal Implications

27. There are no direct legal implications arising from this report.

Financial Implications

28. There are no direct financial implications arising from this report.

Risk Management Implications

29. There are no risk implications.

Equalities Implications / Public Sector Equality Duty

30. There are no equalities implications / public sector equality duty implications.

Council Priorities

31. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 25th June 2019	X	Chief Financial Officer
Name: David Hodge Date: 25th June 2019	X	on behalf of the* Monitoring Officer

Name: Charlie Stewart Date: 2nd July 2019	X	Corporate Director

Ward Councillors notified:	**NO**

Section 4 - Contact Details and Background Papers

Contact: Paul Gower, Interim Technical Accounting Manager (Tel: 020 8424 1335 – internal ext 2335)

Background Papers: None

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Statement of Accounts

2018 - 2019

SUBJECT TO AUDIT

Harrow COUNCIL
LONDON

London Borough of Harrow
Statement of Accounts
2018 - 2019

1. Narrative Report

Message from the Director of Finance

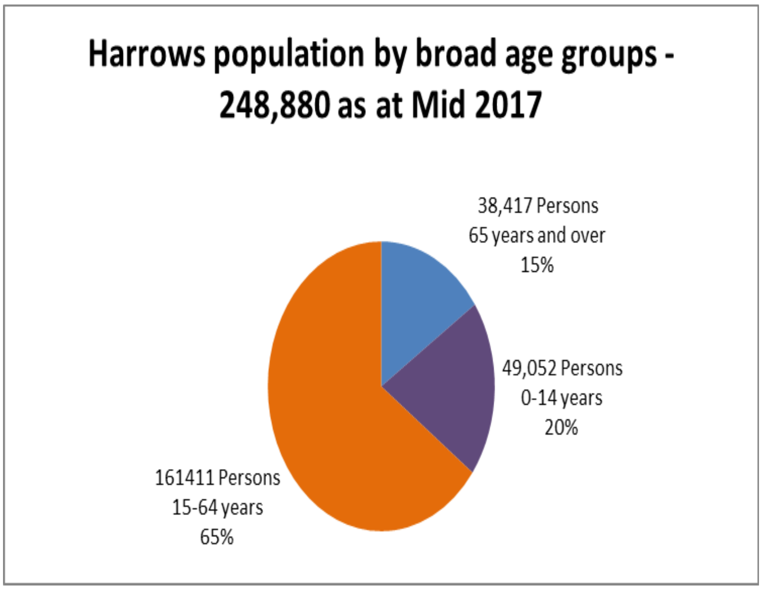
As the Council's statutory Chief Finance Officer, I have pleasure in writing the Narrative Report to Harrow Council's Statement of Accounts for 2018-19. The Narrative Report provides an analysis of Council performance during the year, an explanation of the financial results included in the Statement of Accounts and an overview of the future outlook beyond 2018-19.

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of the Statement of Accounts is to provide information on the Council's financial position and performance, and to give confidence to stakeholders that public money has been used to provide value for money services and has been accounted for in an appropriate manner.

This report includes the following sections:

1.1 An Introduction to Harrow
1.2 Review of the year including Financial Performance of the Council
1.3 Outlook for the Future
1.4 Explanation of the Financial Statements
1.5 Statement of Accounts
1.6 Receipt of Further Information and Acknowledgements

1.1 An Introduction to Harrow



Harrow is one of the most diverse places in the country. It is the 12th largest London Borough in terms of geographical area with a population of approximately 248,880 as at 30th June 2017. Harrow covers an area of approximately 50 sq km (just under 20 square miles) and over a quarter of the borough consists of open space, much of which is designated green belt or Metropolitan Open Land. Harrow has a strong entrepreneurial tradition with over 12,500 businesses located in the borough. It is well connected to London and the rest of the UK via the M1, M25 and M40 motorways and easily accessible for Heathrow Airport.

Key Facts about the Council

Harrow Council provides a range of services to the local community. Its vision and priorities are directed by the political leadership and implemented by the Corporate Strategic Board (CSB).

Harrow, in common with the majority of authorities in England, operates a 'Leader and Cabinet' model as its political management structure. This means that a Councillor is elected Leader of the Executive (Cabinet) by the Authority. The Leader has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

Organisational Structure

The Corporate Strategic Board (CSB) comprises the Council's Senior Management Team. This team is made up of the Council's Corporate Directors and Statutory Officers. There have been a number of changes in the Senior Management Team in 2018-19 although the structure has not changed and the CSB comprises:

Chief Executive

Corporate Director - Community and Regeneration

Corporate Director - People's

Corporate Director - Resources

Director of Finance

Director of Legal & Governance

Director of Adult Social Services

Director of Public Health

The CSB manages the delivery of Council services, improvements and future plans for Harrow. It provides managerial leadership and supports the elected Members in developing strategies and reviewing the Council's effectiveness of providing value for money services to the public. The Council is structured as follows:

Community	**People's Directorate**
Environment and Culture	Adult Social Care
Commissioning and Commercial	Public Health
Housing	Commissioning and Schools
Regeneration	Children and Young People's Services
Planning Services	**Resources and Commercial**
Economic Development and Research	Revenues and Benefits
	Customer Services and IT
	Finance and Assurance
	Strategic Commissioning
	Procurement
	Human Resources
	Legal and Governance

1.2 Summary of the Financial Performance of the Council

Revenue Budget

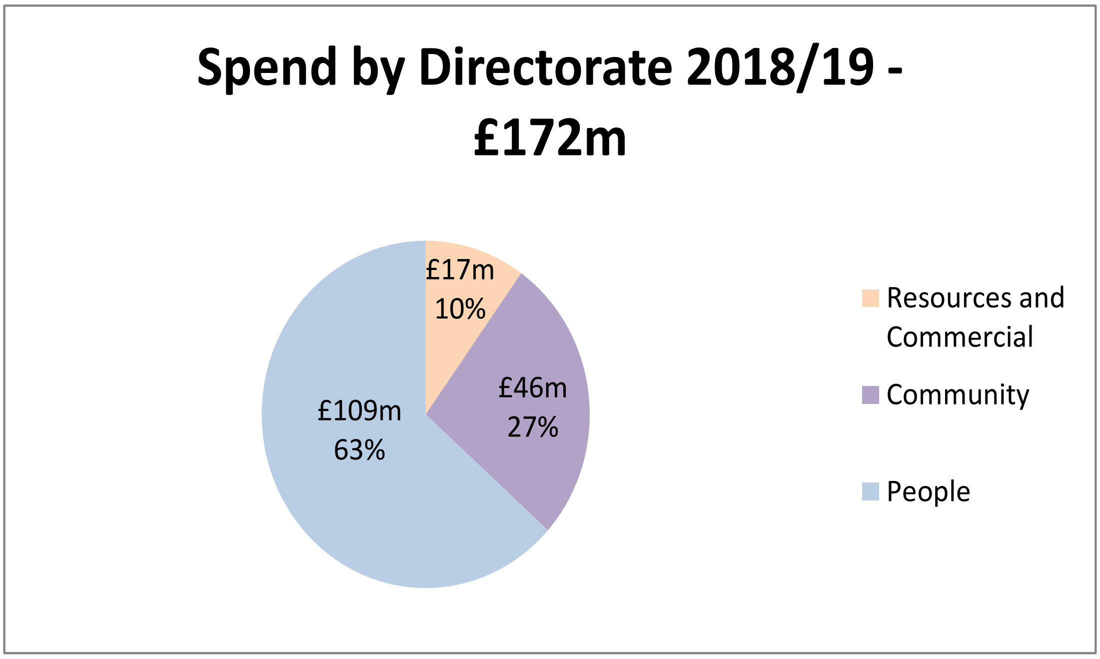
During the year the Council delivered its services within the approved budget of £168.9m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures. This resulted in a balanced outturn position after contributing just under £11m into reserves. Of this £11m, £2.4m has been carried forward to be spent in 2019-20, leaving the reminder of £8.6m earmarked to help fund the 2019-20 budget and to fund capacity needed to implement future savings and organisational transformation.

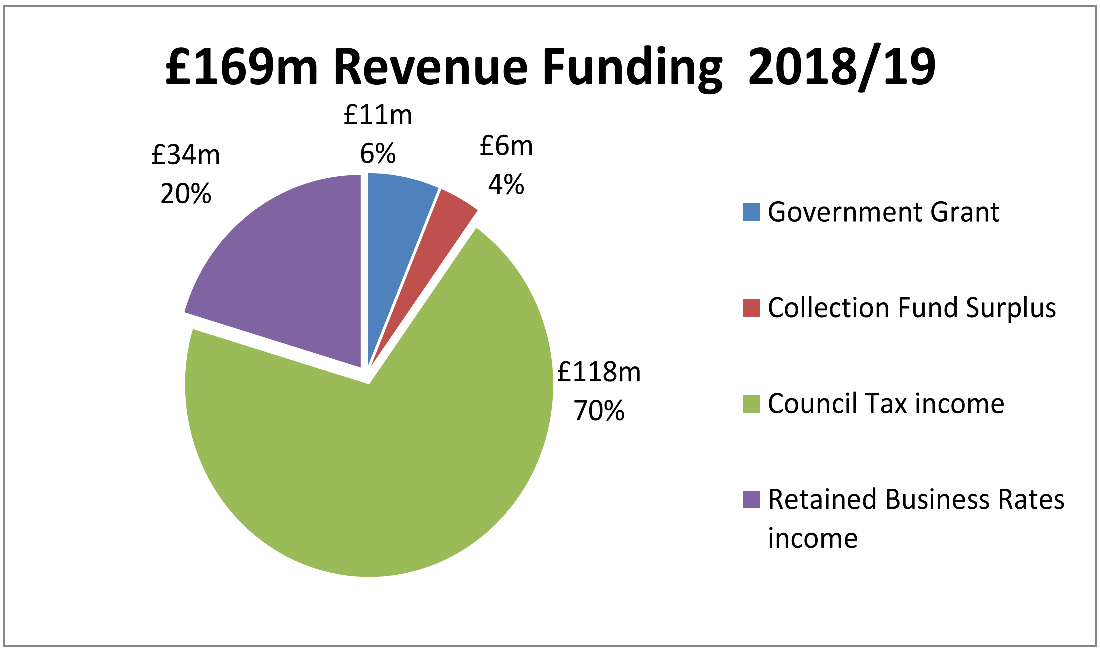
The Council has maintained its General Fund Balances at just over £10m in 2018-19. This maintains the Council's capacity to manage risks arising in future years from continuing demographic pressures, the economy, welfare reforms and further changes to Central Government funding.

Earmarked Reserves have increased from £31.7m to £53m in 2018-19 as set out in note 5.7.

The final outturn position for the year compared to the revised budget is set out below:

		2018-19	
	Budget £000	**Actuals £000**	**Variation £000**
Directorate costs			
People - Adult Services and Public Health	63,541	67,687	4,146
People - Children and Families	42,321	40,971	(1,350)
Community	44,784	45,618	834
Resources and Commercial	17,647	17,446	(201)
Total - Directorate	**168,293**	**171,722**	**3,429**
Other operating income			
Contingencies, Corporate Items and Non-service grants	4,462	(6,460)	(10,922)
Capital Financing and Interest	(1,138)	(6,133)	(4,995)
Net Expenditure	**171,617**	**159,129**	**(12,488)**
Use of Capital Receipts Flexibility	(2,700)	(1,200)	1,500
Net Expenditure	**168,917**	**157,929**	**(10,988)**
Transfer to Reserves:			
Unspent sums Carried Forward to 2019-20	0	2,385	2,385
Contribution to Reserves	0	8,603	8,603
Net Expenditure	**168,917**	**168,917**	**0**
Funded by :			
Government Grant	(10,582)	(10,582)	0
Collection Fund Surplus	(6,093)	(6,093)	0
Council Tax income	(117,804)	(117,804)	0
Business Rates income	(34,438)	(34,438)	0
Total	**(168,917)**	**(168,917)**	**0**
Surplus for the year		0	
General Fund balance at 31 March 2019		**10,008**	





Capital Programme 2018-19

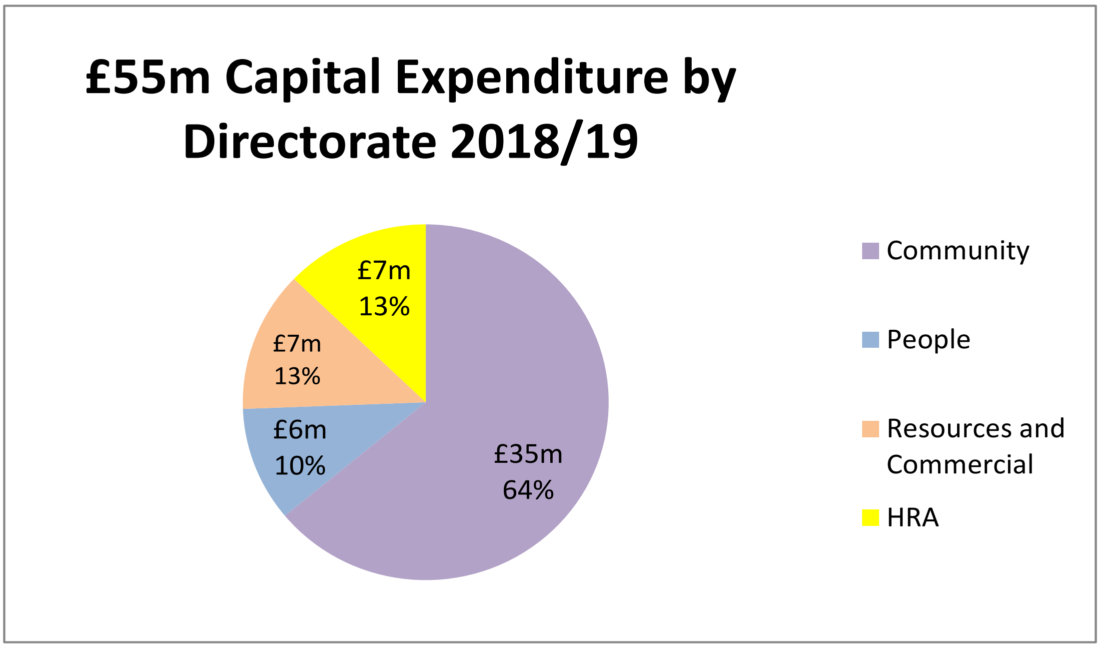
During 2018-19 the Council invested £55m on developing or acquiring capital assets. This was mainly funded from £34m borrowing and the balance of £21m funded from external grants, section 106/CIL contributions, revenue contributions and capital receipts.

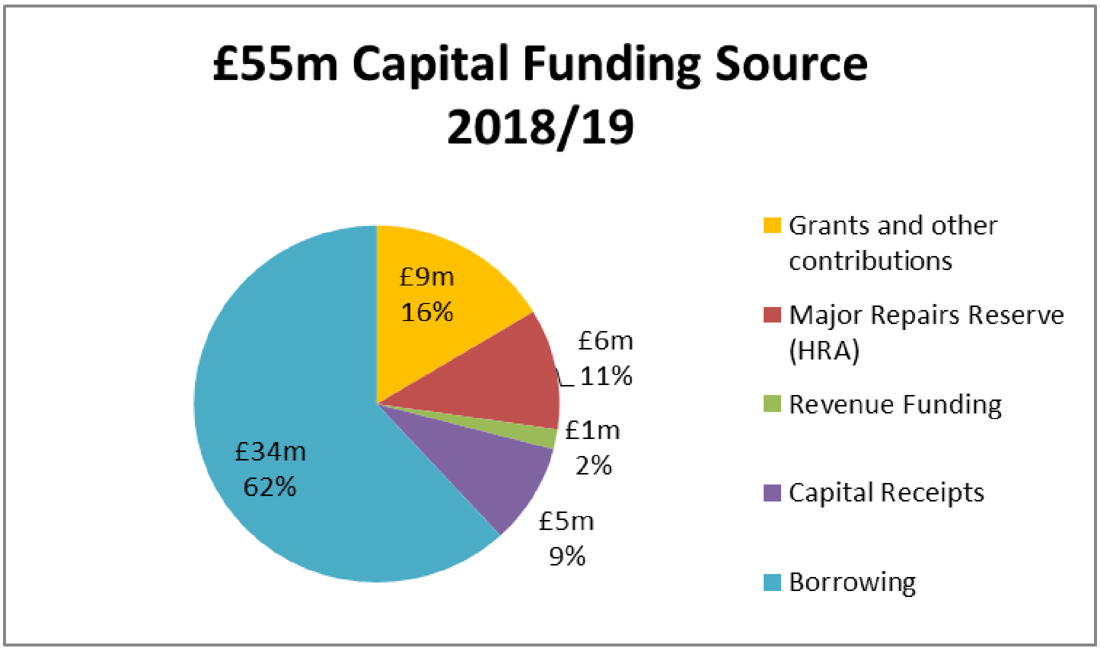
Major projects included in the capital programme were:

- Continued investment in new technology to improve Council Services;
- Acquisition of Investment Properties;
- Continuation of the Schools expansion programme;
- Highways improvement programme and Street Lighting Improvements;
- Continuation of the programme to redevelop the central depot
- Redevelopment of Vernon Lodge and Atkins House
- Improvements to parks and playgrounds;

- Upgrade of the CCTV Infrastructure;
- Purchase of new transport fleet;
- Provision of disabled facility grants to private sector tenants;
- Improvements to the Council's housing stock;
- Provision of new Council Homes;
- Design and Feasibility Studies for the Regeneration Programme;
- Completion of the Gayton Road project with the Council retaining 125 new build flats.

The following charts show how the £55m was spent by Directorate and also the how the Capital Programme was funded.





Housing Revenue Account (HRA)

The Council provides rented accommodation of 4,762 units. In 2018-19, average Council rents were £111.57 per week. The Housing Revenue Account (HRA) outturn achieved a surplus of £198k in 2018-19 which was used to establish an HRA Regeneration reserve to support the new build program and Hardship fund to support tenants affected by Government Welfare Reforms. The HRA General reserve remains unchanged at £7.5m and HRA Transformation reserve stands at £493k as at 31st March 2019.

Collection Fund

The in-year Council tax collection rate for 2018-19 was 97.34% which compared favourably with the target of 97.25%. Business rate collection was 96.04% which was below the target of 97%. Collection of Business rates income is challenging due to the large number of small businesses in the borough. The overall position for the Collection Fund is a net surplus of £3.2m against an estimated surplus of £2.4m. This net variance of £0.8m was mainly as a result of higher than expected council tax yield from significantly higher levels of new properties having come on stream and the Council Tax Support scheme having spent less than anticipated.

Treasury Management

The main focus for Treasury Management is to maintain the value of investments, to ensure cash balances are maintained in a way to support the capital programme and maintain an adequate level of working capital, to seek optimum returns within these parameters and to minimise borrowing costs. The investment portfolio achieved an average return of 0.40% reflecting the short duration of investments held during the year.

During 2018-19, there was a net increase in borrowing of £22m. A £10m loan was repaid on maturity. £30m of market loans were refinanced and replaced by £30m borrowing from the Public Works Loan Board Total Borrowing at year end (both short term and long term borrowing) was £346m and the average interest rate was 4.1%. The strategy to fund capital expenditure was to use cash balances in-year, in recognition of the unfavorable gap between investment returns and borrowing costs.

Pensions

The Pension Fund is maintained at a level to meet the Council's long-term liability for pension benefits. The Fund's net assets increased to £851.3m, almost entirely due to the increase of £35.2m in the market value of investments. The Fund's investments return for the year was 6%.

The financial statements include the relevant pension costs and provisions required to reflect the pension accounting arrangements under the International Accounting Standards (IAS19). For balance sheet purposes, the Council's estimated liabilities for retirement benefits exceeded the assets in the relevant funds by £406m at 31st March 2019. This is £51m more than the net liabilities of £355m twelve months earlier (see note 5.38.5).

The impact on council tax, however, is dependent on the actuarial valuation of the Pension Fund carried out every three years. The strategy is to achieve 100% funding over 20 years and to provide stability in employer contribution rates by spreading increases over a period of time. At the last valuation, carried out in March 2016, the fund was assessed as being 74% funded, corresponding to a shortfall of £228m. The Council's contribution rate for the financial year 2018-19 was 16%, plus a cash contribution of £6.3m, which brought the overall contribution rate to 24% for the year.

Harrow's 2018-19 Achievements

The Council's key achievements for the year are set out below and follow the three strategic themes from the Harrow Ambition 2020 - Working Together to Make a Difference for Harrow, which is the Council's strategic plan for the years up to 2020:

Build a Better Harrow

- The refreshed gym at Harrow Leisure Centre, after an investment of £400k in new equipment, went live in January 2019. Fitness memberships at the leisure centre reached 6,888 by the end of 2018-19 (6,563 by the end of 2017-18).
- Following the successful pilot in Q3, the food waste collection from flats was fully rolled out during 2018-19, as part of the Waste Review implementation.
- The Council's new state of the art transport fleet, including emission-free electric vehicles, launched in January 2019.
- Cabinet in February 2019 approved the detailed Homes for Harrow programme, to provide 639 new genuinely affordable council homes, and agreed the letting of a contract for 26 new homes for Council rent at Chichester Court.
- Harrow Arts Centre has been awarded £760k from the Mayor of London's Good Growth Fund 2, which will help turn existing redundant buildings into artists' workspaces and make improvements to the public realm.
- All pupils who requested a school place and were out of school were offered a place by the October school census 2018. This ensures that schools and the local authority receive the maximum funding available as Central Government funding is based on the pupils on roll as of the October census.
- Harrow's school performance continues to be amongst the best in the country and there is continued improvement in the Early Years and educational outcomes for Children Looked After (standards and progress). A positive annual meeting with Ofsted regarding schooling and education in Harrow took place in December 2018.

Be More Business-like and Business Friendly

- The commercial team successfully launched the Meals on Wheels service for Hammersmith & Fulham. This 7 day-a-week service, with three vans operating out of the Civic Centre, has proved successful with their residents.
- The level of customer enquiries managed through self-service channels is now over 90%.With nearly 11% of total transactions, the MyHarrow Account now has over 128,000 active accounts.

Protect the Most Vulnerable and Support Families

- The Violence, Vulnerability and Exploitation (VVE) team has been commended as a model of best practice by Ofsted and other regulators and the Youth Offending Team is performing well against the Youth Justice Board outcome measures.
- Some 324 units for older people requiring Extra Care settings are now planned, with 109 units in the pipeline ready for 2020-21, following approval of a new strategy by Cabinet in November 2018.

1.3 Outlook for the Future

The Council, along with the rest of local government, faces continuing financial challenges in the coming years:

- There have been ongoing funding reductions from Central Government which has meant the Council has seen it's Revenue Support Grant reduce from £52m in 2013-14 to £1.6m in 2019-20 – a reduction of 97%.
- Increases in demand for services such as Children's services, Adult Social Care and temporary accommodation as a result of homelessness, as well as inflationary pressures.
- The Government has consulted on a Fair Funding Review for Local Government and there will be a Spending review, both originally intended for implementation from April 2020. Current intelligence states that these will be delayed creating uncertainties in future funding levels.

The Council has responded to these challenges to date by identifying efficiencies and looking at ways to innovate service delivery in accordance with a savings programme agreed by Full Council in February 2019 for the Financial Years 2019-20 to 2021-22. Over this period 2019-20 to 2021-22, further savings of £10.3m have been included in the Medium Term Financial Strategy (MTFS). Even with these savings already identified, the Council faces budget gaps of £16.8m in 2020-21 and £9.3m in 2021-22.

In 2019-20 a Revenue budget of £167.1m was set along with a 4.99% increase in Council Tax which was approved by the Council in February 2019. The 4.99% increase reflected a 2.99% increase in respect of the traditional council tax increase and 2.0% for the Adult Social Care precept (ASC).

The General Fund Balance as at 31st March 2019 remains just above £10m (£10.008m) and the Earmarked Reserves are £53m at 31st March 2019, which compares with £31.7m at the 1st April 2018. As pressures on the Council's finances continue, it is anticipated that these Reserves will need to be monitored closely to ensure that they are adequate and proportionate to the risks faced by Harrow.

All councils, not just Harrow, continue to find themselves in a very uncertain and volatile situation with a significant number of external events, beyond the Council's control, adversely impacting on funding and demand for Harrow services. The impact of Brexit remains uncertain and it is not possible to quantify the financial impact which could arise as a result of possible interest rates and inflation rate changes.

There is no likelihood of any positive change expected in Central Government's funding levels to Local Government from either the fair funding or spending review. This continues to create a challenging environment for the very real role that local government plays in the local community and the positive impact that the Council can have on people's quality of life.

The major influences on the finances going forward are:-

- ➢ The continued reduction in Government funding, Government reforms, demand and inflationary pressures;
- ➢ An increase in population. Although the latest population estimates only show the population to be 183 higher than last year, it is around 8,400 higher than the 2011 mid-year population estimates;
- ➢ Continuing high demand for Adult Social Care and Children's Services;
- ➢ Increased pressures in providing temporary accommodation in the Housing General Fund;
- ➢ There is a significant new build Programme in the Housing Revenue Account and any substantial increase in the cost of borrowing could render one or more schemes to become unviable. In addition there are economic uncertainties driven by Brexit which are expected to impact upon inflation rates and therefore could impact on the housing market in terms of the supply of materials and labour.

The 3 year budget (2019-20 to 2021-22) was set to address the financial challenges faced by the Council and to set out its plans for financial sustainability. This 3 year budget will be refreshed annually to ensure it accurately reflects the ongoing challenges faced.

1.4 Explanation of the Financial Statements

The Statements are prepared on a going concern basis, that is, they are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

The Statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements. Proper accounting practices represent compliance with the following:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2018-19;
- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

1.5 The Statement of Accounts

- **Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the Council and the Chief Finance Officer.
- **Comprehensive Income and Expenditure Statement (CIES)** shows the true economic cost of providing services in the year, valued in accordance with proper accounting practices. Differences between the true economic cost of providing services and the level of expenditure allowed by regulations to be funded by local taxation and dwelling rents are explained in the EFA.
- **Movement in Reserves Statement (MiRS)** shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The Total Comprehensive Expenditure and (Income) line shows the true economic cost of providing the Council’s services, more details of which are shown in the CIES.
- **Balance Sheet** shows the value of the assets and liabilities recognised by the Council as at 31st March 2019, valued in accordance with proper accounting practices. The net value of these assets and liabilities is matched by the value of the Council’s reserves. Usable Reserves can be used to provide services, subject to any statutory limitations on their use. Unusable Reserves cannot be used to provide services. These include reserves holding unrealised gains and losses on assets, which will only become available to provide services if the assets are sold, and reserves holding timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.
- **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. Cash flows from operating activities show how the operations of the Council are funded by way of taxation, grant income and receipts from services provided by the Council. Cash flows from investing activities shows cash flows intended to contribute to the Council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
- **Housing Revenue Account (HRA)** shows the true economic cost in the year of providing housing services, valued in accordance with proper accounting practices. Differences between the true economic cost of providing housing services and the level of expenditure allowed by regulations to be funded by rental income is explained in the Statement of Movement on the HRA Balance.

- **The Collection Fund** is an agent's statement reflecting the Council's statutory obligation to maintain a separate Collection Fund. The statement shows tax income collected from local taxpayers and the distribution of this money to the Council, the Government and the GLA.
- **Annual Governance Statement** sets out the framework within which the effectiveness of the Council's internal controls (including financial controls) are managed and reviewed each year. The review reports on significant weaknesses, areas identified for improvement and the actions taken to strengthen these areas.
- **The Pension Fund Account** provides information about the financial position, performance and financial adaptability of the Fund. It shows contributions to the Council's Pension Fund for employees during the year, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund.

1.6 Receipt of further Information and acknowledgements

If you would like to receive further information about these accounts, please do not hesitate to contact me at the Finance Division, Resources and Commercial Directorate, Harrow Council (Dawn.Calvert@harrow.gov.uk).

The production of the Statement of Accounts would not have been possible without the exceptional hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues from the Finance Team and other services, who assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

D. Calvert

Dawn Calvert CPFA
Director of Finance
16th July 2019

2 Statement of Responsibilities

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;
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets; and
- Approve the statement of accounts (delegated to the Governance, Audit, Risk Management and Standards Committee (GARMS Committee)).

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the local authority Code.

The Director of Finance has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification by the Director of Finance:

I certify that the Statement of Accounts as set out in this document presents a true and fair view of the financial position of the Council as at 31st March 2019 and its income and expenditure for the year ended 31st March 2019.

D. Calvert

Dawn Calvert CPFA
Director of Finance
16th July 2019

Governance, Audit, Risk Management and Standards Committee Certificate for the Approval of Accounts

These accounts were considered and approved by the Governance, Audit, Risk Management and Standards Committee (GARMSC) at the meeting held on 16th July 2019.

Signed on behalf of London Borough of Harrow Council.

Councillor David Perry
Chairman (GARMSC)
16th July 2019

3 Audit Opinion & Certificate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HARROW

TO BE INCLUDED ON COMPLETION OF AUDIT

Lucy Nutley

For and on behalf of Mazars LLP, Statutory Auditor

Chartered Accountants

Tower Bridge House, St Katherine's Way, London, E1W 1DD

July 2019

4 Presentation of Financial Statements

4.1 Comprehensive Income and Expenditure Statement

2017-18 Gross Expenditure (Restated) * £000	2017-18 Gross Income (Restated) £000	2017-18 Net Expenditure /(Income) £000		Notes	2018-19 Gross Expenditure £000	2018-19 Gross Income £000	2018-19 Net Expenditure /(Income) £000
100,227	(33,887)	66,340	People - Adult Services and Public Health		103,799	(38,181)	**65,618**
208,614	(159,308)	49,306	People - Children and Families		218,301	(167,324)	**50,977**
90,001	(48,985)	41,016	Community **		93,019	(49,065)	**43,954**
193,417	(170,456)	22,961	Resources and Commercial		184,473	(164,006)	**20,467**
26,935	(32,459)	(5,524)	Housing Revenue Account	6.1	25,892	(31,554)	**(5,662)**
619,194	(445,095)	174,099	**Cost of Services**		625,484	(450,130)	**175,354**
14,023	0	14,023	Other Operating Income and Expenditure	5.8	42,398	0	**42,398**
25,796	(4,695)	21,101	Financing and Investment Income and Expenditure	5.9	31,458	(5,564)	**25,894**
0	(217,278)	(217,278)	Taxation and Non-Specific Grant Income	5.10	0	(186,932)	**(186,932)**
		(8,055)	**(Surplus) Deficit on Provision of Services**				**56,714**
		(21,990)	(Surplus) Deficit on revaluation of property, plant & equipment	5.23.1			**14,720**
		(36,394)	Remeasurements of net pension liability	5.23.4			**30,239**
		(58,384)	**Other Comprehensive (Income) and Expenditure**				**44,959**
		(66,439)	**Total Comprehensive (Income) and Expenditure**				**101,673**

* The comparative figures have been changed by moving debtor impairment costs of £1,096k from Cost of Services expenses to Financing and Investment Expenditure to reflect updated disclosure requirements

** Regeneration is part of Community from 2018-19

4.2 Movement in Reserves Statement (MiRS)

	General Fund Balance £000	Housing Revenue Account £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017 brought forward	(10,008)	(6,894)	(40,147)	(22,649)	(4,828)	(19,568)	(104,094)	(363,047)	(467,141)
Movement in reserves during 2017-18									
Total Comprehensive Expenditure and (Income) (Note 4.1)	(6,139)	(1,916)	0	0	0	0	(8,055)	(58,384)	(66,439)
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	3,054	1,261	0	4,030	586	(7,970)	961	(961)	0
Net (Increase)/Decrease	(3,085)	(655)	0	4,030	586	(7,970)	(7,094)	(59,345)	(66,439)
Other movements *	3,085	75	(3,165)	0	0	0	0	2	0
(Increase)/Decrease in 2017-18	0	(580)	(3,165)	4,030	586	(7,970)	(7,099)	(59,343)	(66,442)
Balance at 31 March 2018 carried forward (Note 4.3)	**(10,008)**	**(7,474)**	**(43,312)**	**(18,619)**	**(4,242)**	**(27,538)**	**(111,193)**	**(422,390)**	**(533,583)**
Balance at 31 March 2018 brought forward (Note 4.3)	(10,008)	(7,474)	(43,312)	(18,619)	(4,242)	(27,538)	(111,193)	(422,390)	(533,583)
Movement in reserves during 2018-19									
Total Comprehensive Expenditure and (Income) (Note 4.1)	**52,428**	**4,286**	**0**	**0**	**0**	**0**	**56,714**	**44,959**	**101,673**
Adjustments between accounting basis & funding basis under regulations (Note 5.6)	**(75,177)**	**(4,460)**	**0**	**481**	**(1,471)**	**997**	**(79,630)**	**79,630**	**0**
Net (Increase)/Decrease	**(22,749)**	**(174)**	**0**	**481**	**(1,471)**	**997**	**(22,916)**	**124,589**	**101,673**
Other movements **	**22,749**	**174**	**(22,923)**	**0**	**0**	**0**	**0**	**0**	**0**
(Increase)/Decrease in 2018-19	**0**	**0**	**(22,923)**	**481**	**(1,471)**	**997**	**(22,916)**	**124,589**	**101,673**
Balance at 31 March 2019 carried forward (Note 4.3)	**(10,008)**	**(7,474)**	**(66,235)**	**(18,138)**	**(5,713)**	**(26,541)**	**(134,109)**	**(297,801)**	**(431,910)**

* The small addition errors in this row correct historical rounding errors

4.3 Balance Sheet

31-Mar-18 £000		Notes	31-Mar-19 £000
1,208,485	Property Plant and Equipment	5.11	**1,162,918**
27,448	Investment Property	5.13	**34,728**
39,094	Long Term Debtors	5.15	**39,075**
1,275,027	**Long Term Assets**		**1,236,721**
7,750	Short Term Investments	5.14	**11,105**
43,783	Short Term Debtors	5.16	**33,399**
5,140	Cash and Cash Equivalents	5.17	**12,652**
56,673	**Current Assets**		**57,156**
(14,198)	Short Term Borrowing	5.18	**(47,564)**
(82,836)	Short Term Creditors	5.19	**(74,298)**
(4,157)	Provisions	5.20	**(5,780)**
(101,191)	**Current Liabilities**		**(127,642)**
(6,124)	Provisions	5.20	**(6,052)**
(314,416)	Long Term Borrowing	5.14	**(302,451)**
(370,792)	Other Long Term Liabilities	5.21	**(420,507)**
(5,594)	Capital Grants Receipts in Advance	5.33.3	**(5,315)**
(696,926)	**Long Term Liabilities**		**(734,325)**
533,583	**Net Assets**		**431,910**
(111,193)	Usable Reserves	5.22	**(134,109)**
(422,390)	Unusable Reserves	5.23	**(297,801)**
(533,583)	**Total Reserves**		**(431,910)**

4.4 Cash Flow Statement

2017-18 £000		Notes	2018-19 £000
8,055	Net (deficit)/surplus on the provision of services	4.1	**(56,714)**
40,098	Adjustments to net deficit on the provision of services for non cash movements	5.24.1	**94,649**
(29,164)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	5.24.1	**(11,012)**
18,989	Net cash flow from Operating Activities		**26,923**
(38,713)	Investing Activities	5.24.2	**(40,118)**
(10,252)	Financing Activities	5.24.3 & 4	**20,707**
(29,976)	Net increase/(decrease) in cash and cash equivalents		**7,512**
35,116	Cash and cash equivalents at the beginning of the reporting period	5.17	**5,140**
5,140	Cash and cash equivalents at the end of the reporting period	5.17	**12,652**

5 Notes to the Financial Statements

5.1 Accounting Policies

5.1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018-19 financial year and its position as at 31st March 2019. The Council is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2015, which require preparation in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Council makes use of estimation techniques as deemed appropriate to specific circumstances and these are disclosed in the accounts where material.

The accounts have been prepared in accordance with three fundamental concepts:

- Going Concern;
- Primacy of Legislative Requirements; and
- Accruals of Income and Expenditure.

Going Concern

The Statement of Accounts have been prepared on a going concern basis, that is, the accounts have been prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Primacy of Legislative Requirements

Local Councils derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of the Council's accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall take precedence.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue is recognised when goods or services are transferred to an external customer in accordance with the performance obligations in the contract;
- Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be collected due to non-payment or default, the balance not expected to be collected is written down and a charge made to revenue.

5.1.2 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5.1.3 Material Items of Income and Expense

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5.1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Where a change in accounting policies is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5.1.5 Charges to Revenue for Non-Current Assets

Services, support services, trading accounts and the Housing Revenue Account (HRA) are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation or amortisation attributable to the assets used by the relevant service; and
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make Minimum Revenue Provision (MRP) from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses are therefore replaced by the MRP contribution in the General Fund, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Capital charges to the HRA are made in accordance with the Item 8 Determination. The HRA is not required to contribute MRP. Instead, depreciation charged to the HRA is transferred to the Major Repairs Reserve to be used to fund future HRA capital expenditure.

5.1.6 Accounting for Council Tax and NDR

Billing Authorities in England are required by statute to maintain a separate Collection Fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NDR). Billing Authorities act as an agent in respect of that proportion of Council Tax and NDR Income collected on behalf of preceptors.

Council Tax collected belongs proportionately to the Council and the Greater London Authority. NDR collected by the Council belongs to the Council (64%) and to the Greater London Authority (36%).

The Council's share of Council Tax and NDR is recognised in the Comprehensive Income and Expenditure Statement. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

5.1.7 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries and wages, paid annual leave, paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs of a restructuring which include the payment of termination benefits.

Post-Employment Benefits

Employees of the Council are members of the following pension schemes:

- The Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pensions Scheme, administered by the Council.

The schemes provide defined benefits to members earned as employees who worked for the Council.

However, the arrangements for the teachers' scheme mean that the Council's share of net liabilities for these benefits cannot ordinarily be separately identified. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Comprehensive Income and Expenditure Statement is charged with employer contributions payable in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme.
The liabilities of Harrow Council Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the Actuary (based on the indicative rate of return on high quality corporate bonds).

The assets of Harrow Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value current bid price.

The change in the net pension liability is analysed into the following components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the service segments for which the employees worked;
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Net Interest Cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is debited or credited to the Pensions Reserve; and
- Contributions paid to the Councils' pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the actual pension amounts payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This means that there are appropriations in the Movement in Reserves Statement to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

5.1.8 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

5.1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. Regulations allow the impact on the General Fund Balance of these gains and losses to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified and measured on a basis that reflects the business model for holding the financial assets and their cash flow characteristics. The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Losses on debtors are recognised only on a lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

5.1.10 Intangible Assets

The Council does not hold material intangible assets.

5.1.11 Government Grants, Contributions and Donated Assets

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that must be met by the recipient as specified, or the grant must be repaid.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (Creditors or Capital Grants Receipts in Advance). When conditions are satisfied, the grant or contribution is credited to the relevant service segment line (revenue grants and contributions attributable to specific services) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where revenue grants that have been credited to the Comprehensive Income and Expenditure Statement are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund Balance to an Earmarked Reserve in the Statement of Movement in Reserves. A transfer back is made in future years to match expenditure as it is incurred.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

5.1.12 Investment Property

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently revalued annually at fair value, based on the amount at which the asset could be sold in an orderly transaction between market participants at the measurement date. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

5.1.13 Joint Operations

The Council discloses pooled budgets and other joint operations where they are material. The pooled budget notes disclose all income and expenditure incurred under the arrangements. The Comprehensive Income and Expenditure Statement and the Balance Sheet include only the Council's share of income and expenditure.

5.1.14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet after the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a contribution equal to the amount applied to write down the lease liability is made from revenue funds in accordance with statutory requirements. Depreciation and revaluation and impairment losses are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

5.1.15 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

5.1.16 Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage Assets are generally recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below:

- Scheduled ancient monuments and war memorials are excluded from the balance sheet as there is either no information available on cost, or it is not practicable to obtain a valuation at reasonable cost; and
- Civic insignia are de-minimis for inclusion in the balance sheet.

5.1.17 Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as PPE.

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it increases the value of the asset and that it yields benefits to the council and the services it provides for more than one financial year.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

The gain is then reversed out of the General Fund to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets and assets under construction – depreciated historical cost;
- Council dwellings – current value, determined using the basis of existing use value for social housing (Existing Use Value - Social Housing (EUV-SH));
- Surplus assets – current value, determined as fair value based on the amount at which the asset could be sold in an orderly transaction between market participants;
- All other property assets – current value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV); and
- Assets that the local Council intends to hold in perpetuity and have no determinable useful life and may have restrictions in their disposal are classified as community assets, and in this instance are generally valued at a nominal £1.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, for example community schools, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

The Council has a rolling programme that ensures all PPE included in the Balance Sheet at fair value are revalued at least every five years and are reviewed at the year end to ensure that their carrying amount is not materially different from their fair value. Assets Under Construction are valued in the year that they come into use. Increases in valuations are usually matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the

carrying amount of the asset is written down against the relevant service segment line(s) in the Comprehensive Income and Expenditure Statement; and

- Amounts written down against the relevant service segments are transferred to the Capital Adjustment Account in the Movement in Reserves Statement so that there is no charge against Council Tax or the HRA.

Impairment

Assets are reviewed at 31st March each year to determine whether there is any indication that their carrying amounts are greater than their recoverable amount. Where differences between the two amounts are estimated to be material an impairment loss is recognised.

Where impairment losses are identified, they are accounted for in the same way as revaluation decreases.

Where an impairment loss is reversed subsequently, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Newly acquired or completed assets are depreciated in the year following acquisition or completion.

Depreciation is calculated on the following basis:

- Council dwellings – straight-line allocation over the useful life of the property as estimated by the valuer: generally 90 years, with the exception of material components: 15–20 years;
- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer: 20-80 years;
- Vehicles, plant, furniture and equipment: straight- line allocation 5 years;
- Infrastructure assets – straight-line allocation: 10-80 years;
- Freehold land - not depreciated;
- Community assets are held at nominal value and therefore are not depreciated; and
- Newly acquired or completed assets are depreciated in the year following acquisition or completion.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Material components are identified, valued at DRC, and depreciated separately. For Council Dwellings the Council identified the following material components:

Component	Valuation basis	Useful economic life when new
Central heating	1.2% of building net book value	15 years
Double glazing	1.7% of building net book value	15 years
Flat roof	Ranges £2,750 to £6,300	20 years
Kitchen	£5,000	15 years
Bathroom	£3,000	15 years

The Council applies the following de-minimis criteria to General Fund properties to identify material components to be depreciated:

	Criteria	De-minimis threshold
1	Main building value	The value of the building must be greater than £4m.
2	Main asset Useful Economic Life	The main asset life must be 20 years or more.
3	Component value	The value of the component must be 20% or more of the value of the main asset.
4	Component Useful Economic Life	The life of the component must be 60% or less of the life of the main asset.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

5.1.18 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest and will use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The inputs to valuation techniques used are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

5.1.19 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. PFI non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service segment in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – recognised as additions to Property, Plant and Equipment when the relevant works are carried out.

5.1.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate of the amount of the obligation can be made, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

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.

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.

5.1.21 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service segment in that year against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance.

Some reserves such as the Revaluation Reserve, Capital Adjustment Account, Collection Fund Adjustment Account, Financial Instruments Adjustment Account, Employee Benefit Reserve and Pensions Reserve are maintained for purely accounting purposes and do not represent usable resources available to the Council. Their use is governed by statutory and / or CIPFA guidance and are explained in the relevant policies.

5.1.22 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service segment in the Comprehensive Income and Expenditure Statement in the year. A transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is then made so that there is no charge against Council Tax.

5.1.23 Accounting for Schools

Community schools and voluntary aided schools are funded through Dedicated Schools Grant.

Community schools are recognised on the balance sheet as Property, Plant and Equipment. Expenditure, income, asset and liability balances for community schools are fully consolidated in the Statement of Accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over voluntary aided schools. Their assets and liabilities are not therefore included in the Council's accounts. Unspent funds belonging to the schools are included within the balance of Earmarked Reserves.

The Council does not have control over academy schools. Their asset, liability, income and expenditure balances are not included in the Council's accounts. Community schools that achieve academy status are derecognised in the balance sheet.

5.1.24 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenues and Customs. VAT receivable is excluded from income.

5.1.25 Group Accounts

The Council has interests in subsidiary companies. These interests are not material to the accounts therefore groups accounts have not been prepared. The Council's interests in subsidiary companies are disclosed in the single-entity accounts as financial assets at cost, less any provision for losses.

5.2 Critical Judgements in Applying Accounting Policies

In applying accounting policies, the Council has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

<u>Funding</u>

There is a high degree of uncertainty about future levels of funding for Local Government coupled with severe pressures on public expenditure. The Council has, however, put in place a financial strategy to mitigate these risks. As a consequence, it is the Council's view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.

5.3 Assumptions made about the future and other major sources of estimation uncertainty

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

The items on the Council's Balance Sheet for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. Adjustments to valuations and remaining useful economic lives have also been made on the basis of approved regeneration proposals. Assets valued are at fair value are estimated based on quoted prices in active markets or other observable inputs for the type of asset being valued (fair value hierarchy levels 1 and 2). The fair value of some of the Council's investment properties and surplus assets cannot be estimated based on quoted prices in active markets or other observable inputs such as similar assets in active markets. In these cases fair value is measured using the most recent valuations adjusted to current valuation by the use of indexation and impairment review (fair value hierarchy level 3).	If the useful lives of assets are reduced, depreciation expense increases and the carrying amounts of the assets fall. Any reduction in asset values will result in a reduction in the Council's overall net asset position.
Provisions	Provisions are estimated on the basis of current knowledge of the amount that will eventually be paid. It is possible that the amounts eventually paid may be more than expected.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's general fund.
Outstanding Debts	Provisions have been made for debt owed to the Council for which payment is doubtful. In the current economic climate, it is not certain that the amount provided for will be adequate.	Provisions may not be adequate where there is a deterioration in collection rates caused by default i.e. debtors not being able to pay the amounts they owe the Council. These additional costs of default would have to be met from the Council's general fund.
Business Rates	The Council must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data and the analysis of successful appeals to date as at the end of the reporting period.	If the refunds payable are higher than the provision, the difference will reduce the balance on the Collection Fund and reduce the Council's share of business rates income in future years.
Pensions Liability	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 Council with expert advice about the assumptions to be applied.	The assumptions used are reviewed yearly in respect of the calculation of the net liability and triennially in respect of the Council's pension contribution rate. Changes in assumptions may increase the net liability and future pension costs.

5.4 Accounting Standards that have been issued but have not yet been adopted

The following accounting policy changes are not yet reflected in the 2018-19 Code of Practice. They are not therefore reflected in the Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

None of these changes are expected to have a material impact on the accounts.

5.5 Expenditure and Funding Analysis

Expenditure and Funding Analysis (EFA) shows how resources and expenditure are allocated for decision making purposes between the Council's directorates. It shows how expenditure in the year is applied and funded, and compares this with the true economic cost of providing services valued in accordance with proper accounting practices as shown in the CIES. The true economic cost is different from resources and expenditure allocated for decision making purposes because amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes are specified by regulations.

2017-18				**2018-19**		
Net Expenditure Chargeable to General Fund and HRA Balances (Restated)	Adjustments between Funding and Accounting Basis (Restated) Note 5.5.1	Net Expenditure in Comprehensive Income and Expenditure Statement (Restated) **		Net Expenditure Chargeable to General Fund and HRA Balances	Adjustments between Funding and Accounting Basis Note 5.5.1	Net Expenditure in Comprehensive Income and Expenditure Statement
£000	£000	£000		**£000**	**£000**	**£000**
66,426	(86)	66,340	People - Adult Services and Public Health	**67,687**	**(2,069)**	**65,618**
39,254	10,052	49,306	People - Children and Families	**40,971**	**10,006**	**50,977**
37,834	3,182	41,016	Community ***	**45,618**	**(1,664)**	**43,954**
21,290	1,671	22,961	Resources and Commercial	**14,641**	**5,826**	**20,467**
(580)	(4,944)	(5,524)	Housing Revenue Account	**0**	**(5,662)**	**(5,662)**
164,224	9,875	174,099	**Net Cost of Services**	**168,917**	**6,437**	**175,354**
(164,804)	(17,350)	(182,154)	Other Income & Expenditure	**(168,917)**	**50,277**	**(118,640)**
(580)	(7,475)	(8,055)	**Surplus or Deficit**	**0**	**56,714**	**56,714**
(16,902)			Opening General Fund and HRA Balance	**(17,482)**		
(580)			Plus Surplus on General Fund and HRA Balance in Year	**0**		
(17,482)			Closing General Fund and HRA Balance as at 31 March *	**(17,482)**		

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

** The comparative figures for Net Expenditure in Compreensive Income and Expenditure Statement and Adjustments between Funding and Accounting Basis have been changed to reflect updated disclosure requirements for debtor impairment costs

*** Regeneration is part of Community from 2018-19

5.5.1 Note to the Expenditure and Funding Analysis - adjustments between funding basis and accounting basis under regulations

	2018-19			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(1,429)	1,433	(2,073)	**(2,069)**
People - Children and Families	6,635	6,841	(3,470)	**10,006**
Community	4,105	3,642	(9,411)	**(1,664)**
Resources and Commercial	15,133	(1,830)	(7,477)	**5,826**
Housing Revenue Account	155	604	(6,421)	**(5,662)**
Cost Of Services	24,599	10,690	(28,852)	**6,437**
Other income and expenditure	22,719	9,369	18,189	**50,277**
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	**47,318**	**20,059**	**(10,663)**	**56,714**

	2017-18			
	Adjustments for Capital Purposes £000 (Note a)	Net Pension Adjustments £000 (Note b)	Other Differences £000 (Note c)	Total Adjustments £000 (Note d)
People - Adult Services and Public Health	(881)	1,862	(1,067)	**(86)**
People - Children and Families	2,648	7,811	(407)	**10,052**
Community	14,352	1,511	(12,681)	**3,182**
Resources and Commercial	(1,297)	951	2,017	**1,671**
Housing Revenue Account	(1,989)	709	(3,664)	**(4,944)**
Cost Of Services	12,833	12,844	(15,802)	**9,875**
Other income and expenditure	(35,650)	9,382	8,918	(17,350)
(Surplus)/Deficit and Comprehensive Income and Expenditure Statement Provision of Services (Surplus)/Deficit on Provision of Services	**(22,817)**	**22,226**	**(6,884)**	**(7,475)**

Note a: Adjustments for Capital Purposes - this column includes capital grants, the minimum revenue provision, gains and losses on the sale of property, plant and equipment, movements on the balance of investment properties, depreciation, amortisation, impairments, revaluation and other gains and losses on charged to services.

Note b: Adjusts for the amount of pension current service cost charged to services which are in excess of the actual pension contributions paid.

Note c: Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

Note d: The total difference is analysed by nature in the first two columns of note 5.6: Note to the Movement in Reserves Statement.

5.6 Note to the Movement in Reserves Statement - adjustments between accounting basis and funding basis under regulations

2018-19	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(19,454)	(605)	0	0	0	20,059
Depreciation	(25,160)	(7,534)	0	0	0	32,694
Impairment	392	(100)	0	0	0	(292)
Premiums and Discounts on Debt Restructure	(3,779)	(1,837)	0	0	0	5,616
Movements in market value of Investment Properties	676	0	0	0	0	(676)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	(3,879)	0	0	0	0	3,879
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	(416)	0	0	0	0	416
Unwinding of discount on deferred capital receipts	921	0	0	0	0	(921)
Revenue expenditure funded from capital	(11,441)	(55)	0	0	0	11,496
Non Current assets written out on disposal	(31,420)	(4,114)	0	0	0	35,534
Total Adjustments to Revenue Resources	**(93,560)**	**(14,245)**	**0**	**0**	**0**	**107,805**
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	10,918	0	0	0	0	(10,918)
Capital expenditure funded from revenue balances	660	0	0	0	0	(660)
Capital grants and contributions	7,834	180	0	0	(3,563)	(4,451)
Transfer of sale proceeds credited to the CIES	171	2,862	(6,330)	0	0	3,297
Administrative cost of non-current asset disposals	0	(34)	34	0	0	0
Payment to the Housing Capital Receipts Pool	0	(757)	757	0	0	0
Use of capital receipts to fund revenue expenditure	(1,200)	0	1,200	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,534	0	(7,534)	0	0
Total Adjustments between Revenue and Capital Resources	**18,383**	**9,785**	**(4,339)**	**(7,534)**	**(3,563)**	**(12,732)**
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	6,063	0	(6,063)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	4,820	0	0	(4,820)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	4,560	(4,560)
Total Adjustments to Capital Resources	**0**	**0**	**4,820**	**6,063**	**4,560**	**(15,443)**
Total Adjustments	**(75,177)**	**(4,460)**	**481**	**(1,471)**	**997**	**79,630**

2017-18	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to Revenue Resources:						
Pension costs transferred to the Pensions Reserve	(21,518)	(709)	0	0	0	22,227
Depreciation	(22,888)	(7,681)	0	0	0	30,569
Impairment	(5,983)	(230)	0	0	0	6,213
Premiums and Discounts on Debt Restructure	397	(19)	0	0	0	(378)
Movements in market value of Investment Properties	504	0	0	0	0	(504)
Council Tax and NDR transfer to/from the Collection Fund Adjustment Account	919	0	0	0	0	(919)
Holiday pay transfer to/from the Accumulating Compensating Absences Adjustment Account	734	0	0	0	0	(734)
Unw inding of discount on deferred capital receipts	921	0	0	0	0	(921)
Revenue expenditure funded from capital	(3,524)	(554)	0	0	0	4,078
Non Current assets w ritten out on disposal	(7,334)	(3,519)	0	0	0	10,853
Total Adjustments to Revenue Resources	**(57,772)**	**(12,712)**	**0**	**0**	**0**	**70,484**
Adjustments between Revenue and Capital Resources:						
Minimum Revenue Provision	17,440	2	0	0	0	(17,442)
Capital expenditure funded from revenue balances	5,287	0	0	0	0	(5,287)
Capital grants and contributions	39,723	561	0	0	(16,739)	(23,545)
Transfer of sale proceeds credited to the CIES	146	7,083	(7,229)	0	0	0
Administrative cost of non-current asset disposals	(32)	(91)	123	0	0	0
Payment to the Housing Capital Receipts Pool	0	(1,261)	1,261	0	0	0
Use of capital receipts to fund revenue expenditure	(1,738)	0	1,738	0	0	0
Transfer of HRA resources to the Major Repairs Reserve	0	7,679	0	(7,679)	0	0
Total Adjustments between Revenue and Capital Resources	**60,826**	**13,973**	**(4,107)**	**(7,679)**	**(16,739)**	**(46,274)**
Adjustments to Capital Resources:						
Use of the Major Repairs Reserve to fund capital expenditure	0	0	0	8,265	0	(8,265)
Use of the Capital Receipts Reserve to fund capital expenditure	0	0	8,137	0	0	(8,137)
Use of Capital Grants Unapplied Account to fund capital expenditure	0	0	0	0	8,769	(8,769)
Total Adjustments to Capital Resources	**0**	**0**	**8,137**	**8,265**	**8,769**	**(25,171)**
Total Adjustments	**3,054**	**1,261**	**4,030**	**586**	**(7,970)**	**(961)**

5.7 Earmarked reserves

	Balance at 31-Mar-17 £000	Transfers Out 2017-18 £000	Transfers In 2017-18 £000	Balance at 31-Mar-18 £000	Transfers Out 2018-19 £000	Transfers In 2018-19 £000	Balance at 31-Mar-19 £000
Earmarked Reserves:							
Transformation Reserve	0	0	0	0	0	(7,526)	(7,526)
Business Rates Pool Reserve	0	0	0	0	0	(4,279)	(4,279)
Priority Initiatives	(2,534)	1,508	(800)	(1,826)	1,826	0	0
Budget Planning Reserve	(2,000)	0	(4,184)	(6,184)	0	(645)	(6,829)
Capacity Building Reserve	0	0	(1,198)	(1,198)	937	(4,000)	(4,261)
PFI Schools	(2,512)	141	0	(2,371)	0	0	(2,371)
PFI Neighbourhood Resource Centre	(1,414)	0	(89)	(1,503)	0	(49)	(1,552)
Legal Services Contingency	0	0	(500)	(500)	0	(716)	(1,216)
Projects in progress	(2,336)	2,336	(454)	(454)	454	(2,384)	(2,384)
Revenue Grant Reserve	(909)	509	(2,731)	(3,131)	1,347	(3,156)	(4,940)
Public Health	(1,123)	0	(1,079)	(2,202)	500	(425)	(2,127)
Business Risk	(2,109)	2,109	0	0	0	0	0
MTFS Implementation cost	(2,857)	416	0	(2,441)	374	0	(2,067)
CIL - Harrow	(6,133)	4,800	(4,553)	(5,886)	343	(3,405)	(8,948)
Commercialisation Reserve	(405)	50	0	(355)	0	(910)	(1,265)
Other earmarked reserves	(4,112)	1,500	(1,069)	(3,681)	1,646	(1,208)	(3,243)
Total Earmarked Reserves	(28,444)	13,369	(16,657)	(31,732)	7,427	(28,703)	(53,008)
Locally Managed School Balances	(11,703)	123	0	(11,580)	0	(1,647)	(13,227)
Total	(40,147)	13,492	(16,657)	(43,312)	7,427	(30,350)	(66,235)

Transformation, Budget Planning and Capacity Building Reserves: Resources set aside as additional contingency to support the budget.

Business Rates Pool Reserve: Income from the London Business Rates Pool that will be used to support the budget.

Priority Initiatives: Resources set aside for initiatives to deliver ongoing revenue savings.

PFI Schools and Neighbourhood Resource Centre: The balance of unspent PFI grants. These will be used to fund future payments to PFI contractors.

Projects in Progress: Resources set aside for expenditure committed but not yet incurred as at the balance sheet date.

Revenue Grants Reserve: Unspent balances of revenue grants restricted for specific purposes.

Public Health Reserve: Unspent balance of public health grant restricted to fund future public health expenditure.

MTFS Implementation Cost: Covers one off implementation and redundancy costs related to delivering the savings identified in the Medium Term Financial Strategy.

CIL – Harrow Reserve: Holds unspent Community Infrastructure Levy planning charges collected under the Planning Act 2008. The balance is restricted to fund local infrastructure projects.

Locally Managed School Balances: Unspent balances of school funding which schools can carry forward to fund future expenditure. These balances are not available to the Council for general use.

5.8 Other operating income and expenditure

2017-18 £000		2018-19 £000
	Levies	
219	London Boroughs Grants Committee	**189**
299	London Pension Fund Authority	**295**
7,960	West London Waste Authority (WLWA)	**8,226**
219	Lee Valley Regional Park Authority	**204**
189	Environment Agency	**192**
8,886	Sub Total Levies	**9,106**
1,261	Payments to the Government Housing Capital Receipts Pool	**757**
3,876	Losses/(gains) on the disposal of non current assets	**32,535**
14,023	**Total**	**42,398**

5.9 Financing and investment income and expenditure

2017-18 £000 (Restated)		2018-19 £000
16,414	Interest payable and similar charges *	**16,011**
0	Premium on debt restructure	**6,078**
9,382	Net interest on the net defined benefit liability	**9,369**
(1,384)	Interest receivable and similar income	**(1,351)**
(3,311)	Income in relation to investment properties & changes in their fair value	**(4,213)**
21,101	**Total**	**25,894**

* The comparative figure for Interest payable and similar charges has been changed by adding £1,096k of debtor impairment costs. This is to reflect updated disclosure requirements.

5.10 Taxation and non- specific grant income

2017-18 £000		2018-19 £000
(115,291)	Council tax income	**(120,857)**
(16,363)	Business Rates Retention	**(33,599)**
(13,019)	Revenue Support Grant	**0**
(21,049)	Business Rates Top-Up Grant	**(10,578)**
0	London Business Rates Pool	**(2,998)**
(4,068)	New Home Bonus Grant	**(3,482)**
(2,496)	Section 31 Grants	**(3,366)**
(1,675)	Flexible Homeless Support Grant	**(2,014)**
(3,034)	Other General Grants	**(2,023)**
(18,349)	Donated assets*	**0**
(21,934)	Capital grants and contributions (Note 5.33.2)	**(8,014)**
(217,278)	**Total**	**(186,931)**

* Primary schools funded by the Education Funding Agency

5.11 Property, plant and equipment

2018-19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2018	443,085	526,552	41,098	205,005	1	103,570	17,603	**1,336,914**	**37,404**
Reversal of accumulated depreciation on revaluation	(6,998)	(10,305)	0	0	0	0	0	**(17,303)**	0
Additions	342	9,667	12,964	11,576	428	2,114	0	**37,091**	299
Donated assets	0	0		0	0	0	0	**0**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(21,524)	6,869	0	0	0	0	(65)	**(14,720)**	1,791
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(100)	885	0	0	(493)	0	0	**292**	
Derecognition - Disposals	(4,844)	(33,718)	0	0	0	0	0	**(38,562)**	0
Derecognition - Other*	0	0	(6,198)	(3,731)	0	0	0	**(9,929)**	0
Reclassifications/ Transfer	1,643	50,331	4,733	21	65	(56,177)	(616)	**0**	5,268
At 31 March 2019	**411,604**	**550,281**	**52,597**	**212,871**	**1**	**49,507**	**16,922**	**1,293,783**	**44,762**
Accumulated Depreciation									
At 1 April 2018	(6,998)	(12,304)	(27,417)	(81,497)	0	0	(213)	**(128,429)**	(1,271)
Reversal of accumulated depreciation on revaluation	6,998	10,305	0	0	0	0	0	**17,303**	0
Depreciation charges for 2018-19	(7,248)	(9,805)	(4,691)	(10,952)	0	0	0	**(32,696)**	(554)
Derecognition - Depreciation on Disposal	730	2,298	0	0	0	0	0	**3,028**	0
Derecognition - Other*	0	0	6,198	3,731	0	0	0	**9,929**	0
Reclassification of assets	0	(41)	0	0	0	0	41	**0**	0
At 31 March 2019	**(6,518)**	**(9,547)**	**(25,910)**	**(88,718)**	**0**	**0**	**(172)**	**(130,865)**	**(1,825)**
Net Book Value									
At 31 March 2019	**405,086**	**540,734**	**26,687**	**124,153**	**1**	**49,507**	**16,750**	**1,162,918**	**42,937**
At 31 March 2018	436,087	514,248	13,681	123,508	1	103,570	17,390	1,208,485	34,554

* The gross book value of fully depreciated assets that are no longer in use.

2017-18	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant, IT and Equipment	PFI Assets Included in Property, Plant, IT and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2017	447,310	466,475	44,027	192,910	1	85,804	14,250	**1,250,777**	**35,354**
Reversal of accumulated depreciation on revaluation	(6,887)	(1,100)	0	0	0	0	0	**(7,987)**	0
Additions	2,316	28,745	2,408	15,839	456	32,088	2,799	**84,651**	22
Donated assets	0	18,330	19	0	0	0	0	**18,349**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	2,496	20,772	0	0	0	0	(1,278)	**21,990**	1,629
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(4,902)	0	0	(1,311)	0	0	**(6,213)**	357
Derecognition - Disposals	(3,304)	(8,702)	0	0	0	0	0	**(12,006)**	0
Derecognition - Other*	0	0	(8,298)	(4,126)	0	0	0	**(12,424)**	0
Reclassifications/ Transfer	1,154	6,934	2,942	382	855	(14,322)	1,832	**(223)**	42
At 31 March 2018	**443,085**	**526,552**	**41,098**	**205,005**	**1**	**103,570**	**17,603**	**1,336,914**	**37,404**
Accumulated Depreciation									
At 1 April 2017	(6,887)	(6,169)	(30,616)	(75,973)	0	0	0	**(119,645)**	(800)
Reversal of accumulated depreciation on revaluation	6,887	1,100	0	0	0	0	0	**7,987**	0
Depreciation charges for 2017-18	(7,433)	(8,378)	(5,099)	(9,650)	0	0	(8)	**(30,568)**	(471)
Derecognition - Depreciation on Disposal	435	938	0	0	0	0	0	**1,373**	0
Derecognition - Other*	0	0	8,298	4,126	0	0	0	**12,424**	0
Reclassification of assets	0	205	0	0	0	0	(205)	**0**	0
At 31 March 2018	**(6,998)**	**(12,304)**	**(27,417)**	**(81,497)**	**0**	**0**	**(213)**	**(128,429)**	**(1,271)**
Net Book Value									
At 31 March 2018	**436,087**	**514,248**	**13,681**	**123,508**	**1**	**103,570**	**17,390**	**1,208,485**	**36,133**
At 31 March 2017	440,423	460,306	13,411	116,937	1	85,804	14,250	1,131,132	34,554

* The gross book value of fully depreciated assets that are no longer in use.

5.11.1 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council dwellings – 90 years, with the exception of material components: 15–20 years;
- Other buildings – 20-80 years;
- Vehicles, plant, furniture and equipment: 5-10 years;
- Infrastructure assets – 10-80 years; and
- Freehold land - not depreciated.

5.11.2 Capital commitments

The Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment at a budgeted cost of £20.9m (£9.1m as at 31st March 2018). This expenditure will be incurred in 2019-20 and future years. The major capital commitments are as follows:

- Redevelopment of the Council's central depot £9m (£0 as at 31st March 2018)
- Procurement of vehicles £5.7m (£0 as at 31st March 2018)

5.11.3 Revaluations

The Council has a rolling programme that ensures all Property, Plant and Equipment (PPE) included in the Balance Sheet at fair value is revalued at least every five years and reviewed at year-end to ensure that the carrying amount is not materially different from fair value. Valuations were carried out internally at 1st April 2018 with the exception of surplus and investment properties which were valued at 31st March 2019. Specialist and out of borough investment properties have been valued by Crosthwaites, Fleurets and Gerald Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. In estimating fair value, regard has been given to the nature of the property by reference to its use, location, size, method of construction, age, all other relevant matters, and the prevailing market forces.

The HRA portfolio is valued in line with the 5 year rolling programme as at 1st April 2018. The Land Registry Index is used to calculate the movement in property values between 1st April 2018 and 31st March 2019. The movement in HRA asset values has been analysed in note 6.2.3.

Rolling revaluation programme:

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infra-structure Assets £000	Asset Under Construction £000	Surplus Assets £000	Total £000	Investment Property £000
Valued at historical cost	0	0	26,687	124,153	49,507	0	200,347	0
Valued at fair value:								
As at 31st March 2019	405,085	279,000	0	0	0	16,750	700,835	34,728
As at 31st March 2018	0	189,619	0	0	0	0	189,619	0
As at 31st March 2017	0	45,927	0	0	0	0	45,927	0
As at 31st March 2016	0	17,470	0	0	0	0	17,470	0
As at 31st March 2015	0	8,719	0	0	0	0	8,719	0
Total Cost or Valuation as at 31st March 2019	**405,085**	**540,735**	**26,687**	**124,153**	**49,507**	**16,750**	**1,162,917**	**34,728**

This table excludes community assets valued at £1K

5.11.4 Trust, Foundation, Voluntary Aided and Academy Schools

The Council has a number of schools that are operated by various trusts, are classed as voluntary aided schools, or have transferred to Academy status. The Council is responsible for providing funding to the schools from the Dedicated Schools Grant (DSG) and Capital Resources, with the exception of the Academies who receive funding direct from the Government.

The Trustees of these schools have control of the school buildings and associated land. The assets are therefore not shown on the Council's Balance Sheet.

5.12 Heritage assets

The Council's heritage assets are as detailed below. With the exception of the Headstone Manor Listed Buildings which are operational assets valued at Existing Use Value, these assets are not included on the balance sheet as it is either not practical to obtain a valuation, historical cost information is not available or the value of the assets is insignificant.

1. Headstone Manor Moated Site and Listed Buildings: The moat is complete and water filled, varying in width between 7m and 14m. It is believed to date from the 14th Century. Headstone Manor (Grade I) was built circa 1310 and altered/added to in the 17th and 18th Centuries. The Tithe Barn (Grade II) dates from 1506 and the Small Barn has 14th century foundations.

2. Grim's Dyke Earthwork: A linear bank and ditch which had formed a continuous earthwork from the Harrow Weald Ridge, within the grounds of the Grim's Dyke Hotel, to Cuckoo Hill (and possibly beyond).

3. Pinner Hill Ice House: Believed to date from the mid 19^{th} Century, it represents one of only two well preserved surviving ice houses in the Greater London area.

4. Pear Wood Earthwork: This earthwork is a linear bank and ditch, similar to Grim's Dyke, located within Pear Wood at Stanmore.

5. Pinner Deer Park: This represents a rare survival of ancient landscape in Greater London.

6. Civic Insignia: The Council owns items of Civic Insignia. There is a formal policy for the safe keeping and security of these items. These items are held at the Civic Centre and can be viewed by appointment through the Mayor's Office.

7. War Memorials: There are a number of war memorials situated within the Borough. The Imperial War Museum publishes a full list of all memorials on its website.

5.13 Investment properties

2017-18 £000		**2018-19** **£000**
21,763	Balance at start of the year	**27,448**
223	Reclassification of investment properties	**0**
21,986	Restated balance at 1 April	**27,448**
5,176	Additions	**6,194**
(218)	Disposals	**0**
504	Net gains from fair value adjustments	**1,086**
27,448	Balance at end of the year	**34,728**

5.14 Financial instruments

The following categories of financial instrument are carried in the Balance Sheet at amortised costs:

	Long-term		Current	
	31-Mar-19	31-Mar-18	**31-Mar-19**	31-Mar-18
	£000	£000	**£000**	£000
Investments				
Loans and receivables	**0**	0	**11,105**	7,750
Cash and cash equivalents	**0**	0	**15,306**	9,153
Total investments	**0**	0	**26,411**	16,903
Debtors				
Loans and receivables	**16,373**	16,903	**0**	0
Financial assets carried at contract amounts	**0**	0	**22,484**	25,367
Total Debtors	**16,373**	16,903	**22,484**	25,367
Borrowings				
Financial liabilities at amortised cost	**(302,451)**	(314,416)	**(50,218)**	(18,211)
Total borrowings	**(302,451)**	(314,416)	**(50,218)**	(18,211)
Other Liabilities				
PFI and finance lease liabilities	**(14,918)**	(15,501)	**(583)**	(674)
Total other liabilities	**(14,918)**	(15,501)	**(583)**	(674)
Creditors				
Financial liabilities carried at contract amount	**0**	0	**(43,653)**	(56,131)
Total creditors	**0**	0	**(43,653)**	(56,131)

The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include only balances relating to contractual arrangements and exclude balances relating to statutory debts that do not arise from contracts. Thus balances relating to Council Tax, NDR, government grants, housing benefits and outstanding parking fines etc. are excluded. The balance of short term debtors excludes £10.9m (£18.4m in 2017-18). The creditors balance excludes £30.1m (£26.7m in 2017-18). The cash and cash equivalents and current (short term) borrowings figures differ from the balance sheet because the £2.65m bank overdraft balance has been treated as current borrowings for the purposes of this note.

Gains and losses on financial instruments

Gains and losses on financial instrument balances during the year are as follows:

Financial Liabilities Measured at amortised cost 2017-18 £000	Financial Assets Loans and receivables 2017-18 £000	Total 2017-18 £000		Financial Liabilities Measured at amortised cost **2018-19** **£000**	Financial Assets Loans and receivables **2018-19** **£000**	**Total** **2018-19** **£000**
15,318	0	15,318	Interest Expenses	**15,322**	**0**	**15,322**
0	0	0	Premium on debt restructure	**6,078**	**0**	**6,078**
0	1,096	1,096	Impairment Losses	**0**	**690**	**690**
15,318	1,096	16,414	**Interest payable and similar charges**	**21,400**	**690**	**22,090**
0	(1,384)	(1,384)	Interest income	**0**	**(1,360)**	**(1,360)**
0	(1,384)	(1,384)	**Interest and investment income**	**0**	**(1,360)**	**(1,360)**
15,318	(288)	15,030	**Net gain/(loss) for the year**	**21,400**	**(670)**	**20,730**

Impairment losses on financial assets excludes losses relating to statutory debts that do not arise from contracts.

Fair value of assets and liabilities

The fair value of an instrument is an estimate of its current market value. Fair value calculations have been made using the following methodology and assumptions:

- Valuations make use of level 2 inputs i.e. inputs other than quoted market prices that are observable for the financial asset/liability;
- Accrued interest has been included in the fair value calculations;
- The fair value of trade and other receivables is taken to be the carrying value or invoiced or billed amount;
- The fair value of fixed term deposits is calculated by comparing the fixed term investment with a comparable investment with the same or similar lender for the remaining period of the deposit;
- The fair value of loans receivable is calculated using the appropriate benchmark market rate;
- The fair value of borrowing has been calculated using the appropriate premature redemption discount rate.

The comparison of carrying value with fair value where there is material difference is given below:

Carrying Amount 2017-18 £000	Fair Value 2017-18 £000	Difference 2017-18 £000		Carrying Amount 2018-19 £000	Fair Value 2018-19 £000	Difference 2018-19 £000
7,750	7,750	0	Investments	**11,105**	**11,105**	**0**
16,903	33,115	16,212	Loans and receivables	**16,373**	**33,331**	**16,958**
9,153	9,153	0	Cash and Cash	**15,306**	**15,306**	**0**
(332,628)	(549,087)	(216,459)	Borrowing	**(350,015)**	**(562,532)**	**(212,517)**

5.15 Long term debtors

31-Mar-18 £000		31-Mar-19 £000
16,391	West London Waste Authority	**16,137**
22,191	Deferred proceeds on sale of assets	**22,703**
512	Other Loans	**235**
39,094	**Total**	**39,075**

5.16 Short term debtors

31-Mar-18 £000		31-Mar-19 £000
2,180	Business Rates & Council Tax	**2,414**
38,267	Trade debtors	**27,505**
3,335	Other debtors	**3,480**
43,783	**Total**	**33,399**

5.17 Cash and cash equivalents

31-Mar-18 £000		31-Mar-19 £000
63	Cash held by the Authority	**82**
(4,013)	Bank current accounts	**(2,654)**
9,090	Short-term deposits with Banks and Building Societies	**15,224**
5,140	**Total Cash and Cash Equivalents**	**12,652**

5.18 Short term borrowing

31-Mar-18 £000		31-Mar-19 £000
(1,643)	Public Works Loan Board	(1,717)
(10,784)	Other Financial Institutions	(12,714)
(1,693)	Pension Fund	(989)
(79)	Other Loans	(32,144)
(14,198)	**Total**	**(47,564)**

5.19 Short term creditors

31-Mar-18 £000		31-Mar-19 £000
(17,222)	Business Rates & Council Tax	(8,770)
(53,788)	Trade Creditors	(51,790)
(11,826)	Other Creditors	(13,738)
(82,836)	**Total**	**(74,298)**

5.20 Provisions

	Insurance £000	Business Rate Appeals £000	Other Provisions £000	Total £000
Short Term				
Balance at 1 April 2018	(1,221)	(1,140)	(1,796)	**(4,157)**
Additional provisions made	(582)	(2,880)	(407)	**(3,869)**
Transferred to/from Long Term	(72)	0	0	**(72)**
Amounts used	775	1,140	362	**2,277**
Unused amounts reversed	0	0	41	**41**
Balance at 31 March 2019	(1,100)	(2,880)	(1,800)	**(5,780)**
Long Term				
Balance at 1 April 2018	(6,124)	0	0	**(6,124)**
Transferred to/from Short Term	72	0	0	**72**
Balance at 31 March 2019	(6,052)	0	0	**(6,052)**

Insurance: This provision is the estimated liability for insurance claims that the Council self funds, including actual claims submitted, and events for which the Council has not received a claim (incurred but not reported IBNR). The Council's insurance programme consists of a range of insurance covers in three broad classes; liability, property and motor. The Council's maximum potential liability is limited by a series of aggregate stop loss covers with the Council's insurers that are triggered when the total of all claims under the cover exceeds that amount for the period of insurance. It is Council policy not to insure "pound swapping" items (e.g. theft and "all risks" on equipment), or tree related subsidence claims. All IBNR (Incurred but not reported) amounts are calculated by the Council's actuary. The provision includes £1.53m to cover the cost of payments to Municipal Mutual Insurance in respect of future claims.

Business Rate Appeals: The provision covers the Council's share of the estimated business rate income that will be repaid due to successful appeals against the rateable value of business premises.

5.21 Other long term liabilities

31-Mar-18 £000		31-Mar-19 £000
(15,501)	PFI Lease Liability (Note 5.37)	**(14,918)**
(355,291)	IAS19 Pension Liability (Note 5.38.5)	**(405,589)**
(370,792)	**Total**	**(420,507)**

5.22 Usable reserves

31-Mar-18 £000		Note	31-Mar-19 £000
(10,008)	General Fund	4.2	**(10,008)**
(43,312)	Earmarked Reserves	5.7	**(66,235)**
(7,474)	Housing Revenue Account	6.1	**(7,474)**
(4,242)	Major Repairs Reserve	6.2.4	**(5,713)**
(18,619)	Capital Receipts Reserve	5.22.1	**(18,138)**
(27,538)	Capital Grants and Contributions Unapplied	5.22.2	**(26,541)**
(111,193)	**Total Usable Reserves**		**(134,109)**

5.22.1 Capital receipts reserve

The Capital Receipts Reserve accumulates proceeds from the disposals of land or other assets. Statute permits capital receipts to be used to fund new capital expenditure or to reduce Council indebtedness. The balance on the reserve shows the resources that have yet to be applied for these purposes at year end.

General Fund 2017-18 £000	HRA 2017-18 £000	Total 2017-18 £000		General Fund 2018-19 £000	HRA 2018-19 £000	Total 2018-19 £000
(6,655)	(15,994)	(22,649)	Balance unapplied at 1 April	**(5,031)**	**(13,588)**	**(18,619)**
(146)	(1,138)	(1,284)	Receipts in year - Others	**(3,468)**	**(375)**	**(3,843)**
0	(5,945)	(5,945)	Receipts in year - Right to Buy	**0**	**(2,487)**	**(2,487)**
32	91	123	Disposal Costs	**0**	**34**	**34**
0	1,261	1,261	Pooling payment to the MHCLG	**0**	**757**	**757**
1,738	0	1,738	Use of capital receipts to fund revenue expenditure	**1,200**	**0**	**1,200**
0	0	0	Applied during the year - others	**3,297**	**0**	**3,297**
0	8,137	8,137	Applied during the year - Right to Buy	**0**	**1,523**	**1,523**
(5,031)	(13,588)	(18,619)	**Balance unapplied at 31 March**	**(4,002)**	**(14,136)**	**(18,138)**

5.22.2 Capital grants and contributions unapplied

The Council receives various grants and contributions towards the financing of its capital programme each year. The following table details the transactions posted to the account for the period:

General Fund 2017-18 £000	HRA 2017-18 £000	Total 2017-18 £000		General Fund 2018-19 £000	HRA 2018-19 £000	Total 2018-19 £000
(16,920)	(2,648)	(19,568)	Balance unapplied at 1 April	**(24,729)**	**(2,809)**	**(27,538)**
(16,178)	(561)	(16,739)	Receipts in year	**(3,383)**	**(180)**	**(3,563)**
8,369	400	8,769	Applied during the year	**4,320**	**240**	**4,560**
(24,729)	(2,809)	(27,538)	**Balance unapplied at 31 March**	**(23,792)**	**(2,749)**	**(26,541)**

5.23 Unusable reserves

31-Mar-18 £000		Notes	31-Mar-19 £000
(165,771)	Revaluation Reserve	5.23.1	**(146,598)**
(594,007)	Capital Adjustment Account	5.23.2	**(548,291)**
6,405	Financial Instruments Adjustment Account	5.23.3	**12,021**
355,291	Pensions Reserve	5.23.4	**405,589**
(6,815)	Collection Fund Adjustment Account	5.23.5	**(2,937)**
4,710	Accumulating Compensated Absences Adjustment Account	5.23.6	**5,126**
(22,203)	Deferred Capital Receipts Reserve	5.23.7	**(22,711)**
(422,390)	**Total Unusable Reserves**		**(297,801)**

5.23.1 Revaluation reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2017-18 General Fund £000	2017-18 HRA £000	2017-18 Total £000		2018-19 General Fund £000	2018-19 HRA £000	2018-19 Total £000
(80,819)	(65,735)	(146,554)	**Balance at 1 April**	**(97,006)**	**(68,765)**	**(165,771)**
(38,854)	(3,824)	(42,678)	Upward revaluation of property, plant & equipment	**(31,873)**	**(1,318)**	**(33,191)**
16,564	0	16,564	Less: reversal of past impairments charged to Provision of Services	**14,025**	**0**	**14,025**
(22,290)	(3,824)	(26,114)	Upward revaluation of assets charged to the revaluation reserve	**(17,848)**	**(1,318)**	**(19,166)**
26,098	802	26,900	Impairment of property, plant & equipment	**25,713**	**21,905**	**47,618**
(22,546)	(230)	(22,776)	Less: impairments charged to Provision of Services	**(13,632)**	**(100)**	**(13,732)**
3,552	572	4,124	Impairments charged to the revaluation reserve	**12,081**	**21,805**	**33,886**
(99,557)	(68,987)	(168,544)	(Surplus) / Deficit on revaluation of non-current assets not posted to (Surplus) / Deficit on the Provision of Services	**(102,773)**	**(48,278)**	**(151,051)**
1,220	220	1,440	Difference between fair value depreciation and historical cost depreciation	**1,869**	**907**	**2,776**
1,331	2	1,333	Accumulated gains on assets sold or scrapped	**1,424**	**253**	**1,677**
2,551	222	2,773	Amount written off to the Capital Adjustment Account	**3,293**	**1,160**	**4,453**
(97,006)	(68,765)	(165,771)	**Balance at 31 March**	**(99,480)**	**(47,118)**	**(146,598)**

5.23.2 Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements, and for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets, under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains net revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2017-18				2018-19		
General Fund £000	HRA £000	Total £000		General Fund £000	HRA £000	Total £000
(307,531)	(263,467)	(570,998)	**Balance at 1 April**	**(325,494)**	**(268,513)**	**(594,007)**
			Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
22,494	7,679	30,173	Asset Depreciation	**25,047**	**7,534**	**32,581**
394	2	396	Leasing Depreciation	**111**	**0**	**111**
5,983	230	6,213	Asset Impairment/ (Reversal of Impairment)	**(392)**	**100**	**(292)**
7,338	3,515	10,853	Non Current assets w ritten out on Disposal	**31,420**	**4,114**	**35,534**
3,524	554	4,078	Revenue expenditure funded from capital under statute	**11,441**	**55**	**11,496**
(18,349)	0	(18,349)	Donated Assets	**0**	**0**	**0**
(1,331)	(2)	(1,333)	Revaluation reserve on disposal to the CI&E Statement	**(1,424)**	**(253)**	**(1,677)**
20,053	11,978	32,031		**66,203**	**11,550**	**77,753**
(1,220)	(220)	(1,440)	Depreciation w ritten out of the Revaluation reserve	**(1,869)**	**(907)**	**(2,776)**
18,833	11,758	30,591	Net w ritten out amount of the cost of non current assets consumed in the year	**64,334**	**10,643**	**74,977**
			Capital financing applied in the year:			
0	(8,137)	(8,137)	Use of the Capital Receipts Reserve	**(3,297)**	**(1,523)**	**(4,820)**
0	(8,265)	(8,265)	Use of the Major Repairs Reserve	**0**	**(6,063)**	**(6,063)**
(4,796)	(400)	(5,196)	Capital grants contributions credited to the CI&E Statement	**(4,451)**	**0**	**(4,451)**
(8,769)	0	(8,769)	Application of grants from the Capital Grants Unapplied Account	**(4,320)**	**(240)**	**(4,560)**
0	0	0	Reversal of use of the Capital Receipts Reserve	**3,297**	**0**	**3,297**
(17,440)	(2)	(17,442)	Minimum Revenue Provision	**(10,918)**	**0**	**(10,918)**
(5,287)	0	(5,287)	Revenue Contribution to Capital Outlay	**(660)**	**0**	**(660)**
(17,459)	(5,046)	(22,505)		**43,985**	**2,817**	**46,802**
(504)	0	(504)	Movements in the market value of Investment Properties debited/credited to the CI&E Statement	**(1,086)**	**0**	**(1,086)**
(325,494)	(268,513)	(594,007)	**Balance at 31 March**	**(282,595)**	**(265,696)**	**(548,291)**

5.23.3 Financial instruments adjustment account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums are debited and discounts credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the balance is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2017-18 £000		2018-19 £000
6,783	**Balance at 1 April**	**6,405**
0	Premiums incurred in the current year and charged to the CIES	**6,079**
	Premiums and Discounts incurred in previous years to be charged against the General Fund and HRA in accordance w ith statutory requirements:	
(397)	General Fund	**(443)**
19	HRA	**(20)**
6,405	**Balance at 31 March**	**12,021**

5.23.4 Pensions reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or pays pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid, by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

2017-18 £000		2018-19 £000
369,458	**Balance at 1 April**	**355,291**
(36,394)	Remeasurement of the net defined benefit liability	**30,239**
43,974	Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**42,803**
(21,747)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(22,744)**
355,291	**Balance at 31 March**	**405,589**

5.23.5 Collection fund adjustment account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2017-18 £000		2018-19 £000
(5,896)	**Balance at 1 April**	**(6,815)**
(919)	Amount by which council tax and NNDR income credited to CIES is different from income calculated for the year in accordance with Statute	**3,878**
(6,815)	**Balance at 31 March**	**(2,937)**

5.23.6 Accumulating compensated absences adjustment account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2017-18 £000		2018-19 £000
5,444	**Balance at 1 April**	**4,710**
(5,444)	Settlement or cancellation of accrual made at the end of the preceding year	**(4,710)**
4,710	Amounts accrued at the end of the current year	**5,126**
4,710	**Balance at 31 March**	**5,126**

5.23.7 Deferred capital receipts reserve

The Deferred Capital Receipts Reserve holds gains recognised on the disposal of non-current assets but for which settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable to finance new capital expenditure until they are received, at which point they are transferred to the Capital Receipts Reserve.

Regeneration projects 2017-18 £000	Other 2017-18 £000	Total 2017-18 £000		**Regeneration projects 2018-19 £000**	**Other 2018-19 £000**	**Total 2018-19 £000**
(21,271)	(15)	(21,286)	Balance deferred at 1 April	**(22,192)**	**(11)**	**(22,203)**
(921)	0	(921)	Regeneration Projects sale proceeds	**(921)**	**0**	**(921)**
0	0	0	Transfer to Capital Adjustment Account	**410**	**0**	**410**
0	4	4	Transfer to Capital Receipts Reserve on receipt of proceeds	**0**	**3**	**3**
(22,192)	(11)	(22,203)	**Balance deferred at 31 March**	**(22,703)**	**(8)**	**(22,711)**

The Council sold land assets to developers in 2016-17 in consideration for a number of newly-constructed dwellings and other property assets which will be transferred to Council ownership once the sites have been developed. The amount disclosed as ‘Regeneration Projects’ is the fair value of the assets the Council will receive, adjusted to account for the time value of money. Once the assets are transferred to Council ownership, the balance will be transferred to the Capital adjustment account.

5.24 Notes to the Cash Flow Statement

5.24.1 Operating activities

2017-18 £000		2018-19 £000
	The cash flows for operating activities include the following items:	
15,317	Interest payable & similar charges	**16,011**
(1,384)	Interest and Investment income	**(1,351)**
(3,311)	Other investment income	**(4,213)**
	The surplus or deficit on the provision of services has been adjusted for the following noncash movements:	
22,227	Adjustment for pension funding	**20,059**
1,548	Increase/(Decrease) in Provision	**5,018**
36,782	Impairment and Depreciation	**32,402**
(734)	Accumulated Absence	**416**
10,857	Carrying amount of non-current assets disposed	**35,534**
(18,349)	Carrying amount of donated assets	**0**
(921)	Unwinding of discount	**(921)**
(133)	Other non cash items charged to CIES	**270**
(504)	Movement in the value of investment properties	**(676)**
1,984	Billing authority Collection Fund adjustments	**(9,608)**
	Items on an accrual basis	
(14,435)	(Increase)/Decrease in Debtors	**6,919**
1,777	Increase/(Decrease) in Creditors	**5,236**
40,099	**Adjustments for non cash movements**	**94,649**
(7,229)	Proceeds from the sale of non-current assets	**(2,999)**
(21,935)	Capital grants credited to surplus or deficit on the provision of	**(8,013)**
(29,164)	**Adjustments for investment and financing activities**	**(11,012)**

5.24.2 Investing activities

2017-18 £000		2018-19 £000
(84,700)	Purchase of property, plant and equipment and investment property	**(41,829)**
(5,176)	Purchase of short-term and long-term investments	**(6,194)**
24,006	Capital grants received in year	**7,733**
7,229	Proceeds from the sale of property, plant and equipment and investment property	**2,999**
19,997	Proceeds from short-term and long-term investments	**(3,357)**
(69)	Other long term loans granted	**530**
(38,713)	**Net cash flows from Investing Activities**	**(40,118)**

5.24.3 Financing activities

2017-18 £000		2018-19 £000
(869)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(673)**
(9,383)	Repayments of short- and long-term borrowing	**21,380**
(10,252)	**Net cash flows from financing activities**	**20,707**

5.24.4 Reconciliation of liabilities arising from financing activities

	01-Apr-18 £000	Financing cash flows	Non-cash changes	31-Mar-19 £000
Long term borrowings	(314,416)	11,959	6	**(302,451)**
Short term borrowings	(14,198)	(33,339)	(27)	**(47,564)**
Lease liabilities	(125)	125	0	**0**
PFI liabilities	(16,050)	548	0	**(15,502)**
Total liabilities from financing activities	**(344,789)**	**(20,707)**	**(21)**	**(365,517)**

5.25 Expenditure and income analysed by nature

The analysis of income and expenditure by service segment on the face of the Comprehensive Income and Expenditure Statement matches the Council's Directorate structure. Alternatively, total income and total expenditure can be analysed by nature.

2017-18 £000 (Restated)	Expenditure/Income	Notes	2018-19 £000
	Expenditure		
208,022	Employee benefits expenditure		**211,821**
149,619	Housing benefits		**136,069**
197,481	Other service expenses *		**210,112**
26,385	Support service recharges (excl. employee costs)		**25,028**
37,686	Depreciation and impairment		**42,453**
39,819	Other expenditure *	5.8 - 5.9	**73,857**
659,012	**Total expenditure**		**699,340**
	Income		
(128,782)	Fees, charges and other service income		**(128,525)**
(316,312)	Revenue grants included within cost of services	5.33.1	**(321,605)**
(221,973)	Other income	5.8 - 5.10	**(192,496)**
(667,067)	**Total income**		**(642,626)**
(8,055)	**(Surplus) Deficit on Provision of Services**		**56,714**

* The comparative figures have been changed by moving debtor impairment costs of £1,096k from Other service expenses to Other expenditure to reflect updated disclosure requirements

5.26 Road charging schemes under the Transport Act 2000

The Council must keep a separate account of any income or expenditure related to parking enforcement.

2017-18 £000		2018-19 £000
(8,425)	Penalty Charge Notices	**(9,203)**
(1,169)	On street meters	**(2,911)**
(517)	Residents Permits	**(1,003)**
(10,111)	Total income	**(13,117)**
2,309	Enforcement contract/costs	**3,320**
1,242	Other expenditure	**2,823**
3,551	Total expenditure	**6,143**
(6,560)	Total (surplus) for the year ending 31 March 2018	**(6,974)**
	Utilisation of Surplus	
6,560	Concessionary fares	**6,974**
6,560		**6,974**

5.27 Pooled budgets – Better Care Fund

The Council is the lead body for the Better Care Fund (BCF) with the NHS Harrow Clinical Commissioning Group (CCG). The BCF is managed by the Health & Wellbeing Board with representatives from the Council, CCG and voluntary organisations. The purpose of the BCF is to provide care and support for vulnerable people:

2017-18 £000		2018-19 £000
	Funding provided to the pooled budget	
(11,158)	· Harrow Contribution	**(11,974)**
(9,877)	· NHS Harrow CCG Contribution	**(10,142)**
(21,035)		**(22,116)**
	Revenue Expenditure met from the pooled budget:	
9,734	· Harrow Council	**10,568**
9,877	· NHS Harrow CCG	**10,142**
19,611		**20,710**
	Capital Expenditure met from the pooled budget:	
1,424	· Harrow Council - Disabled Facilities	**1,406**
1,424		**1,406**
0	Surplus for the year	**0**

5.28 Members' Allowances

Information on the Members' Allowance Scheme may be found on the Council's website.

2017-18 £000		2018-19 £000
845	Allowances	**827**
845	Total	**827**

5.29 Remuneration

The remuneration paid to the Council's senior employees is as follows:

5.29.1 Remuneration bands

The number of employees whose remuneration, excluding pension contributions was £50,000 or more is detailed below in bands of £5,000. The bandings include only the remuneration of employees that have not been disclosed separately in the 'Senior officer remuneration' note. The number of employees that exceeded the £50,000 including redundancy or voluntary severance payments is shown in the separate 'Due to Lump Sum' column.

Remuneration band	Number of Council Employees				Number of School Staff			
	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum	Number in band	Due to Lump Sum
	2018-19	2018-19	2017-18	2017-18	2018-19	2018-19	2017-18	2017-18
£50,000 - £54,999	**68**	**4**	60	1	**54**	**0**	59	1
£55,000 - £59,999	**23**	**1**	37	0	**28**	**0**	28	2
£60,000 - £64,999	**26**	**0**	19	2	**22**	**0**	22	0
£65,000 - £69,999	**16**	**1**	11	0	**9**	**0**	4	0
£70,000 - £74,999	**21**	**0**	16	2	**12**	**0**	11	2
£75,000 - £79,999	**4**	**1**	5	1	**6**	**0**	7	0
£80,000 - £84,999	**1**	**0**	2	0	**5**	**0**	6	0
£85,000 - £89,999	**1**	**0**	3	0	**3**	**0**	5	0
£90,000 - £94,999	**3**	**1**	4	0	**6**	**0**	2	0
£95,000 - £99,999	**2**	**0**	2	0	**0**	**0**	1	0
£100,000 - £104,999	**4**	**0**	2	0	**1**	**0**	3	0
£105,000 - £109,999	**0**	**0**	1	0	**2**	**0**	0	0
£110,000 - £114,999	**1**	**0**	1	0	**0**	**0**	0	0
£115,000 - £119,999	**0**	**1**	0	0	**0**	**0**	0	0
£120,000 - £124,999	**1**	**0**	0	0	**0**	**0**	0	0
	171	**9**	163	6	**148**	**0**	148	5

5.29.2 Senior officer remuneration

Remuneration Disclosures for employees defined by Regulation as Senior Employees whose salary is £150,000 or more per year

Position Held	Notes	Salary (including Fees and Allowances)		Employers Pension Contribution		Exit payments		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£
		2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Sean Harriss (Chief Executive)	1	35,357	0	0	0	0	0	35,357	0
Paul Walker (Corporate Director - Community)	2	150,856	94,349	0	8,635	0	0	150,856	102,984
		186,213	**94,349**	**0**	**8,635**	**0**	**0**	**186,213**	**102,984**

Remuneration disclosures for Senior Officers whose salary is less than £150,000 but more than £50,000

Position Held	Notes	Salary (including Fees and Allowances)		Employers Pension Contribution		Exit payments		Total Remuneration including employers pension contributions	
		£	£	£	£	£	£	£	£
		2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Corporate Director - People (previous)	3	0	138,640	0	0	0	0	0	138,640
Corporate Director - People	4	128,416	120,380	30,820	27,196	0	0	159,236	147,576
Acting Chief Executive	5	131,402	143,341	31,536	32,968	0	0	162,938	176,309
Divisional Director - Regeneration & Planning	6	94,011	108,954	16,026	25,059	30,000	0	140,037	134,013
Director Legal and Governance	7	153,319	148,039	35,549	32,876	0	0	188,868	180,915
Director of Finance		121,471	109,579	29,153	25,203	0	0	150,624	134,782
Director of Public Health	8	0	145,289	0	20,892	0	120,462	0	286,643
Director of Adult Social Services	9	0	68,640	0	15,787	0	0	0	84,427
Acting Director of Adult Social Services	10	129,794	117,291	31,151	26,977	0	0	160,945	144,268
Divisional Director - Strategic Commissioning	11	105,778	97,486	25,387	22,422	0	0	131,165	119,908
Director of Customer Services & IT	12	72,711	71,334	17,451	16,407	0	0	90,162	87,741
		936,902	**1,268,973**	**217,073**	**245,787**	**30,000**	**120,462**	**1,183,975**	**1,635,222**

Note 1 Sean Harriss commenced on 3rd February 2019. He is not a member of the pension scheme.

Note 2 Paul Walker is not a member of the pension scheme. The 2017-18 salary includes £37,544 paid to the previous Corporate Director. The 2017-18 employers pension contributions also relate to the previous Corporate Director.

Note 3 The Corporate Director left the Council on 4th March 2018. The Corporate Director was not a member of the pension scheme.

Note 4 The Corporate Director is an existing Council employee who was acting in the role from 12th March 2018 until his permanent appointment on 14th March 2019. The salary disclosed includes an additional £12,711 for acting in the role. The 2017-18 salary is for the entire year.

Note 5 The Acting Chief Executive left the Council on 3rd February 2019.

Note 6 The Divisional Director left the Council on 31st October 2018.

Note 7 The Director's salary includes a payment of £12,579 for undertaking duties as the Council's Returning Officer and a payment of £5,199 for annual leave not taken.

Note 8 The salary of the Director of Public Health was partly funded by Barnet Council and by a number of other public bodies. The Director left the Council on 31st March 2018. The previous year comparative figure has been amended to include the Director's redundancy payment.

Note 9 The Director of Adult Social Services left the Council on 16th October 2017.

Note 10 The Acting Director of Adult Social Services is an existing Council employee who has been acting as Director from 1st November 2017. The salary includes an additional £19,140 for acting in the role. The 2017-18 salary is for the entire year.

Note 11 The Divisional Director reports directly to the Chief Executive from 6th January 2018.

Note 12 The Director reports directly to the Chief Executive from 6th January 2018.The Director works part time.

5.30 Termination benefits

The number of exit payments split between compulsory and other redundancies and the total cost per band are set out below:

Exit Payments cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of Exit Payments by cost band		Total cost of Exit Payments in each band	
	2018-19	2017-18	**2018-19**	2017-18	**2018-19**	2017-18	**2018-19**	2017-18
							£000	£000
£0 - £20,000	**16**	36	**25**	33	**41**	69	**287**	630
£20,001 - £40,000	**9**	6	**4**	8	**13**	14	**358**	417
£40,001 - £60,000	**4**	0	**0**	1	**4**	1	**187**	46
£60,001 - £80,000	**0**	4	**1**	1	**1**	5	**63**	353
£80,001 - £100,000	**0**	2	**0**	0	**0**	2	**0**	181
£120,001 - £140,000	**0**	1	**0**	0	**0**	1	**0**	135
Total	**29**	49	**30**	43	**59**	92	**895**	1762

‘Other departures agreed’ in the above table are under the Council’s Voluntary Severance Scheme.

The net value of termination benefits charged to the Cost of Services in the Comprehensive Income and Expenditure Statement is as follows:

Exit payment liabilities

2017-18 £000		**2018-19 £000**
1,597	Exit payments not provided for in 2017-18	**895**
165	Employment provision (within note 5.20)	**0**
1,762	**Included in cost of services**	**895**

5.31 External audit costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor:

2017-18 £000		2018-19 £000
	Fees payable to external auditors in respect of:	
151	External audit services carried out by the appointed auditor for the year	**116**
35	Certification of grant claims and returns for the year	**24**
186	Total	**140**

5.32 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by Department for Education and known as the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the local authority area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2018.

Details of the deployment of DSG receivable for 2018-19 are as follows:

	Central Expenditure £000	Individual Schools Expenditure £000	Total £000
Final DSG allocation 2018-19			**212,171**
Less: Academy recoupment			**(70,467)**
Final DSG after recoupment 2018-19			**141,704**
Plus: Brought forward from 2017-18			**2,969**
Less: Carry forward to 2019-20 agreed in advance			**(2,969)**
Agreed budgeted distribution in 2018-19	51,775	89,929	**141,704**
In-year adjustments	215	0	**215**
Final budget distribution for 2018-19	51,990	89,929	**141,919**
Less: Actual central expenditure	**(52,362)**		**(52,362)**
Less: Actual ISB deployed to schools		**(89,912)**	**(89,912)**
Carry forward to 2019-20	**(372)**	**17**	**(355)**
Total surplus carry forward to 2019-20			**(2,614)**

5.33 Grants income

5.33.1 Revenue grants included within the cost of services

The following revenue grants have been included within the cost of services in the comprehensive Income and Expenditure Account:

2017-18 £000	Grant	Awarding Body	2018-19 £000
(134,881)	Dedicated Schools Grant	Department for Education	**(141,770)**
(4,784)	Pupil Premium	Department for Education	**(4,587)**
(3,187)	Universal Infant Free School Meals	Department for Education	**(3,029)**
(1,543)	Private finance initiative	Education Funding Agency	**(1,543)**
(1,201)	Private finance initiative	Ministry of Housing, Communities and Local Gov.	**(1,201)**
(11,093)	Public Health	Department of Health	**(10,808)**
(121,622)	Rent Allowance	Department of Work and Pensions	**(113,997)**
(24,675)	HRA Rent Rebate	Department of Work and Pensions	**(24,948)**
(974)	Adult Social Care Grant	Ministry of Housing, Communities and Local Gov.	**(1,576)**
(1,434)	Unaccompanied Asylum Seekers Grant	Home Office - UK Border Agency	**(1,146)**
(1,725)	EFA 6th Form Funding	Young People's Learning Agency	**(2,811)**
(3,628)	Improved Better Care Fund	Ministry of Housing, Communities and Local Gov.	**(4,679)**
(5,565)	Other Grants	Various	**(9,510)**
(316,312)			**(321,605)**

5.33.2 Capital grants included within taxation and non-specific grant income

The following capital grants have been included within the cost of services in the Comprehensive Income and Expenditure Account:

2017-18 £000	Grant	Awarding Body	2018-19 £000
(12,683)	LA Capital Maintenance and Basic Need Grant	Department for Education	**(3,822)**
(1,956)	Disabled Facilities Grant	Ministry of Housing, Communities and Local Gov.	**(1,632)**
(2,187)	Local Implementation Plan	Transport for London	**(1,835)**
(816)	Section 20 & 106 income		**(277)**
(4,292)	Other		**(448)**
(21,934)	**Total Capital Grants included in Comprehensive Income and Expenditure Account**		**(8,014)**

5.33.3 Capital grants receipts in advance

2017-18 £000	Grant - Capital	Awarding Body	2018-19 £000
(3,750)	Borough Intervention Agreement	Greater London Authority	**(3,750)**
(820)	Section 106 Capital Receipts		**(751)**
(1,024)	Other Capital Grants		**(814)**
(5,594)			**(5,315)**

5.34 Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

5.34.1 United Kingdom Government and other Public Bodies

Central government has significant influence over the general operations of the Council by providing the statutory framework within which the Council operates, significant funding in the form of grants and by prescribing the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received and payments to levying bodies are disclosed in the notes to the accounts. Payments to precepting bodies are detailed in the Collection Fund and Comprehensive Income and Expenditure Statement. The Better Care Fund pooled budget is disclosed in note 5.27.

Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies.

The Register of Interests for Members can be viewed on the Harrow Council website. The register shows that Members hold various positions on the governing bodies of a number of organisations including charities, associations, academy schools and companies. In no case does the Council control any of these organisations by virtue of Members controlling their governing bodies.

The Council has significant influence over the decisions of several local charities due to a significant number of Members also being trustees on the governing body of those charities.

In 2018-19, the Council made the following payments for grants and services to these charities:

Organisation	Amount £000
Relate London North West	17
West House and Heath Robinson Museum	6

Senior officers had no material transactions with related parties to disclose during the financial year.

5.34.2 London Borough of Harrow Pension Fund

The Council is the Administering Authority for the Pension Fund.

2017-18 £000		2018-19 £000
21,371	Employers Pension Contributions to the Fund	22,579
(846)	Administration expenses paid by the Fund	(846)
1,693	Cash Due to the Fund	989

5.35 Capital Financing

Total capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources used to finance it. Capital expenditure results in an increase in the Capital Financing Requirement (CFR). CFR is thus a measure of the capital expenditure incurred historically by the Council that has yet to be financed. CFR is analysed in the bottom part of the note.

2017-18 £000		2018-19 £000
453,189	Opening Capital Financing Requirement	**494,223**
	Capital Investment	
84,651	Property, Plant and Equipment	**37,091**
5,176	Investment Property	**6,194**
225	Loan to WLWA	**0**
4,078	Revenue Expenditure Funded from Capital under Statute	**11,496**
	Sources of finance	
(8,137)	Capital receipts	**(4,820)**
(13,965)	Government grants and other contributions	**(9,011)**
	Sums set aside from revenue:	
(5,287)	· Direct revenue contributions	**(660)**
(17,442)	· Minimum Revenue Provision	**(10,918)**
(8,265)	· Major Repairs Reserve	**(6,063)**
494,223	*Closing Capital Financing Requirement*	**517,532**
	Explanation of movements in year	
58,476	Increase in unsupported borrowing	**34,227**
(17,442)	Minimum Revenue provision	**(10,918)**
41,034	*Increase in Capital Financing Requirement*	**23,309**

5.36 Leases

5.36.1 The Council as Lessee

Finance Leases

The last of the Council's finance lease contracts were terminated in 2018-19.

Operating Leases

The Council enters into operating leases, principally in respect of properties. Properties leased include Premier House, Wealdstone, with the local Primary Care Trust, as well as some libraries and car parks. In addition, the Council leases residential properties from the private sector (PSLs) for homelessness needs. Contract end dates vary, with some of the properties being long leases in excess of twenty years. PSLs are generally between 2 to 5 years in length.

The expenditure relating to minimum lease payments charged to the Comprehensive Income and Expenditure Statement during the year in relation to the operating leases is analysed below.

31-Mar-18 £000		31-Mar-19 £000
3,678	Not later than one year	**2,816**
2,671	Later than one year and not later than five years	**1,395**
2,293	Later than five years	**2,215**
8,642		**6,426**
3,044	Min. lease payments charged to revenue in 18-19	**3,710**

Comparative data has been amended to reflect improved information on PSL commitments

5.36.2 The Council as Lessor

Finance Leases

The Council has granted 125 year peppercorn leases in respect of 12 maintained schools which transferred to Academy status prior to 2018-19 under the provisions of the Academies Act 2010.

Although the legal form of the transfer arrangement is a lease, and the Council retains the freehold, the transfer of schools to Academy status are treated as in substance a disposal in the Council's balance sheet. A loss on disposal of £31.42m has been recognised in the CIES in respect of the additional transfer of 2 schools on 1 March 2019: Priestmead Primary School and Welldon Park Primary School.

Operating Leases

The Council leases out property under operating leases for the provision of community services, such as sports facilities and community centres and for economic development purposes. The Council also leases out a number of investment properties.

Operating leases have been classified as Investment Properties or Property, Plant and Equipment, generating a rental stream of £3.0m in 2018-19 (£2.1m in 2017-18).

The future minimum lease payments receivable under non-cancellable leases in future years are:

31-Mar-18 £000	Land and Buildings	31-Mar-19 £000
2,407	Not later than one year	**3,138**
8,195	Later than one year and not later than five years	**9,892**
18,081	Later than five years	**18,939**
28,683		**31,969**

5.37 Private Finance Initiative (PFI)

The Council has two PFI contracts: special schools and Neighbourhood Resource Centres (NRCs). Both contracts fall within the scope of service concession arrangements under IFRIC 12 as the use of the assets is controlled by the Council and the assets revert back to the Council on the expiration of the contracts.

Under these contracts, the Council pays a unitary charge which is subject to payment deductions for service and availability failures, and increases each year for inflation based on RPI. The Council receives an annual PFI grant from the government for each scheme. Unused amounts of grant are transferred to sinking funds to finance future PFI payments.

At the end of the contracts the assets and all rights under the agreements revert to the Council at no additional cost. The providers are required to undertake regular benchmarking exercises for certain operational costs and market test these where necessary. In the event of default by the provider the Council has the option to either re-tender the contract and pay the contractor the highest compliant tender price, or to take over the contract and pay the contractor the estimated fair value of the agreement. In the event of voluntary termination the provider is entitled to a termination sum based on the debt outstanding. The Council is entitled to receive a 50% share of any refinancing gains.

Outstanding PFI lease liabilities are as follows:

Special schools

2017-18 £000		2018-19 £000
(11,082)	Balance outstanding at start of year	(10,777)
1,322	Lease repayments during the year	1,361
(1,017)	Finance charge	(990)
(10,777)	Balance outstanding at year end	(10,406)

NRCs

2017-18 £000		2018-19 £000
(5,420)	Balance outstanding at start of year	(5,272)
597	Lease repayments during the year	615
(449)	Finance charge	(438)
(5,272)	Balance outstanding at year end	(5,095)

5.37.1 Special schools

The contract relates to two new schools for pupils with learning disabilities, and the refurbishment of a first and middle school. The contract is for the provision of the facilities on Council sites under licence to the provider. The works were phased in and the three schools were fully operational by February 2006.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
Schools					
Payable in 2019-20	1,296	956	376	57	2,685
Payable w ithin 2 to 5 years	5,334	3,414	2,017	340	11,105
Payable w ithin 6 to 10 years	8,437	3,238	3,043	60	14,778
Payable w ithin 11 to 15 years	7,337	1,392	4,970	834	14,533
Total	**22,404**	**9,000**	**10,406**	**1,291**	**43,101**

5.37.2 Neighbourhood Resource Centres (NRC)

Three Centres have been provided under the Local Improvement Finance Trust (LIFT) initiative on Council sites under licence to the provider. These became operational in May 2009.

The Council is committed to make the following payments to the contractor for the duration of the contract:

	Payment for Services £000	Interest £000	Principal Repayment £000	Contingent Rent £000	Total £000
NRC					
Payable in 2019-20	241	423	207	205	1,076
Payable w ithin 2 to 5 years	1,116	1,515	940	1,009	4,580
Payable w ithin 6 to 10 years	1,861	1,389	1,494	1,654	6,398
Payable w ithin 11 to 15 years	1,747	643	2,436	2,413	7,239
Payable in year 16	322	2	18	18	360
Total	**5,287**	**3,972**	**5,095**	**5,299**	**19,653**

5.38 Defined benefit pension schemes

5.38.1 Participation in pension scheme

The Council offers retirement benefits as part of the terms and conditions under which staff are employed. Although these benefits will not actually be paid until after employees retire, commitments to make the payments are recognised in the accounts at the time that the entitlements are earned.

The Council participates in the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to ensure that sufficient funds are held to ensure that pension liabilities are paid when they are due.

5.38.2 Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Cumulative actuarial remeasurement losses of £257m have been recognised in the Movement in Reserves Statement up to and including 2018-19 (£227m in 2017-18).

Expected employer contributions for 2019-20 are £20m, excluding any contributions in respect of unfunded benefits.

2017-18 8000		2018-19 £000
	Cost of Services:	
34,076	• current service cost	33,253
461	• past service costs	181
55	• settlements and curtailments	0
	Financing and Investment Income and Expenditure	
27,597	• interest cost	29,056
(18,215)	• interest income on scheme assets	(19,687)
43,974	Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**42,803**
	Other Post Employment Benefit Charged to the CIES	
	Remeasurements in net liability due to	
(19,263)	• changes in financial assumptions	62,359
(16,925)	• return on plan assets	(33,029)
(206)	• changes in other experience	909
(36,394)		**30,239**
7,580	Total Post Employment Benefit Charged to the CIES	**73,042**
21,747	Actual amount charged to the General Fund balance in the year	**22,744**

5.38.3 Reconciliation of present value of the scheme liabilities

The weighted average duration of the defined benefit obligation for scheme members is 16.7 years.

2017-18 £000		**2018-19 £000**
(1,102,110)	Opening balance at 1 April	(1,116,211)
(34,076)	Current service cost	(33,253)
(27,597)	Interest cost	(29,056)
(5,433)	Contributions by scheme participants	(5,548)
	Remeasurement (gains)/losses arsing from changes in:	
19,263	Financial Assumptions	(62,359)
206	Other Experience	(909)
34,116	Benefits paid	34,712
(119)	Effect of settlements	0
(461)	Past service costs	(181)
(1,116,211)	Closing balance at 31 March	**(1,212,805)**

5.38.4 Reconciliation of fair value of the scheme (plan) assets

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £53m (2017-18: £35m).

2017-18 £000		**2018-19 £000**
732,652	Opening balance at 1 April	760,920
18,215	Interest income on plan assets	19,687
16,925	Remeasurement gain/(loss)	33,029
64	Effect of settlements	0
21,747	Employer contributions	22,744
5,433	Contributions by scheme participants	5,548
(34,116)	Benefits paid	(34,712)
760,920	Closing balance at 31 March	**807,216**

5.38.5 Scheme history

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the LGPS will be made good by investment returns in excess of the assumed discount rate and by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

	2018-19 £000	2017-18 £000	2016-17 £000	2015-16 £000	2014-15 £000
Present value of liabilities	**(1,212,805)**	(1,116,211)	(1,102,110)	(933,174)	(1,002,812)
Fair value of assets	**807,216**	760,920	732,652	594,189	601,816
Net deficit in the scheme	**(405,589)**	(355,291)	(369,458)	(338,985)	(400,996)

5.38.6 Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the Projected Unit Method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Scheme liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31st March 2016.

The principal assumptions used by the actuary have been:

2017-18		2018-19
	Long-term expected rate of return on assets in the scheme:	
4.8%	Equity investments	7.0%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.2	Men	22.2
24.4	Women	24.4
	Longevity at 65 for future pensioners:	
24.0	Men	24.0
26.4	Women	26.4
	Financial assumptions:	
2.7%	Rate of increase in salaries	2.8%
2.4%	Rate of increase in pensions (CPI)	2.5%
2.6%	Rate for discounting scheme liabilities	2.4%
	Take-up of option to convert annual pension into retirement lump sum:	
50.0%	- Pre April 2008 Service	50.0%
75.0%	- Post April 2008 Service	75.0%

5.38.7 Scheme assets

LGPS assets consist of the following categories, by proportion of the total assets held. All categories are quoted in active markets:

31-Mar-18		31-Mar-19
12.0%	Debt Securities - Corporate Bonds	13.0%
2.0%	Private Equity	2.0%
8.0%	Real Estate: UK Property	9.0%
	Investment Funds and Unit Trusts:	
54.0%	Equities	53.0%
22.0%	Other	22.0%
2.0%	Cash and Equivalents	1.0%
100%		**100%**

5.38.8 History of experience gains and losses

	2018-19	2017-18	2016-17	2015-16	2014-15
	%	%	%	%	%
Differences between the expected and actual return on assets	4.09	2.22	17.35	-3.2	10.45
Experience gains and (losses) on liabilities	0.07	-0.02	1.79	1.55	0.67

5.38.9 Sensitivity of the defined benefit obligation to changes in actuarial assumptions

	Increase in present value of scheme liabilities	
	%	£000
0.5% decrease in the real discount rate	9	112,853
0.5% increase in rate of increase in salaries	1	12,090
0.5% increase in the rate of increase in pensions	8	99,210
1 year increase in member life expectancy	3 - 5	36,384 - 60,640

The sensitivity analysis has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. Changes in some assumptions may however be interrelated. Estimations in the sensitivity analysis follow the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

5.39 Teachers' Pension Scheme

The Teachers' Pension Agency (TPA) provides retirement benefits for teachers on behalf of the Department for Innovation, Universities and Skills and the Department for Children, Schools and Families.

The assets and liabilities for the Teachers' Pension Scheme cannot be identified at individual employer level. It is therefore accounted for on the same basis as a defined contribution scheme.

In 2018-19 the Council made £6.86m (£6.91m in 2017-18) of employer contributions to the TPA. The current contribution rate is 16.48% (16.48% in 2017-18).

5.40 Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's Code of Practice on Treasury Management and complies with The Prudential Code for Capital Finance in Local Authorities. As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry of Housing, Communities and Local Government's Investment Guidance for Local Authorities. In order to minimise the risk to Council resources the Strategy gives priority to security and liquidity, rather than yield.

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with non-UK banks and financial institutions unless they are rated independently with a minimum score of AAA sovereign rating, AA- long term rating, F1+ short term rating and a support level rating of 2. The Council does not rely solely on the credit ratings but also has regard to other measures including credit default swaps and equity prices when selecting commercial organisations for investment. Investments are diversified across institutions to ensure a spread of risk throughout the counterparty list. Information relating to the counterparties is constantly monitored and action taken should any institution fail to meet the minimum criteria.

The table below shows a summary of institutions with which the Council has deposits:

	Amount at 31-Mar-19	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-19	Estimated maximum exposure to default and uncollectability 31-Mar-19
	£000	%	%	**£000**
UK Banks	**24,724**	0.00	0.00	**0**
UK Money Market Funds	**1,604**	0.00	0.00	**0**
Customers	**10,558**	2.88%	27.24%	**3,952**
Total	**36,886**			**3,952**

The Council does not allow credit for customers. The financial instruments short term debtors balance is analysed by age as follows:

Amount at 31-Mar-18		Amount at 31-Mar-19
£000		**£000**
8,153	Less than three months	**8,623**
560	Three to six months	**635**
494	Six months to one year	**977**
145	More than one year	**323**
9,352	**Total Debtors**	**10,558**

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the Public Works Loans Board (PWLB) and money market for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future with Prudential Indicators included in the Treasury Management Strategy setting maximum levels of debt to mature within any financial year. This also aims to minimise the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of long term borrowing is as follows:

31-Mar-18 £000		31-Mar-19 £000
	Source of Loan:	
(218,461)	Public Works Loan Board	**(248,461)**
(95,800)	Market Loans	**(53,800)**
(155)	Other financial institutions	**(190)**
(314,416)	**Total**	**(302,451)**
	Analysis of loans by maturity:	
(12,038)	1-2 years (1.4.2020 - 31.3.2021)	**(48)**
(5,095)	2-5 years (1.4.2021 - 31.3.2024)	**(5,098)**
(5,022)	5-10 years (1.4.2024 - 31.3.2029)	**(10,044)**
(292,261)	More than 10 years (1.4.2029 onwards)	**(287,261)**
(314,416)	**Total**	**(302,451)**

The more than ten years category in the above analysis includes a £20.8m LOBO – Lender Option Borrower Option loan where the lender may ask for the rate payable to be changed. The Council has the option to either accept this increase or repay the loan in full, without penalty. In the current economic climate it is not anticipated that any of these will be called and require repayment. However, if the lender does exercise its rights, this loan can be repaid from prudential borrowing.

Market risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the (Surplus) or Deficit on the Provision of Services will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Council seeks to minimise this risk through expert advice on forecasts of interest rates received from our treasury management consultants. This is used to formulate a strategy for the year for both investments and borrowing. The Treasury Team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. Also, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The long term borrowing of the Council is held at a fixed rate and thus there would be no effect on the Comprehensive Income and Expenditure Statement, if interest rates were different from those that prevailed on the Balance Sheet date.

The average balance of investments was £39m (£59m in 2017-18). With the base rate currently fixed at 0.75%, the risk of exposure from a downwards move is low. A positive movement of 1% in rates received on average investment balances would generate additional investment income of £0.39m.

5.41 Trust funds

Trust funds do not represent assets of the Council and are therefore not included in the Balance Sheet.

The Council acts as a custodian for various trust funds. The balance of these trust funds in 2018-19 was £223k (£224k in 2017-18).

In addition the Council acts as administrator for the Edward Harvist Charity. Charity funds are held in a permanent endowment fund. Income from the investment is distributed to 5 Boroughs who then make grants to appropriate organisations and individuals for the public benefit to improve the lives of their residents. The value of Charity funds in 2018-19 was £10.6m (£10.2m in 2017-18).

6 Housing Revenue Account

6.1 Housing Revenue Account (HRA)

The account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all the transactions relating to the provision, maintenance and management of the Council's housing stock.

2017-18 £000 (Restated)		Note	2018-19 £000	£000
	Expenditure			
7,932	Repairs and maintenance		**8,351**	
10,329	Supervision and management		**9,057**	
298	Rents, rates, taxes and other charges		**373**	
7,679	Depreciation of non current assets	6.2.3	**7,534**	
230	Impairment of non-current assets		**100**	
37	Debt management costs		**37**	
26,505	**Total Expenditure**			**25,452**
	Income			
(28,109)	Dwelling rents (gross)	6.2.1	**(27,650)**	
(563)	Non-dwelling rents (gross)	6.2.2	**(591)**	
(2,322)	Charges for services and facilities		**(2,038)**	
(1,465)	Contributions towards expenditure		**(1,275)**	
(32,459)	**Total Income**			**(31,554)**
(5,954)	**Net cost of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**			**(6,102)**
430	HRA's share of Corporate and Democratic Core			**440**
(5,524)	**Net cost of HRA Services**			(5,662)
	HRA share of operating income & expenditure included in the Whole Authority Comprehensive Income & Expenditure Statement			
(3,473)	Loss (Gain) on sale of HRA Fixed Assets			**1,286**
1,261	Pooling payments in respect of Right to Buy disposals			**757**
6,406	Interest payable and similar charges *			**8,126**
(26)	Interest & investment income			**(41)**
(560)	Capital grants & contributions receivable			**(180)**
(1,916)	**(Surplus) Deficit for the year on HRA services**			**4,286**

* The comparative figures have been changed by moving debtor impairment costs of £87k from Expenditure to Interest payable and similar charges to reflect updated disclosure requirements

Statement of Movement on the HRA Balance

2017-18 £000		Note	2018-19 £000
(6,894)	**Balance on HRA at end of the previous year**		**(7,474)**
(1,916)	Surplus for the year on the HRA Income & Expenditure Statement		**4,286**
3,454	Adjustment between accounting basis and funding basis under regulations	6.2.9	**(3,123)**
1,538	Net increase or decrease before transfers from reserves		**1,163**
(2,118)	Transfer to reserves	6.2.9	**(1,163)**
(580)	**Increase in year on the HRA**		**0**
(7,474)	**Balance on HRA at end of the current year**		**(7,474)**

6.2 Notes to the Housing Revenue Account

6.2.1 Dwelling Rents Income

This is the total income due for the year after allowance is made for voids etc. At year end 0.71% of lettable properties were vacant (0.54% in 2017-18). The average de-pooled rents were £111.57 per week (£112.70 in 2017-18). There was an average rent reduction of 1% over the previous year. The average reduction, after taking into account service charges, was 0.87%.

6.2.2 Non-dwelling Rents

This includes garages. At the year-end 56.5% of garages were vacant (58.2% in 2017-18).

6.2.3 HRA Fixed Assets

	Land £000	Dwellings £000	Assets under construction £000	Shops £000	Garages £000	Community Halls £000	Non operational assets £000	**Total 2018-19 £000**
Net book value as at 1 April 2018	221,903	214,184	7,582	4,185	5,030	7,167	0	**460,051**
Revaluations and additions	(3,196)	(16,443)	2,164	445	127	212	0	**(16,691)**
Disposals	(1,948)	(2,166)	0	0	0	0	0	**(4,114)**
Gross book value as at 31 March 2019	**216,759**	**195,575**	**9,746**	**4,630**	**5,157**	**7,379**	**0**	**439,246**
Depreciation for year	0	(7,248)	0	(36)	(161)	(89)	0	**(7,534)**
Net book value as at 31 March 2019	**216,759**	**188,327**	**9,746**	**4,594**	**4,996**	**7,290**	**0**	**431,712**

The HRA portfolio has been revalued in line with the 5 year rolling programme of valuations as set out in the Accounting Policies and Revaluations note 5.11.3.

The valuation of HRA fixed assets has been prepared on the basis of Existing Use Value and calculated in accordance with the RICS Valuation – Professional Standards dated January 2014 but subject to amendment in accordance with the Department of Communities and Local Government (DCLG) Guidance for Stock Valuation for Resource Accounting 2016 (published November 2016).

A vacant possession valuation for dwellings at 1st April 2018 would have been £1,525m (£1,541m at 1st April 2017), therefore recognising the economic cost to the Government of providing Council housing at less than open market value of £1,117m (2017-18 £1,156m).

Depreciation has been charged on a straight line basis over the useful life of the property. Material components are depreciated separately. Please refer to the Accounting Policies for details.

6.2.4 Major Repairs Reserve

Councils are required to maintain a Major Repairs Reserve to fund capital expenditure. The main credit to the reserve is an amount equal to the total depreciation charge for HRA Assets. The Council has chosen to take advantage of transitional measures which permit the excess of depreciation over the Notional Major Repairs Allowance to be transferred back to revenue from the Major Repairs Reserve.

	Balance 31-Mar-18 £000	Transfer to Reserve £000	Capital Expenditure £000	**Balance 31-Mar-19 £000**
Analysis of the Movement	(4,242)	(7,534)	6,063	(5,713)

6.2.5 Capital Expenditure and Funding Statement

2017-18 £000		**2018-19 £000**
	HRA Capital Expenditure	
7,621	Dwellings & garages	4,233
4,256	New build	2,858
11,877	**Total**	**7,091**
	Financed by:	
8,265	Major Repairs Reserve	6,063
1,735	Capital receipts - Right to Buy, Affordable Housing & other	1,120
400	Contributions & Grants	240
1,477	Borrowing	(332)
11,877	**Total**	**7,091**

6.2.6 Capital Receipts

Under the Local Government and Housing Act 1989 a proportion of receipts relating to housing disposals is payable to the Government. The balance can be used for new capital investment, construction of replacement housing or set aside to reduce the Council's underlying need to borrow.

Further details are provided in note 5.22.1.

6.2.7 Pensions (IAS 19)

The HRA is charged with its share of current and past service pension costs. To ensure there is no net effect on the HRA both entries are reversed out and replaced by employers' contributions payable via an appropriation to the Pension Reserve after net operating expenditure.

Further details are provided in note 5.38.

6.2.8 Housing Revenue Account Statistics

2017-18 Total	Housing Stock	Houses	Flats	Bungalows	2018-19 Total
107	4 or more bedrooms	101	2	2	**105**
1,338	3 bedrooms	1,242	94	1	**1,337**
1,413	2 bedrooms	544	837	25	**1,406**
1,955	1 bedroom	3	1,777	134	**1,914**
4,813	LBH managed stock as at 1 April	1,890	2,710	162	**4,762**
745	Garages				**745**
1,184	Leaseholders				**1,192**
	Summary of change in stock				
4,836	Stock as at 1 April				**4,813**
	Less				
(27)	Sales				**(55)**
6	New builds				**4**
(2)	Acquisitions & Conversions				**0**
4,813	**Total HRA stock at 31 March**				**4,762**
	Measures of performance & information for disclosure notes to HRA				
£64.43	Average weekly costs per dwelling of management and maintenance				£60.20
£1.036m	Rent arrears (current and former tenants)				£1.370m
97.21%	Rent collection rate (BVPI 66a)				98.78%
1.95%	Current tenant arrears as percentage of rent roll (whether dwellings occupied or not)				2.00%
0.54%	Rent loss through voids				0.71%
£37k	Write offs in year				£58k
£718k	Provision for bad debts				£651k

6.2.9 Statement of Movement on the HRA Balance

2017-18 £000		2018-19 £000
	Adjustment between accounting basis and funding basis under regulations	
(19)	Difference between amortisation of premiums & discounts determined in accordance with the Code and those determined in accordance with statute	**(1,837)**
	Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	
3,473	Gain (Loss) on sale of HRA fixed assets	**(1,286)**
3,454		**(3,123)**
	Transfer to / (from) earmarked reserves	
	HRA share of contributions to/from Pensions reserve :	
(1,430)	Net charges made for retirement benefits in accordance with IAS19	**(1,350)**
721	Employer's contributions payable in the year	**746**
	Sums directed by the Secretary of State to be credited to the HRA that are not expenditure in accordance with the Code	
	Transfer to / (from) the Capital Adjustment Account	
(230)	Impairment	**(100)**
(554)	Revenue expenditure funded from capital resources under statute	**(55)**
561	Capital grants and contributions	**180**
(7,679)	Depreciation transfer	**(7,354)**
7,679	Transfer to the Major Repairs Reserve	**7,354**
	Transfers to/from Capital Reserves	
(1,261)	Pooling payments to MHCLG financed through capital reserves	**(757)**
75	Other	**173**
(2,118)		**(1,163)**
1,336		**(4,286)**

7 Collection Fund

This Collection Fund is an agent's statement that reflects the statutory obligations for the London Borough of Harrow, as billing authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from tax payers and distribution to Local Authorities (London Borough of Harrow and the GLA).

7.1 Statement of Income and Expenditure

2017-18		2018-19		
		Business Rates & Crossrail	Council Tax	Total
£000		£000	£000	£000
	Income			
(140,219)	Income from Council Tax	0	(148,207)	(148,207)
(61,465)	Income Collectable from Business Ratepayers	(60,897)	0	(60,897)
(1,136)	Income Collectable from Business Ratepayers - BRS	(1,113)	0	(1,113)
(202,820)	**Total Income**	(62,010)	(148,207)	(210,217)
	Expenditure			
	Apportionment of Previous year surplus			
856	Central Government	3,117	0	3,117
3,758	Harrow Council	2,834	3,259	6,093
1,118	Greater London Authority	3,495	677	4,172
	Precepts, demands and Shares			
15,890	Central Government	0	0	0
126,976	Local Demand (Harrow)	34,439	117,803	152,242
42,326	Greater London Authority	20,479	24,852	45,331
0	**Impairment of Debts/appeals**			0
8,709	Write offs of uncollectable amounts	7,362	481	7,843
1,261	Increase in bad debt provisions	93	1,366	1,459
(2,400)	Increase / (decrease) in provision for appeals	700	0	700
251	Costs of Collection	251	0	251
198,745	**Total Expenditure**	72,770	148,438	221,208
(4,075)	Movement on Fund balance: (Surplus) / Deficit for the year	10,760	231	10,991
(10,148)	(Surplus) / Deficit brought forward	(9,535)	(4,688)	(14,223)
(14,223)	**(Surplus) / Deficit carried forward**	1,225	(4,457)	(3,232)

Notes to the Collection Fund

7.1.1 Income from Council Tax

The Council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The council tax base, which is used in the tax calculations, is based on the number of dwellings in each band. This is adjusted for exemptions, discounts, disabled banding changes and council tax support. The Council Tax, as shown, reflects both Harrow Council and GLA services:

2017-18 Band D Ratio	2017-18 Property Numbers	2017-18 Council Tax £		Valuation Bands	2018-19 Band D Ratio	2018-19 Property Numbers	2018-19 Council Tax £
6/9	292	1,085.12	A =	Not exceeding £40,000	6/9	**307**	**1,125.95**
7/9	1,626	1,265.97	B =	£40,001 - £52,000	7/9	**1,728**	**1,313.61**
8/9	13,473	1,446.83	C =	£52,001 - £68,000	8/9	**13,773**	**1,501.26**
1	24,117	1,627.68	D =	£68,001 - £88,000	1	**24,305**	**1,688.92**
11/9	23,474	1,989.39	E =	£88,001 - £120,000	11/9	**23,683**	**2,064.23**
13/9	10,364	2,351.09	F =	£120,001 - £160,000	13/9	**10,503**	**2,439.55**
15/9	9,559	2,712.80	G =	£160,001 - £320,000	15/9	**9,567**	**2,814.86**
2	2,299	3,255.36	H =	£320,001 +	2	**2,324**	**3,377.84**
	85,204			**Total**		**86,190**	
	(1,704)			Adjustment for non-collection		**(1,724)**	
	83,500			**Council tax base**		**84,466**	

7.1.2 Business Rates

Business Rates are levied on non-domestic properties with the charge based on the rateable value assessed for each property. The Council acts both as an agent, collecting business rates on behalf of the GLA, and also collecting business rates for itself. From 2018-19 the Council became part of the London Business Rates Pool. Business rates collected in the Borough are split between relevant preceptors: the Council (64%), and the GLA (36%).

The total non-domestic rateable value for the London Borough of Harrow at the year-end was £141.1m (£142.5m in 2017-18). The national non-domestic rate multiplier for 2018-19 was 49.3p (47.9p in 2017-18) with a lower multiplier for small businesses at 48.0p (46.6p in 2017-18).

7.1.3 Business Rate Supplement - Crossrail

The Business Rate Supplement (BRS) is levied by the Greater London Authority to help fund Crossrail. The levy has remained at 2p on non domestic properties since its introduction in April 2010. The rateable value of properties to which it applies is £70,000 or above.

8 Annual Governance Statement

8.1 Introduction

Members and staff working for Harrow Council strive to achieve the Council's vision, priorities, values and outcomes as outlined in the Harrow Ambition Plan. Arrangements are in place to ensure that the intended positive outcomes for residents are achieved. To ensure good governance these arrangements are agreed and documented and together form the authority's governance structure.

8.2 Responsibility

Elected Members are collectively responsible for the governance of the council. The full council's responsibilities include:

- agreeing the council's constitution, comprising the key governance documents including the executive arrangements and making major changes to reflect best practice
- agreeing the policy framework including key strategies and agreeing the budget
- appointing the chief officers
- appointing committees responsible for overview and scrutiny functions, audit and regulatory matters and also for appointing Members to them.

Under the Local Government Act 2000 Harrow Council has adopted a leader and cabinet model and has established an overview and scrutiny function for Members outside the cabinet through which they can question and challenge policy and the performance of the executive and promote public debate.

The authority's governance structure is comprised of a number of key documents that aim to ensure that resources are directed in accordance with agreed policy and according to priorities as set out in the Harrow Ambition Plan, that there is sound and inclusive decision making and that there is clear accountability for the use of resources in order to achieve the desired outcomes for Harrow service users and local communities.

The governance structure, details of the annual review of governance including management assurance and partnership self-assessments that feed into the review and the Annual Governance Statement can be found on the Council's website at:
http://www.harrow.gov.uk/homepage/295/annual_review_of_governance

This currently shows the 2017/18 statement and will be updated with the draft 2018/19 statement and then the final 2018/19 statement as they are agreed.

8.3 Effectiveness of Key Elements of the Governance Framework

Each year the Council undertakes a review of its governance arrangements to ensure the delivery of good governance in accordance with the requirements of the Accounts and Audit Regulations 2015 and in accordance with Delivering Good Governance in Local Government: Framework 2016 published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (Solace).

The 2018/19 annual review of governance comprised a review of governance arrangements in place against the core and sub-principles of good governance contained in the CIPFA Framework, Management Assurance provided by each Directorate on the operation of key elements of governance during 2018/19 and a review of a selection of joint working arrangements, undertaken during 2018/19. This was achieved via a self-assessment process co-ordinated and independently reviewed by the Council's Internal Audit Service. The effectiveness of key elements during 2018/19 is covered below:

8.3.1 Behaviour of Members and Staff

Codes of Conduct that define standards of behaviour for Members and staff have been developed and are included in the Council's Constitution. Mechanisms are in place to deal with Member and staff transgressions from these codes and policies are also in place for dealing with whistleblowing and conflicts of interest. Training on the Code of Conduct for Members took place after the local elections in May 2018 and was attended by 68% of Members, further training took place in January 2019 that a further 10% attended.

The Council values were developed through workshops with staff and Members and endorsed by Cabinet and Council in February 2016. They were launched and communicated to all staff in March 2016 and have been incorporated into the staff induction programme as well as the performance appraisal process and the staff are measured against these values annually. A staff awards scheme is in place and run annually to:

- Showcase, recognise and further embed the Harrow Ambition Plan and the corporate values
- Celebrate, reward, recognise and communicate individual and team achievements

8.3.2 Compliance with Laws and Regulations

Responsibility to comply with relevant laws and regulations and internal policies and procedures rests with the Council's managers some of whom have specific statutory obligations e.g. the Head of Paid Service, Director of Children's Services, Director of Adult Social Services, the Chief Finance Officer (Section 151 Officer), the Monitoring Officer and the Director of Public Health which are outlined in Article 12 of the Council's constitution. The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law and the Chief Finance Officer is responsible for identifying any proposal, decision or course of action that will involve incurring unlawful expenditure. No significant contraventions of law or course of action that would involve incurring unlawful expenditure occurred in 2018/19.

From 25th May 2018 the main provisions of the Data Protection Act 2018 (DPA) came into force to implement the EU General Data Protection Regulation (GDPR). This is an evolution of the data protection law rather than a revolution as many of the GDPR's concepts and principles are the same as under the DPA however, there are new elements and significant enhancements of individual rights that we must take into account. In compliance with the requirements of the legislation a Data Protection Officer was appointed in August 2018 who during the year has undertaken a gap analysis of the Council's Information Asset Registers and Privacy Notices and taken action to rectify the gaps identified.

In addition mandatory online training for all staff on information governance, cyber security and the new Data Protection legislation has been developed and was introduced across the Council in October 2018. The completion rates for this training at the end of the year were however disappointing at 61%. This will be dealt with by the introduction of a meta-compliance system from May 2019 that will prevent access to IT systems unless and until mandatory training has been completed. This training has also been rolled out to Members during 2018/19 with only a 29% completion rate. To resolve this tailored face to face training is being developed and will be delivered to each political group.

The Freedom of Information Act (FOI) is a key piece of legislation that the Council is required to comply with and during 2018/19 90% of FOI requests and 85% of Subject Access Requests were dealt with within the 20 day timescale.

The Homelessness Reduction Act is another important piece of legislation that came into force from April 2018 to help tackle the significant problem of homelessness. The Act places new statutory duties on the Council and the Council's Homelessness Strategy was refreshed and approved by Cabinet in March 2018 to take account of the new duties. 'New Burdens' funding allocation was received in 2017/18 from the Government to help support the implementation of the Act and this was used to implement a new ICT system and for staff training. An Internal Audit review of the implementation of the Homelessness Act is currently in progress and will be reported on in the final AGS.

In January 2019 the Committee on Standards in Public Life published its report on local government ethical standards. The report looks at the current framework governing the behaviour of local government councillors and executives in England and makes a number of recommendations to promote and maintain the standards expected by the public. The report recommends a number of changes to legislation that will come into force in due course and makes some best practice recommendations for local authorities to consider as a benchmark of good ethical practice which they expect all local authorities can and should implement. The Committee intends to review the implementation of these in 2020. A report will be presented to the Council's Governance, Audit, Risk Management and Standards Committee in July 2019 regarding the benchmarking/implementation of the reports best practice recommendations.

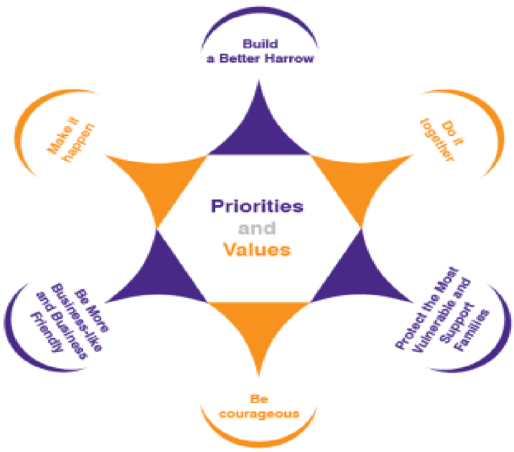
8.3.3 Acting in the Public Interest

The annual review of governance 2018/19 confirmed that the Council can demonstrate a commitment to openness and acting in the public interest. This is achieved via the implementation of a governance structure which includes codes of conduct, a corporate appraisal process, a Standards Committee, registers of interests, gifts and hospitality, a whistleblowing policy, a corporate complaints process, a Corporate Anti-fraud & Corruption Strategy, Financial Regulations and Contract Procedure Rules and a Scrutiny Function. The Council's Financial Regulations were refreshed during 2018/19, agreed by Council and included in the constitution in February 2019. A staff publication and training scheme is planned for 2019/20. The Constitution was updated three times during 2018/19 to reflect changes to Portfolio Holder roles and responsibilities, the refreshed Financial Regulations and the new Terms of Reference for the Governance, Audit, Risk Management & Standards Committee along with a number of other minor 'housekeeping' updates.

8.3.4 Communication and Consultation

Whilst a Communication Strategy/Plan was not in place for 2018/19, the Council's Communications Team worked with all parts of the Council and a wide range of partner organisations and external stakeholders on media relations, marketing, campaigns, consultations, events, publications and social media in order to assist the Council in improving its relationship with its public. This includes keeping residents informed of Council activities, engaging them in dialogue around service delivery and soliciting their views to drive change.

8.3.5 The Council's Vision



The Council's vision, and intended outcomes for residents have been developed and are contained within the Harrow Ambition Plan 2020 which was refreshed for 2018 with no significant changes.

The original plan was communicated widely across the Council and the refreshed version is available on the Council's external website.

This diagram, included in the plan, illustrates the 'golden thread' between the Council's vision and the Council's plans.

The majority of the Council's Divisions had service plans in place for 2018/19 linked to the Corporate Priorities contained in the Harrow Ambition Plan and the corporate annual appraisal process requires all individual objectives to be aligned to the Harrow Ambition plan and its strategic aims

8.3.6 Putting the Vision into Practice

The original Harrow Ambition Plan 2020, 2018 refresh, contains courses of action to be taken by the Council to implement the vision during 2018/19 and the corporate plan action plan table presented to Cabinet and to Council in February 2019 provides an update on the progress of these actions.

8.3.7 Decision-making

The Council's decision-making framework, including delegation arrangements, is outlined in the Constitution. Report templates are in use to ensure appropriate information is provided to decision makers including options considered, why a change is needed, implications of recommendations as well as risk management, legal, finance, and equalities implications. Decision reports are cleared by, or on behalf of, the Council's Monitoring Officer (legal) and the Chief Financial Officer before they are presented to the decision makers (Council, Cabinet, Committees).

8.3.8 Measuring Performance

Throughout 2018/19 the Council's strategic performance has been tracked through a quarterly cycle of reports to Directorate Improvement Boards, the Corporate Strategic Board (CSB) quarterly performance morning and the quarterly Strategic Performance report to Cabinet. Capital and revenue financial performance was also reported quarterly to the CSB, Cabinet and all Members with Treasury Management reported to Cabinet three times during the year.

The 2018/19 Management Assurance exercise confirmed that key performance indicators were in place for all Divisions within the Community, People and Resources Directorates and that these were reported in the quarterly Strategic Performance reports to CSB and Cabinet throughout 2018/19.

Performance against the Harrow Ambition Plan is measured as described above in paragraph 8.3.6.

The Home Office undertook a Stock and Security Review of the Council's Registrars Service in April 2019 and concluded that overall Harrow Council maintains 'High' security in relation to the security arrangements around the receipt, storage and use of the secure certificate stock (marriage, birth and death certificates).

Three external inspections were undertaken during 2018/19 of services provided by the Council's People Directorate: Ofsted inspected The Firs (a children's home) and rated it as 'outstanding'; the CQC inspected Bedford House (accommodation for people with learning and physical disabilities) and Kenton Road (a care home for people with mental health needs) and the overall rating for both was 'good'.

8.3.9 Roles and Responsibilities

The roles and responsibilities of Members, the most senior managers and statutory officers have been defined and documented in the constitution. After the local elections in May 2018 the new Leader of the Council made a number of changes to the roles and responsibilities of the

Portfolio Holders and these were updated and included in the Constitution in May 2018. The roles and responsibilities of other managers and staff are defined and documented in Role Profiles attached to each post.

8.3.10 Financial Management

The Council's financial management arrangements during 2018/19 conformed with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). A balanced budget was set for 2018/19 with an underspend at year-end enabling £2.2m to be transferred to reserves to support the 2019/20 budget. In the context of a significantly reduced Revenue Support Grant from Central Government and increasing demand on services, particularly social care, this demonstrates focused financial control in place throughout 2018/19. However the advice of the s151 Officer (Director of Finance) is that whilst the budget for 2019/20 is balanced there are budget gaps for 2020/21 and 2021/22 which will require robust proposals (currently in development) to address.

8.3.11 Monitoring Officer Function

The Statutory Monitoring Officer functions to report on likely contravention of any enactment or rule of law. The duties of the Monitoring Officer are outlined in Article 12 of the Council's constitution and are undertaken by the Council's Director of Legal and Governance Services. Effective arrangements were in place during 2018/19 to discharge these duties and no reports were made on any contraventions.

8.3.12 Head of Paid Service Function

The requirements of the Head of Paid Service function are also outlined in Article 12 of the Council's constitution and effective arrangements were in place for the discharge of these duties by the Interim Chief Executive until January 2019 and from February 2019 by the new Chief Executive.

8.3.13 Development Needs

Following the local government elections in May 2018, new Members received a Members Induction pack and a welcome evening was arranged for all elected members on 8 May, to cover Council values, conduct and Member interests plus a Members Marketplace was held on the 15 May to explain key Council services together with a programme of Member training in May/June 2018.

Although there was no Organisational Development Plan or Workforce Strategy in place during 2018/19 a Corporate Development Programme was in place for officers covering mandatory e-learning on information governance, cyber security and the new Data Protection legislation (see paragraph 8.3.2) and Equalities and Diversity. The programme also covered a range of optional training for staff for example a Corporate Leadership programme for first line managers funded by the Apprenticeship Levy.

8.3.14 Managing Risks

The framework for identifying and managing risks was updated during 2016/17 and consists of a series of Directorate risk registers that feed into an overarching Corporate Register that clearly identifies the owner of each risk. A refresh and refocus of the Corporate Risk Register on key risks was undertaken in Q1 2018/19 reducing 33 risks down to 8. The Corporate Risk Register was updated three times during 2018/19 for Q1, Q3 and Q4. Updates were undertaken within each quarter, rather than at the end of each quarter as in previous years, making the register more current. Each update was presented to the CSB for review and challenge and to the Governance, Audit, Risk Management & Standards Committee to assist the Committee in monitoring progress on risk management in accordance with their Terms of Reference. The Corporate Risk Strategy and the Corporate Risk Policy are currently under review with the intention of updating and streamlining them for 2019/20.

8.3.15 Counter Fraud and Anti-corruption Arrangements

The Council has a Corporate Anti-Fraud Strategy 2016-19 outlining its approach to tackling fraud that is reviewed annually. No significant changes were made to the strategy in 2018/19. The Council's Corporate Anti-Fraud Team undertook a self-assessment against the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014), during 2018/19, that reviewed progress against the five main principles within the code to improve the Council's arrangements. The result was a compliance level of 78%, an improvement from 75% in 2017/18, indicating that the authority has reached a 'good level' of performance against the code. Further actions have been built into the 2019/20 Corporate Anti-Fraud plan to improve fraud risk resilience and progress against the actions contained within the Fraud Strategy will be reported to the GARMS Committee in July 2019.

8.3.16 Scrutiny

The scrutiny function comprises an Overview and Scrutiny Committee (O&S), a Performance and Finance Sub-Committee (P&F), a Health Sub-Committee and lead Members for key areas.

The function is driven by the need to hold the Council and our partners to account for their performance and the establishment of the performance and finance sub-committee as the driver of scrutiny is a key component in ensuring that the function is focused on the issues of the greatest importance to the Council. The lead Members ensure that expertise to tackle particular areas of service delivery is maintained.

The structure is subject to regular review and is supported by meetings of the scrutiny leadership group, comprising the leads and the chairs and vice chairs of the committees, which considers agenda and review programmes, provides strategic direction for the function and overall co-ordination between the leads and committees.

During 2018/19 O&S met 8 times, P&F 3 times and Health Sub 3 times. The review programme for scrutiny covered two reviews: (i) youth violence and (ii) highways maintenance. The annual scrutiny report was presented to full Council in May 2019.

8.3.17 Internal Audit

Assurance arrangements during 2018/19 conformed with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). The Internal Audit Service is required to comply with the Public Sector Internal Audit Standards and to be reviewed externally against these standards every five years and internally annually. An external peer review in June 2017 confirmed that the service 'generally complies' with the Public Sector Internal Audit Standards and the 2018 internal assessment confirmed this assessment.

8.3.18 Audit Committee

The duties of the audit committee are undertaken by the Governance, Audit, Risk Management & Standards Committee and an Internal Audit review undertaken during 2018/19 has established it generally operates in-line with the core functions of an audit committee as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2017). An action plan has been agreed to implement the eleven recommendations made in the report and one of the key actions to update the Committee's Terms of Reference has already been implemented. The new Terms of Reference was approved by Council and included in the constitution in February 2019.

8.3.19 External Audit

During the early part of 2018/19 the authority provided timely support, information and responses to the Council's external auditors, KPMG, and properly considered their audit findings in relation to the 2017/18 accounts completed in May 2018. No recommendations were made by the auditors in relation to these accounts and all previous recommendations had been addressed. New external auditors to the authority, Mazars, were appointed via the Public Sector Audit Appointments (PSAA) for the audit of 2018/19 accounts and work is ongoing to provide them with timely support, information and responses to enable them to undertake the audit of the Council's accounts.

8.3.20 Joint Working

Joint working, working in partnership with other local authorities and other bodies, and the use of alternative delivery vehicles has increased over recent years as local government generally, and Harrow Council specifically, has coped with less resources.

The importance of good governance within these arrangements has been recognised and as part of the 2018/19 annual governance review the governance arrangements for the shared legal service (HBPL) and the authority owned trading company Smart Lettings have been reviewed and updated for 2018/19 and assurance obtained that reasonable governance arrangements are in place.

In addition the governance arrangements in place during 2018/19 for the Sancroft Partnership and the HR Shared Service are currently being assessed and will be reported on in the final AGS.

On 30th September 2018 Buckinghamshire County Council gave one year's notice, in compliance with the Inter Authority Agreements, of its intention to exit both the Human Resources & Development and the Legal Services shared service.

8.3.21 Health & Safety

Following on from the peer review of Health & Safety Management undertaken during 2016/17 a Corporate Health & Safety Strategy was developed for 2017/18 with the stated purpose to implement the findings of the peer review to ensure that the aims, objectives and outcomes are met. The strategy, approved by the GARMS Committee in July 2018, contains an action plan setting out how, when and by whom this will be achieved.

The Corporate Health & Safety Board was re-established in December 2017 chaired by the Corporate Director of Community and comprising of the Director of Finance, Divisional Directors, representatives from UNISON and GMB trades union, and Corporate Human Resources. The Board has met monthly throughout 2018/19. During 2017/18 the Board's Terms of reference was reviewed and agreed giving it a clear focus on implementing the Council's Health and Safety policy through agreed best practice, as well as developing Health and Safety management systems and procedures.

An annual H&S report was presented to the Corporate Health & Safety Board at the end of May 2018, CSB in June 2018 and to the GARMS Committee meeting in July 2018.

Funding of £80,000 was agreed for 2018/19 – 2019/20 as a one-off to create additional capacity and the expertise required to lead the implementation of the Corporate Health & Safety Strategy and action plan across the council. This has been used to appoint a Health & Safety Compliance Officer from February 2019 for 9 months.

8.4 Level of Assurance

The 2018/19 annual governance review has provided assurance that a reasonable level of governance is in place across the Council and that, other than the significant gap identified in paragraph 6, arrangements continue to be fit for purpose in accordance with the governance framework.

The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2018/19 will be included in the final AGS as work to formulate this opinion is on-going.

8.5 Previous Governance Issues

8.5.1 Health & Safety

A significant governance gap was identified in the 2016/17 and the 2017/18 statement in relation to the Corporate Health & Safety arrangements.

As detailed in paragraph 8.3.21 the implementation of the actions contained in the strategy is ongoing. The strategy and the action plan have recently been refreshed for 2019-2022 to provide a clearer understanding of the tasks to be undertaken and the timescale in which they will be undertaken and this is due to be submitted to the GARMS Committee in July 2019 for approval along with the annual report for 2018/19 which is currently being drafted. Specifically the new strategy aims to build on the work already achieved to date in improving the health and safety management systems across the Council and thereby reducing illness, ill-health damage and loss, whilst continuing to deliver services to the people within the London Borough of Harrow. The strategy provides a clear direction on the following priorities over the next three years:

- Maintaining and improving the Council's safety management system;
- Completing a series of audits, risk assessments and surveys;
- Maintaining an Asbestos survey programme;
- To support managers and staff in achieving suitable levels of health & safety competency;
- To ensure the Occupational Health Service continues to provide adequate health surveillance, return to work rehabilitation, health promotion and reduction of work-related sickness absence;
- To build on the communication and consultation arrangements to ensure staff are fully involved and committed to achieving acceptable health and safety standards;
- To encourage greater visible and active leadership on health and safety matters by managers;
- To align health and safety more closely with the overall Risk Management arrangements;
- To ensure good health and safety practice in our relationships with partners.

8.5.2 Regeneration Governance

During 2017/18 CSB identified governance weaknesses relating to the oversight, agreement and monitoring of regeneration projects within in the Council's Regeneration Programme. To address these the Building A Better Harrow Board was formed with the main purpose being to provide an overarching strategic view of regeneration in its broadest sense across the Council e.g. including regeneration of Council assets, schools, housing development plan, development of the new Council depot, and a clear understanding of the links between investment, performance and outcomes. The Board is chaired by the Corporate Director of Community and comprises the Chief Executive, Divisional Director People (representing the Corporate Director People), Director of Adult Social Care, Director of Finance, and the Monitoring Officer. It has an agreed Terms of Reference and meets monthly. A cross council working group consisting of officers with appropriate skills, knowledge and responsibility was also established to further develop and implement the organisational change programme required to implement the new governance structure during 2018/19.

In addition to this an external review of the Regeneration Strategy was undertaken during 2018/19 which led to the Council taking the time and opportunity to reset the Regeneration Programme and delivery strategy and an Internal Audit review of the governance, risk management and internal controls in place for the Regeneration Programme which led to a red assurance report and an agreed action plan to improve processes.

A management self-assessment of the implementation of the audit recommendations undertaken in March 2019 indicated that 32% of the agreed actions were on track, 41% were in progress/partially implemented, 8% were not yet due for implementation and 16% were outstanding.

A formal Internal Audit follow-up of the implementation of the agreed actions is currently underway and will be reported in the final AGS and is expected to show that significant improvement has been made to the governance, risk management and internal control processes in place for the Regeneration Programme.

Taking into account the scale of the Regeneration Programme during 2018/19, and the improvements made to the governance, risk management and internal control processes, regeneration governance is no longer considered a significant governance gap for the Council.

8.6 Significant Governance Issues

8.6.1 Health & Safety

Although action has been taken during 2017/18 and 2018/19 to reduce the governance gap identified in 2016/17 by improving the governance structure for Health & Safety further action is still required during 2019/20 to embed best practice both corporately and within directorates, as one Council. A follow-up of the Health & Safety action plan referred to in para 8.3.21 above, undertaken by the Council's Internal Audit service during 2018/19, confirmed that 43% of agreed actions have been fully or substantially implemented with 7% partially implemented and 50% yet to be implemented. The risk that this presents to the Council is included in the Corporate Risk Register and as at Q4 2018/19 was rated as a medium likelihood with a critical impact and as such is flagged as a red risk. Consequently, at this time, it is recognised that there remains a significant governance gap in the Council's Health & Safety arrangements.

This will be addressed by the full implementation of the action plan contained within the Health & Safety Strategy document which has taken longer than originally anticipated as the Health & Safety culture needs to be rebuilt and embedded across the entire Council and more realistic timescales for this are contained within the proposed new strategy 2019-2022 as referred to in paragraph 8.5.1 above.

8.7 Conclusion

Updates on the implementation of the agreed actions to address the significant governance gap identified in paragraph 6 above will be provided to the Governance, Audit, Risk Management and Standards Committee throughout 2019/20 until fully implemented and will be formally reported upon as part of the next annual review of governance.

8.8 Declaration

This annual governance statement is based on a self-assessment of the authority's governance arrangements supported by evidence provided by management and independent assurance provided by the Head of Internal Audit, Ofsted and the CQC and is signed on behalf of the authority by:

……………………………………	…………………………………………..
Graham Henson	Sean Harriss
Leader	Chief Executive
Date: 16 July 2019	

Pension Fund Financial Statements

Pension Fund Certificate

Harrow Council

Pension Fund Accounts 2018-19

I certify that the Financial Statements set out in Section 9 present fairly the financial position of the Pension Fund as at 31st March 2019 and its income and expenditure for the year.

D. Calvert

Dawn Calvert CPFA
Director of Finance
16th July 2019

Harrow Pension Fund Account as at 31 March 2019

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the fund		
(30,883)	Contributions	7	(31,757)
(8,003)	Transfers in from other pension funds	8	(3,247)
(80)	Other income		(44)
(38,966)			**(35,048)**
33,274	Benefits	9	33,527
34,763	Payments to and on account of leavers	10	3,097
0	Other Expenditure		0
68,037			**36,624**
29,071	**Net (additions)/withdrawals from dealings with members**		**1,576**
5,525	Management expenses	11	5,731
34,596	**Net (additions)/withdrawals including fund management expenses**		**7,307**
	Return on investments		
(11,327)	Investment income	12	(8,907)
(32,824)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(33,601)
(44,151)	**Net return on investments**		**(42,508)**
(9,555)	**Net (increase)/decrease in the net assets available for benefits during the year**		(35,201)
(806,576)	**Opening net assets of the scheme**		(816,131)
(816,131)	**Closing net assets of the scheme**		**(851,332)**

Net Assets Statement as at 31 March 2019

31 March 2018 £'000		Notes	31 March 2019 £'000
	Investment assets		
803,842	Investments	14	846,294
7,310	Derivative contracts	14	3,156
53	Cash with investment managers	14	45
811,205			**849,495**
4,643	Cash deposits	14	3,068
815,848			**852,563**
	Investment liabilities		
(1,445)	Derivative contracts	14	(2,400)
814,403			**850,163**
2,003	Current assets	21	1,579
(275)	Current liabilities	22	(410)
816,131	**Net assets of fund available to fund benefits at the period end**		**851,332**

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
16th July 2019

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2019

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.

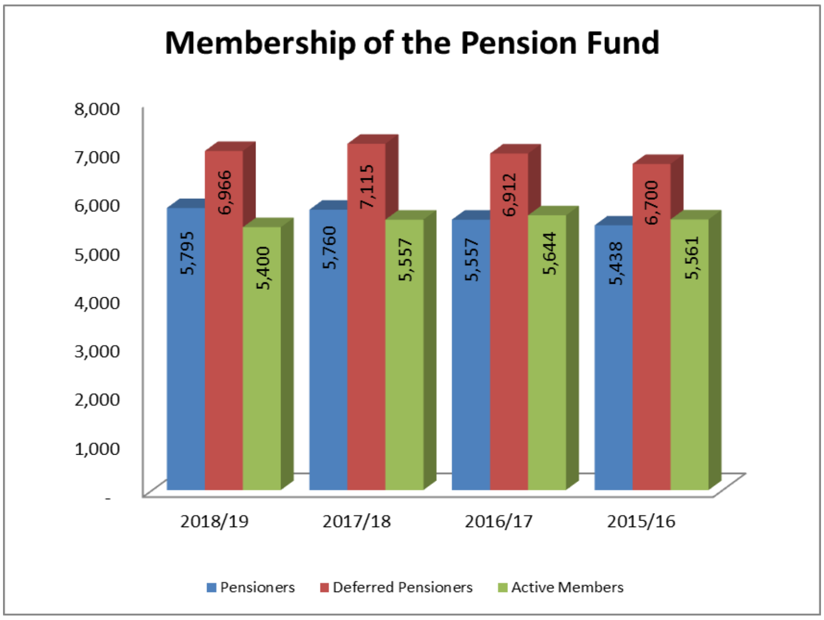
The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

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 32 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5523	5890	3890	15,303	84.21
Stanmore College	Scheduled Body	81	155	63	299	1.65
St Dominics College	Scheduled Body	36	35	53	124	0.68
Bentley Wood School	Scheduled Body	8	81	58	147	0.81
Canons High School	Scheduled Body	11	60	99	170	0.94
Harrow High School	Scheduled Body	11	58	52	121	0.67
Hatch End High School	Scheduled Body	22	136	67	225	1.24
Nower Hill High School	Scheduled Body	15	135	146	296	1.63
Park High School	Scheduled Body	11	74	104	189	1.04
Rooks Heath College	Scheduled Body	12	78	109	199	1.10
Krishna Avanti Primary	Scheduled Body	0	13	19	32	0.18
Salvatorian Academy	Scheduled Body	13	54	25	92	0.51
Avanti House Primary School	Scheduled Body	1	12	14	27	0.15
Alexandra School	Scheduled Body	2	14	20	36	0.20
Heathland and Whitefriars	Scheduled Body	5	62	163	230	1.27
Aylward Primary School	Scheduled Body	6	22	74	102	0.56
St Bernadettes	Scheduled Body	0	2	40	42	0.23
Avanti School Trust	Scheduled Body	0	1	9	10	0.06
Pinner High Academy	Scheduled Body	0	4	34	38	0.21
St Jerome	Scheduled Body	0	0	21	21	0.12
Earlsmead Academy	Scheduled Body	0	8	48	56	0.31
Avanti House Secondary School	Scheduled Body	0	2	16	18	0.10
Grange Primary	Scheduled Body	0	0	45	45	0.25
Welldon Park School	Scheduled Body	0	0	37	37	0.20
Priestmead School	Scheduled Body	0	0	71	71	0.39
Moriah Jewish School	Scheduled Body	0	0	21	21	0.12
NLCS	Community Admission Body	33	47	58	138	0.76
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Jubilee Academy	Admitted Body	0	14	20	34	0.19
Govindas	Admitted Body	0	1	4	5	0.03
Chartwells	Admitted Body	1	4	11	16	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
	Total	5,795	6,966	5,400	18,161	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 2016 and showed that the Fund was 74% 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 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

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 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 2018/19 financial year and its position as at 31 March 2019. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' 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)*.

Administrative expenses

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.

Oversight and governance costs

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.

Investment management expenses

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 2018/19.

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)

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. 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.

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 Equitable Life Assurance Society 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)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2018-19 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation;
- IFRS16 Leases (Replaces IAS17)

None of these changes are expected to have a material impact on the Pension Fund accounts

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 contributions 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 2019 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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £130m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £15m • a 0.5% increase in Pension benefits would increase the liability by approximately £107m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* .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 £11.5m in the financial statements. There is a risk that this investment may be under 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.

On 12 March 2019 the Pension Fund Committee approved the disinvestment from Aberdeen Standard Investments GARS Fund and the reinvestment of the realised assets in the LCIV Multi Asset Credit Fund. On 29 April 2019 £95.7 million was realised from the sale of Aberdeen Standard Investments and £95 million was invested in the LCIV Multi Asset Credit Fund.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2017/18 £'000		2018/19 £'000
(6,830)	**Employees' contributions**	**(6,875)**
	Employers' contributions:	
(17,405)	Normal contributions	(17,551)
(6,036)	Deficit recovery contributions	(7,085)
(612)	Pension strain contributions	(246)
(24,053)	**Total employers' contributions**	**(24,882)**
(30,883)	**Total contributions receivable**	**(31,757)**

By type of employer

2017/18 £'000		2018/19 £'000
(24,237)	Administering Authority	(25,346)
(5,385)	Scheduled bodies	(5,403)
(819)	Community admission body	(784)
(442)	Transferee admission bodies	(224)
(30,883)		**(31,757)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18 £'000		2018/19 £'000
(2,554)	Group transfers	0
(5,449)	Individual transfers	(3,247)
(8,003)		**(3,247)**

NOTE 9: BENEFITS PAYABLE

By category

2017/18 £'000		2018/19 £'000
27,816	Pensions	28,765
4,631	Commutation and lump sum retirement benefits	4,343
827	Lump sum death benefits	419
33,274		**33,527**

By type of employer

2017/18		2018/19
£'000		**£'000**
31,061	Administering Authority	32,012
1,656	Scheduled bodies	1,236
256	Community admission body	190
301	Transferee admission bodies	89
33,274		**33,527**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£'000		**£'000**
116	Refunds to members leaving service	95
31,049	Group transfers	0
3,598	Individual transfers	3,002
34,763		**3,097**

NOTE 11: MANAGEMENT EXPENSES

2017/18		2018/19
£'000		**£'000**
646	Administrative costs	656
4,267	Investment management expenses	4,509
612	Oversight and governance costs	566
5,525		**5,731**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£'000		**£'000**
3,816	Management fees	3,478
34	Custody fees	90
417	Transaction costs	941
4,267		**4,509**

NOTE 12: INVESTMENT INCOME

2017/18		2018/19
£'000		£'000
(6,394)	Private equity investments	(4,156)
(2,038)	Pooled property investments	(1,845)
(2,895)	Pooled investments - units trusts and other managed funds	(2,906)
(11,327)		**(8,907)**

NOTE 13: EXTERNAL AUDIT COSTS

2017/18		2018/19
£'000		£'000
(21)	Payable in respect of external audit	(16)
(21)		**(16)**

NOTE 14: INVESTMENTS

Market value		Market value
31 March 2018		31 March 2019
£'000		£'000
	Investment assets	
430,168	Pooled equities investments	467,263
102,445	Pooled bonds investments	108,159
189,579	Pooled alternative investments	191,029
67,656	Pooled property investments	68,171
150	Equity in London CIV	150
13,844	Private equity	11,522
7,310	Derivative contracts: forward currency	3,156
53	Cash with investment managers	45
811,205		**849,495**
4,643	Cash deposits	3,068
815,848	**Total investment assets**	**852,563**
	Investment liabilities	
(1,445)	Derivative contracts: forward currency	(2,400)
(1,445)	**Total investment liabilities**	**(2,400)**
814,403	**Net investment assets**	**850,163**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2018	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 2019
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	430,168	218,594	(220,722)	39,223	**467,263**
Pooled bonds investments	102,445	2,916	(41)	2,839	**108,159**
Pooled alternative investments	189,579		(1,263)	2,714	**191,029**
Pooled property investments	67,656		(303)	818	**68,171**
Equity in London CIV	150				**150**
Private equity	13,844		(598)	(1,724)	**11,522**
Derivative contracts: forward currency	5,865	8,880	(3,720)	(10,269)	**756**
	809,707	**230,390**	**(226,647)**	**33,601**	**847,050**
Cash with investment managers	53				**45**
Cash deposits	4,643				**3,068**
	4,696				**3,113**
Net investment assets	**814,403**				**850,163**

	Market value 31 March 2017	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 2018
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	531,614	89,231	(214,830)	24,153	**430,168**
Pooled bonds investments	100,883	3,535	(698)	(1,275)	**102,445**
Pooled alternative investments	58,420	132,000	(869)	28	**189,579**
Pooled property investments	64,409		(346)	3,593	**67,656**
Equity in London CIV	150				**150**
Private equity	19,341		(285)	(5,212)	**13,844**
Derivative contracts: forward currency	(241)	1,009	(6,440)	11,537	**5,865**
	774,576	**225,775**	**(223,468)**	**32,824**	**809,707**
Cash with investment managers	52				**53**
Cash deposits	30,914				**4,643**
	30,966				**4,696**
Net investment assets	**805,542**				**814,403**

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2018 £'000			31 March 2019 £'000
	Pooled Funds		
	UK		
81,651	Fixed Interest Securities	Corporate	86,080
20,794	Index Linked Securities	Public Sector	22,079
102,445			**108,159**
67,656	Managed Funds - Property	Unit Trusts	68,171
67,656			**68,171**
	Global		
196,717	Managed Funds - Equities	Unitised Insurance Policy	217,821
233,451	Managed Funds - Equities	Other	249,442
430,168			**467,263**
95,601	Managed Funds - Alternatives	Unit Trusts	95,229
93,978	Managed Funds - Alternatives	Other	95,800
189,579			**191,029**
13,844	Managed Funds - Private Equity	Other	11,522
	Other Funds		
7,310	Derivatives		3,156
150	Equity in London CIV		150
53	Cash with investment managers		45
4,643	Cash Deposits		3,068
815,848	**Total Investment Assets**		**852,563**
	Investment Liabilities		
(1,445)	Derivatives		(2,400)
(1,445)	**Total Investment Liabilities**		**(2,400)**
814,403	**Net Investment Assets**		**850,163**

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2018	Percentage of Fund	Manager	Investment assets	Market value 31 March 2019	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
90,034	11	Longview	Developed world equities-active	105,031	12
0	0	BlackRock	Global equities-passive	217,821	26
90,034	11			322,852	38
Investments managed outside of the London CIV					
67,656	8	LaSalle	Pooled property	68,171	8
53	0	BlackRock	Cash with investment managers	44	0
81,651	10	BlackRock	Fixed interest securities	86,080	10
20,794	3	BlackRock	Index-linked securities	22,079	3
3,205	0	Cash Deposits		3,068	0
77,181	9	GMO	Emerging markets equities-active	73,784	9
93,978	12	Insight	Diversified growth fund	95,800	11
1,438	0	JP Morgan	Cash with investment managers	1	0
150	0	London CIV	UK equities-passive	150	0
66,236	8	Oldfields	Developed world equities-active	70,627	8
13,844	2	Pantheon	Private equity	11,522	2
5,865	1	Record	Forward currency contracts	756	0
95,601	12	Aberdeen Std	Diversified growth fund	95,229	11
196,717	24	State Street	Global equities-passive	0	0
724,369	89			527,311	62
814,403	**100**			**850,163**	**100**

The following investments represent more than 5% of the net assets of the Fund:

Market value 31 March 2018	% of total fund	Investment assets	Market value 31 March 2019	% of total fund
£'000			£'000	
196,717	24	SSGA MPF All World Equity Index Sub-Fund	0	0
95,601	12	SLI Global Absolute Return Strategies Fund	95,229	11
93,978	12	Insight Broad Opportunities Fund	95,800	11
90,034	11	LCIV LV Global Equity Fund (Longview)	105,031	12
81,651	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	86,080	10
77,181	9	GMO Emerging Domestic Opportunities Equity Fund	73,784	9
67,656	8	LaSalle Investors UK Real Estate Fund of Funds	68,171	8
66,236	8	Overstone Global Equity CCF (USD Class A1 Units)	70,627	8
		Blackrock Equity Beta Portfolio	217,821	26
769,054	**94**	**Total over 5% holdings**	**812,543**	**95**

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 Equity Beta Portfolio mandate. (Previously managed by State Street).

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 2019 £40.3m (13.3%) compared to £17.30m (8.8%) as at 31 March 2018.

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.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
One to six months	GBP	2,379	AUD	(4,185)	97	
One to six months	GBP	3,952	CAD	(6,758)	69	
One to six months	GBP	4,160	CHF	(5,254)	109	
One to six months	GBP	1,246	EUR	(1,398)	41	
One to six months	GBP	5,586	HKD	(55,848)	125	
One to six months	GBP	254	NOK	(2,752)	8	
One to six months	GBP	78	NZD	(144)	2	
One to six months	GBP	870	SEK	(9,913)	50	
One to six months	GBP	458	SGD	(799)	5	
Over six months	GBP	23,390	EUR	(26,044)	901	
Over six months	GBP	8,261	JPY	(1,180,800)	49	
Over six months	GBP	59,474	USD	(76,590)	958	
Up to one month	NZD	135	GBP	(70)	1	
Up to one month	NOK	2,408	GBP	(212)	3	
Up to one month	SGD	749	GBP	(420)	4	
Up to one month	SEK	9,203	GBP	(752)	10	
Up to one month	AUD	3,843	GBP	(2,072)	24	

Up to one month	CHF	5,254	GBP	(4,022)	29	
Up to one month	JPY	983,900	GBP	(6,792)	33	
Up to one month	HKD	41,526	GBP	(4,025)	35	
Up to one month	CAD	6,597	GBP	(3,742)	49	
Up to one month	EUR	12,808	GBP	(10,960)	82	
Up to one month	USD	67,658	GBP	(51,455)	472	
One to six months	AUD	342	GBP	(190)		(3)
One to six months	CAD	161	GBP	(95)		(2)
One to six months	EUR	1,826	GBP	(1,650)		(73)
One to six months	GBP	3,733	CAD	(6,597)		(49)
One to six months	GBP	4,017	HKD	(41,526)		(36)
One to six months	GBP	4,039	CHF	(5,254)		(29)
One to six months	GBP	2,066	AUD	(3,843)		(24)
One to six months	GBP	754	SEK	(9,203)		(10)
One to six months	GBP	419	SGD	(749)		(4)
One to six months	GBP	211	NOK	(2,408)		(3)
One to six months	GBP	70	NZD	(135)		(1)
One to six months	GBP	7,598	USD	(9,971)		(55)
One to six months	GBP	466	JPY	(68,700)		(11)
One to six months	HKD	14,322	GBP	(1,444)		(43)
One to six months	JPY	393,800	GBP	(2,887)		(152)
One to six months	NOK	344	GBP	(31)		(1)
One to six months	NZD	9	GBP	(5)		(0)
One to six months	SEK	710	GBP	(63)		(4)
One to six months	SGD	50	GBP	(29)		(1)
One to six months	USD	17,864	GBP	(14,047)		(367)
Over six months	GBP	11,030	EUR	(12,808)		(84)
Over six months	GBP	14,394	JPY	(2,096,000)		(183)
Over six months	GBP	101,343	USD	(134,277)		(1,265)
Open forward currency contracts at 31 March 2019					**3,156**	**(2,400)**
Net forward currency contracts at 31 March 2019						**756**
Prior year comparative						
Open forward currency contracts at 31 March 2018					**7,310**	**(1,445)**
Net forward currency contracts at 31 March 2018						**5,865**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset it 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 - 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	Not required
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 2019 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10.00%	11,522	12,674	10,370
Pooled investments - property funds	1.90%	68,171	69,466	66,876
		79,693	82,140	77,246

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 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	766,451	3,156	79,693	**849,300**
Financial liabilities at fair value through profit and loss	0	(2,400)	0	**(2,400)**
Net Investment asset	**766,451**	**756**	**79,693**	**846,900**

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	722,342	7,310	81,500	**811,152**
Financial liabilities at fair value through profit and loss	0	(1,445)	0	**(1,445)**
Net Investment asset	**722,342**	**5,865**	**81,500**	**809,707**

The following assets have been carried at cost (no investment assets were carried at cost in 2018/19)

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Investment in London CIV				**150**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

Period 2018/19	Market Value 31 March 2018	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	13,844	0	0	0	(598)	0	(1,724)	**11,522**
Pooled investments - property funds	67,656	0	0	0	(303)	818	0	**68,171**
	81,500	0	0	0	(901)	818	(1,724)	**79,693**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF 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 2018				31 March 2019		
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			
430,168	0	0	Pooled equities investments	467,263	0	0
102,445	0	0	Pooled bonds investments	108,159	0	0
189,579	0	0	Pooled alternative investments	191,029	0	0
67,656	0	0	Pooled property investments	68,171	0	0
150	0	0	Equity in London CIV	150	0	0
13,844	0	0	Private equity	11,522	0	0
7,310	0	0	Derivative contracts	3,156	0	0
0	6,389	0	Cash	0	4,103	0
0	310	0	Debtors	0	589	0
811,152	**6,699**	**0**		**849,450**	**4,692**	**0**
			Financial liabilities			
(1,445)	0	0	Derivative contracts	(2,400)	0	0
0	0	(275)	Creditors	0	0	(410)
(1,445)	**0**	**(275)**		**(2,400)**	**0**	**(410)**
809,707	**6,699**	**(275)**		**847,050**	**4,692**	**(410)**
	816,131		**Grand Total**		**851,332**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£'000		£'000
	Financial assets	
21,287	Fair value through profit and loss	43,870
0	Loans and receivables	0
	Financial liabilities	
11,537	Fair value through profit and loss	(10,269)
0	Financial Liabilities at amortised cost	0
32,824	**Total**	**33,601**

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

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 an annual 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 (+/-) %
Total equities	9.20
Fixed interest & index linked securities	7.30
Alternative investments	3.30
Pooled property investments	1.90
Private Equity	10.00

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 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	468,019	9.20	511,077	424,961
Fixed interest & index linked securities	108,159	7.30	116,055	100,263
Alternative investments	191,029	3.30	197,333	184,725
Pooled property investments	68,171	1.90	69,466	66,876
Private Equity	11,522	10.00	12,674	10,370
Equity - London CIV	150	0.00	150	150
Total	**847,050**		**906,755**	**787,345**

Asset type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities	444,162	10.42	490,442	397,882
Fixed interest & index linked securities	102,445	8.26	110,909	93,981
Alternative investments	189,579	5.56	200,112	179,046
Pooled property investments	67,656	2.14	69,102	66,210
Derivative contracts: net forward currency	5,865	0.00	5,865	5,865
Total	**809,707**		**876,430**	**742,984**

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 2019 and 31 March 2018 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 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
Total change in assets available	**89,193**	**861**	**90,054**	**88,332**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	4,696	0	4,696	4,696
Fixed interest securities	81,651	817	82,468	80,834
Total change in assets available	**86,347**	**817**	**87,164**	**85,530**

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 8.8%

A 8.8% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2019	Change to net assets	
		+8.8%	-8.8%
	£'000	£'000	£'000
Overseas Pooled Equities	426,328	463,845	388,811

Currency Exposure - asset type	Asset Value as at 31 March 2018	Change to net assets	
		+6.44%	-6.44%
	£'000	£'000	£'000
Overseas Pooled Equities	389,585	414,674	364,496

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 2019 was £3.1m (31 March 2018: £4.7m). This was held with the following institutions.

Summary	Balances at 31 March 2018	Balances at 31 March 2019
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	3,205	3,068
JP Morgan	1,438	1
BlackRock	53	44
	4,696	**3,113**

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 in to cash. As at 31 March 2019 the value of illiquid assets was £79.7m. This represented 9% of the total Fund assets (31 March 2018: £81.5m).

All financial liabilities at 31 March 2019 are due within one year.

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 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; 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 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2020.

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

The 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	2013 %	2016 %
Price inflation (CPI)	2.1	2.1
Salary increases	3.8	2.4
Pension increases	2.5	2.1
Gilt based discount rate	3.0	2.2
Funded basis discount rate	4.6	3.8

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45)	24.0 years	26.4 years

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 2018		31 March 2019
£m		£m
(1,116)	Present value of promised retirement benefits	(1,213)
761	Fair value of scheme assets	807
(355)	**Net Liability**	**(406)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2017/18	2018/19
	% pa	% pa
Inflation/pensions increase rate assumption	2.4	2.5
Salary increase rate	2.7	2.8
Discount rate	2.6	2.4

NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£'000		£'000
	Debtors:	
248	Contributions due - employers	526
62	Sundry debtors	63
1,693	Cash owed to Fund	990
2,003		**1,579**

NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£'000		£'000
(158)	Sundry creditors	(344)
(117)	Benefits payable	(66)
(275)		**(410)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.51m were paid directly to the providers during the year (2017/18: £0.48m)

Market value 31 March 2018		Market value 31 March 2019
£'000		**£'000**
1,712	Prudential Assurance	2,011
666	Clerical Medical	599
234	Equitable Life Assurance Society	219
2,612		**2,829**

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 above.

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 on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2018		31 March 2019
£'000		**£'000**
(18,789)	Employer's Pension Contributions to the Fund	(19,770)
846	Administration expenses paid to the Council	846
1,693	Cash held by the Council	990

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 (S151 Officer) and the Treasury & Pension Fund Manager.

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

31 March 2018		31 March 2019
£'000		£'000
81	Short-term benefits	86
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2019 totalled £2.7m (31 March 2018: £2.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures in the private equity part of the portfolio.

NOTE 27: CONTINGENT ASSETS

Three admitted body employers in the Fund hold insurance bonds or guarantees 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.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

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

Present value of promised retirement benefits

Year ended	31 March 2019	31 March 2018
Active members (£m)	582	491
Deferred members (£m)	279	255
Pensioners (£m)	479	482
Total (£m)	**1,340**	**1,228**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £72m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.4 years

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

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	107
0.5% p.a. increase in the Salary Increase Rate	1%	15
0.5% p.a. decrease in the Real Discount Rate	10%	130

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Laura McInroy FFA

25 April 2019

For and on behalf of Hymans Robertson LLP

Appendices

Glossary of Terms

The glossary's definitions are intended to provide a clear and concise explanation of the technical terms used in this publication.

Accounting Standards: By law Local Authorities are required to follow "proper accounting practices" which are set out both in Acts of Parliament and in professional Codes including the Code of Practice on Local Authority Accounting in the United Kingdom.

Accrual: a sum included in the financial statements to cover income and expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made by the end of the period.

Active Member: A Pension Fund member who is paying contributions into the fund.

Actuarial Valuation: a valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Actuary: an independent professional who advises on the financial position of the Pension Fund.

Agency Services: the provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

Amortised Cost: a method by which a financial asset or liability is measured in the balance sheet after deducting any repayments and after adding or subtracting cumulative amortisation calculated using the effective interest rate method. The amortisation adjusts the carrying value of the instrument from its initial value to its value at maturity over the life of the contract.

Bad Debt Provisions: amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Capital Expenditure: expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads etc.

Capital Grants: money received from government departments and other statutory bodies towards the Council's capital expenditure.

Community Assets: assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal, such as parks and open spaces, and historic buildings.

Contingency: money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Liability: is either; a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or b) present obligation that arises from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core: comprises all activities that a local Council engage in specifically because they are an elected, multipurpose organisation. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. It includes costs relating to the corporate management and democratic representation.

Council Tax: a locally determined taxation charge based on domestic property values set by both the billing and precept authorities at a level determined by the council tax base for the area.

Creditors: amounts owed by the Council for goods and services received where payment has not been made at the end of the financial year.

Current Asset: an asset held, which will be consumed or cease to have value within the next financial year. Examples are stocks and debtors.

Current Liability: an amount which will become payable or could be called in within the next financial year. Examples are creditors and cash overdrawn.

Current Service Cost: the increase in the present value of Pension Fund liabilities expected to arise from current year service.

Debtors: amounts owed to the authority for goods and services provided but not received at the end of the financial year.

Dedicated Schools Grant (DSG): a specific grant for the funding of schools and which is ring fenced to the Schools Budget.

Deferred Member: A Pension Fund member who had left employment, or who has ceased to be an active member of the pension scheme whilst remaining in employment, but retains an entitlement to a pension from the Fund.

Depreciated Replacement Cost (DRC): the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Depreciation: the measure used to determine the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Earmarked Reserves: amounts set aside for a specific purpose or a particular service or type of service.

Fair Value: the price at which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Finance Leases: a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the leasee.

General Fund: the account that covers the net cost of all services other than the provision of Council housing for rent.

Housing Revenue Account (HRA): a statutory account which contains all expenditure and income relating to the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund. Local Council's are not allowed to make up any deficit on the HRA from the General Fund.

Impairment: a reduction in the carrying value of a fixed asset below it's previously assessed carrying value due to obsolescence, damage or adverse change in the statutory environment.

Infrastructure Assets: a classification of non-current assets which have no market value, and which exist primarily to facilitate transportation and communication requirements (e.g. highways and footpaths) and similar environmental works.

Levies: payments to London-wide bodies, e.g. Environment Agency, Lee Valley Regional Park and West London Waste Authority. The cost of these bodies is borne by the local Council in the area concerned, based on their Council tax base, and is met from the General Fund.

Minimum Revenue Provision (MRP): the minimum amount which must be charged to the Council's revenue account and set aside as provision for credit liabilities.

Net Realisable Value: the amount at which an asset could be sold after the deduction of any direct selling costs.

Non-Distributable Cost: these include overheads for which no user benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members past service.

Non-Domestic Rate (NDR): a flat rate in the pound set by Central Government and levied on businesses in the borough. NDR is now shared between the Council and the Greater London Authority 64% / 36% respectively.

If the Council's baseline is greater than its funding baseline, it pays tariff payments to the Government. If the Council's NDR baseline is less than its funding baseline it receives top-up payments from the Government.

Operating Lease: a lease under which the asset can never become the property of the lessee.

Precepts: a charge on the Collection Fund by another public body (a precepting authority), determined by legislation.

Pension Fund: the Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer, employees and from investment income.

Post Balance Sheet Events: are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

Prior Year Adjustments: those material adjustments applicable to prior years arising from changes in accounting policies or correction of fundamental errors.

Property, Plant and Equipment: tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

Provisions: monies set aside for liabilities and losses which are likely to be incurred but where exact amounts or dates are uncertain.

Private Finance Initiative (PFI): PFI is the procurement of public services and assets by a public body where the private sector is responsible for the design, construction, finance and operation of an asset or service for a specified time after which it is transferred back into the public sector.

Public Works Loan Board (PWLB): a government agency that provides long term and medium term loans to Local Authorities at interest rates only slightly higher than those at which the government itself can borrow.

Related Party: the relationship between a senior officer, elected Member, and their families, with another body that has, or might develop a business relationship with the Council.

Revenue Expenditure: the day-to-day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. These costs would include salaries and wages, premises and the costs of supplies and services.

Revenue Support Grant: the main grant received from central government to support the Council's revenue expenditure.

Taxbase: the number of Band D equivalent properties in a local authority's area. The council tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

Trust Funds: money held in trust by the Council for a specified purpose.

The Code of Practice (The Code): aims to specify the principles and practices of accounting required to prepare a Statement of Accounts which presents fairly the financial position and transactions of the Council.

Abbreviations

ASB	Accounting Standards Board
AVC	Additional Voluntary Contributions
BCF	Better Care Fund
BRS	Business Rate Supplement
CCG	Clinical Commissioning Group
CFR	Capital Financing Requirement
CIES	Consolidated Income & Expenditure Statement
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance and Accountancy
CSB	Corporate Strategic Board
DSG	Dedicated Schools Grant
DRC	Depreciated Replacement Cost
EFA	Expenditure Funding Analysis
EUV	Existing Use Value
EUV-SH	Existing Use Value – Social Housing
GARMS	Governance, Audit, Risk Management and Standards Committee
HRA	Housing Revenue Account
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LIBID	London Interchange Bid Rate
LGPS	Local Government Pension Scheme
LOBO	Lenders Option Borrowers Option
MiRS	Movement in Reserves Statement
MMI	Municipal Mutual Insurance
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy
NDR	Non-Domestic Rates
NPV	Net Present Value
PFI	Private Finance Initiative
PPE	Property, Plant & Equipment
PWLB	Public Works Loan Board
RCCO	Revenue Contribution to Capital Outlay
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
VAT	Value Added Tax
WLWA	West London Waste Authority

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London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2019

Harrow COUNCIL LONDON

CONTENTS

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 2019. 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 Consulting Actuary on page 49/50.

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 in become available through The Pension Fund Committee has been active in the required transfer of assets under management to LCIV to gain efficiencies and fee reductions. The Pension Fund Committee has transitioned £218m pooled passive equity assets held with State Street Global Advisers into the Blackrock pooled passive equity fund in September 2018 and benefited from the fee reductions negotiated through LCIV.

During 2018-19, the Pension Fund Committee reviewed the asset allocation investment strategy agreed to maintain the benchmark allocation to the Equities funds to 50% and agreed a re-allocation from Diversified Growth Funds to alternative assets and infrastructure as part of a risk diversification strategy. Pension Fund Committee has approved divesting from Aberdeen Standard Investments (GARS Fund) and committed to investing 11% of fund assets in the LCIV Multi Asset Fund. The Committee has approved investing 7.5% of fund assets in the LCIV Infrastructure Fund when the sub-fund is opened in 2019/20.

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. Pension Board met four times and considered reports on pension administration performance and the effectiveness of internal controls and the decision-making process.

Pension Board and Pension Fund Committee have 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.

The net assets of the Fund as at 31 March 2019 were £851.3m compared to £816.1m as at 31 March 2018. The Fund’s overall investment return for the year was 6.0%.

D. Calvert

Dawn Calvert - CPFA
Director of Finance
16 July 2019

Independent auditor's report to the members of the London Borough of Harrow on the pension fund financial statements published with the Pension Fund Annual Report

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Nitin Parekh (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Dr Antonio Weiss Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	John Royle - UNISON Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon
Investment Managers	LaSalle Global Partner Solutions BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Oldfield Partners Pantheon Ventures Record Currency Management Limited Aberdeen Standard Investments State Street Global Advisors Limited London CIV : LV Global Equity Fund (Longview) and Blackrock Equity Beta portfolio
AVC Providers	Clerical Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan
Auditor	Mazars
Performance Measurement	Pensions and Investment Research Consultants
Bankers	The Royal Bank of Scotland

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:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

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:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1336

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 pension's 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 2018-19 all Annual Benefit Statements were issued on time, The General Minimum Pension (GMP) data matching exercise was completed on time and scheme records matched those held by HMRC. No material issues were raised by the National Fraud Initiative exercise in March 2019, all reflecting the quality of scheme member data.

Performance Monitoring 2018/19

Service	National Benchmarking Target	Harrow Actual Performance %
Issue letter notifying of dependent's benefit in 5 days	**5 days**	**100.00**
Calculation and notification of ill health estimate within 7 days	**10 days**	**100.00**
Calculation and notification of retirement benefits estimate in 7 days	**10 days**	**100.00**
Issue letter to new pension provider detailing transfer-out quote in 9 days	**10 days**	**100.00**
Calculation and notification of deferred benefits in 8 days	**10 days**	**100.00**
Calculation and notification of retirement benefits in 3 days	**5 days**	**92.31**
Process refund and issue payment within 5 days	**5 days**	**100.00**
Calculation and notification of actual ill health benefits within 3 days	**5 days**	**93.68**
Issue statutory notification on receipt of transfer funds in 8 days	**10 days**	**100.00**

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law and annual benefits statements were issued on time.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. One new complaint was referred through the internal procedure during the year. One complaint was referred to the Pensions Ombudsman during the year.

The costs of running the Pension Fund are shown below:

	2016/17	2017/18	2018/19
Investment management expenses			
Total Cost (£000)	3,996	4,267	4,509
Total Membership (No.)	18,113	18,432	18,161
Sub Cost per member (£)	221	231	248
Administration costs			
Total Cost (£000)	646	646	656
Total Membership (No.)	18,113	18,432	18,161
Sub Cost per member (£)	36	35	36
Oversight & governance costs			
Total Cost (£000)	586	612	566
Total Membership (No.)	18,113	18,432	18,161
Sub Cost per member (£)	32	33	31
Total cost per member (£)	**289**	**300**	**316**

Investment management costs include fund manager fees and the additional costs of fund transition on restructuring and fund re-balancing. The increase in total management expenses reflects the increase in the value of the market value of the fund from £806.5m in 2016/17 to £851.3m in 2018/19 as investment management fees are based on a percentage of quarter end market value.

The total cost of fees has been partly offset by fee reductions negotiated through the London Collective Investment Vehicle.

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs

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.

INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon, May 19)

The MSCI AC World Index rose 5.6% in local currency terms over the last year. In contrast to the strong and relatively stable equity market uptrend seen through much of 2016 and 2017, 2018 and 2019 have seen lower returns and higher volatility. Having fallen at the start of 2018 and largely recovered by the middle of the year, global equities were again rocked. Rising concerns of slowing global growth and corporate earnings, alongside trade war fears, led to a 12.5% fall in global equities over Q4 2018, the steepest quarterly decline since 2011. Concerns eased in the new year, helping markets rise by 12.3% over Q1 2019. On a sector level, the more defensive Health Care (13.4%) and Utilities (16.0%) sectors were the best performers whilst the more cyclical Industrials (2.1%) and Financials (-4.4%) sectors underperformed.

The US Federal Reserve (Fed) continued on its course to normalise monetary policy though 2018 but abruptly changed track in January 2019 by announcing that further rate hikes would be put on hold and their bond buying program would end. Over the period to March 2019, the Fed hiked the Federal Funds rate on three occasions, reaching 2.25%-2.50% in December 2018. The European Central Bank (ECB) ended their asset purchase program in December, although reinvestment of principal payments is continuing indefinitely. The ECB also announced cheap bank lending under another Targeted Long-Term Refinancing Operations program (TLTRO) to begin in September. Meanwhile, the Bank of England (BoE) raised rates to 0.75% in August as economic data stabilised and inflation remained above target.

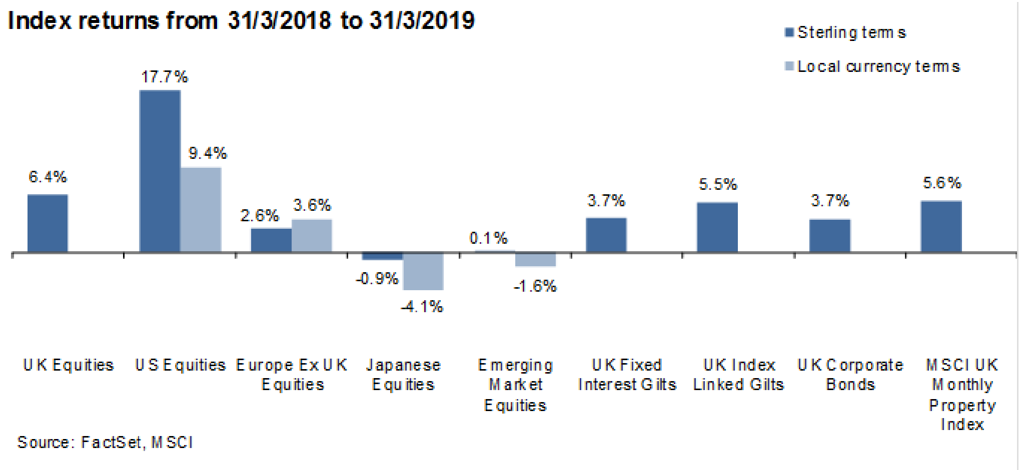
Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) and increased geopolitical tensions drove up Brent oil prices over much of the first half of the year, peaking at $86/bbl in October. Fears of a slowdown in global growth, coupled with high US inventories and the waiving of US sanctions for eight Iranian oil importers, caused oil prices to slump in Q4 2018, however. Prices rebounded somewhat in Q1 2019 as fears eased with the price of Brent Crude ending the year down 2.7% at $68/bbl. Amidst weakening Chinese economic data and heightened trade tensions, industrial metals also fell sharply in Q4 2018 but rebounded over Q1 2019, falling 4.1% over the year and resulting in the S&P GSCI Commodity index finishing the year to March 2019 down 3.0%.

UK fixed interest gilt yields had a volatile year, tending to rise and fall in tandem with global yields and Brexit developments. Yields fell sharply over the second half of the period amidst lowered monetary tightening expectations and downgraded growth and inflation outlooks. Yields fell across the curve but particularly at longer maturities. Index-linked gilts outperformed fixed interest gilts as they returned 5.5% versus 3.7%, boosted by higher breakeven inflation.

Sterling ended the twelve-month period 0.3% higher on a trade-weighted basis. Sterling remained subdued over the year despite increasing Brexit uncertainty. Some sterling weakness against the US dollar improved the return on global equity markets to unhedged UK investors as the MSCI AC World Index rose 10.5% in sterling terms.

UK investment grade corporate bond credit spreads – the difference between corporate and government bond yields – widened by 16bps to end the twelve-month period at 142bps. Spreads widened steadily through the first half of the year before widening more rapidly in Q4 2018 against a backdrop of heightened volatility of risky assets. Spreads narrowed, however, in Q1 2019 as risk sentiment improved.

UK commercial property returned 5.6%, supported by a steady income return. Capital value appreciation slowed through the year with capital values falling in Q4 2018 and Q1 2019. The retail sector underperformed over the year as fears over the health of the high street took hold and UK economic performance remained lacklustre



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 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

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 Fund's Investment Strategy Statement states that the Fund will invest its assets through the London CIV as and when suitable pooled investments become available in accordance with the Local Government Investment Regulations 2016. Following the transition of the passive equity mandate to Blackrock, Harrow had 38% of fund assets managed through the London CIV and its preferred providers. The combined impact of the 11% commitments to LCIV Multi Asset Credit and to the LCIV infrastructure will increase the committed strategic allocation through the London CIV to 55% of fund assets.
The cumulative cost of pooling for the Pension Fund to 31 March 2019 is £0.249m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2019 to the agreed allocation

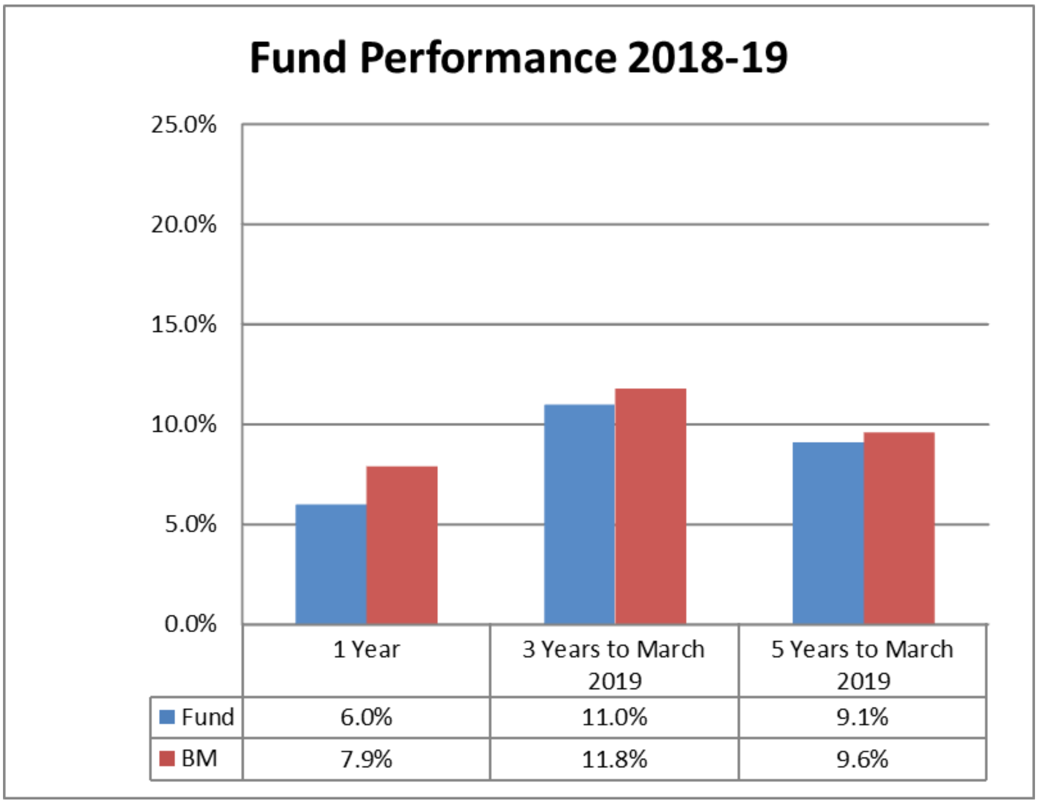
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	26	24
Developed world equities-active	20	18
Emerging markets equities-active	9	8
Fixed interest securities	10	10
Index-linked securities	3	3
Private equity	2	2
Cash	0	0
Forward currency contracts	0	0
Diversified growth funds	22	6.5
Fixed Income	0	11
Pooled property	8	10
Infrastructure	0	7.5
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 style 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 also 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 are shown below.



	1 Year	3 Years to March 2019	5 Years to March 2019
Fund	6.0%	11.0%	9.1%
BM	7.9%	11.8%	9.6%

The Fund's return of 6.0% during 2018-19 was due to positive returns across all asset classes. Though equity markets fell in the third quarter, they recovered in the final quarter.

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 7 March 2018 and can be found as Appendix 1.
https://www.harrowpensionfund.org/media/4434/governance-compliance-statement-march-2018.pdf

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 7 March 2018 and can be found as Appendix 2.
https://www.harrowpensionfund.org/media/4435/communication-policy-march-2018.pdf

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 amended by the Pension Fund Committee on 12 March 2019 can be found as Appendix 3.
https://www.harrowpensionfund.org/media/4635/appendix-3-funding-strategy-statement-march-2019.pdf

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 amended by the Pension Fund Committee on 12 March 2019 can be found as Appendix 4.

https://www.harrowpensionfund.org/media/4636/appendix-4-investment-strategy-statemement-march-2019.pdf

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

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 is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, 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. 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 predominant 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 increased by 6.0% in 2018-19 and increased by 5.3% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include 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 and one passive manager and diversified growth funds by two managers 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.

<u>Liquidity Risk</u>

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 9% of Harrow's Funds are in illiquid assets. This is deemed appropriate for a fund that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

<u>Counterparty Risk</u>

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. Recent changes to the benefits structure have reduced some of these risks. All are 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 & Touche LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte & Touche LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Aberdeen Std (GARS)	ISAE 3402/AAF 01/06	Reasonable assurance	KPMG LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402 / AT-C 320	Reasonable assurance	PWC LLP

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8416 8087 Website: www.harrowpensionfund.org
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Pensions Help line: 0800 011 3797 Website: www.pensionsadvisoryservice.org.uk The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW 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 The Pension Service 9 Mail Handling Site A Wolverhampton WV98 1LU Telephone Number: 0800 731 0193 Website: www.gov.uk/find-lost-pension

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;

- 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's Responsibilities

The Director of Finance 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 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 2019 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
16 July 2019

Harrow Pension Fund Account as at 31 March 2019

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the fund		
(30,883)	Contributions	7	(31,757)
(8,003)	Transfers in from other pension funds	8	(3,247)
(80)	Other income		(44)
(38,966)			**(35,048)**
33,274	Benefits	9	33,527
34,763	Payments to and on account of leavers	10	3,097
0	Other Expenditure		0
68,037			**36,624**
29,071	**Net (additions)/withdrawals from dealings with members**		**1,576**
5,525	Management expenses	11	5,731
34,596	**Net (additions)/withdrawals including fund management expenses**		**7,307**
	Return on investments		
(11,327)	Investment income	12	(8,907)
(32,824)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(33,601)
(44,151)	**Net return on investments**		**(42,508)**
(9,555)	**Net (increase)/decrease in the net assets available for benefits during the year**		(35,201)
(806,576)	**Opening net assets of the scheme**		(816,131)
(816,131)	**Closing net assets of the scheme**		**(851,332)**

Net Assets Statement as at 31 March 2019

31 March 2018 £'000		Notes	31 March 2019 £'000
	Investment assets		
803,842	Investments	14	846,294
7,310	Derivative contracts	14	3,156
53	Cash with investment managers	14	45
811,205			**849,495**
4,643	Cash deposits	14	3,068
815,848			**852,563**
	Investment liabilities		
(1,445)	Derivative contracts	14	(2,400)
814,403			**850,163**
2,003	Current assets	21	1,579
(275)	Current liabilities	22	(410)
816,131	**Net assets of fund available to fund benefits at the period end**		**851,332**

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
16 July 2019

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2019

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

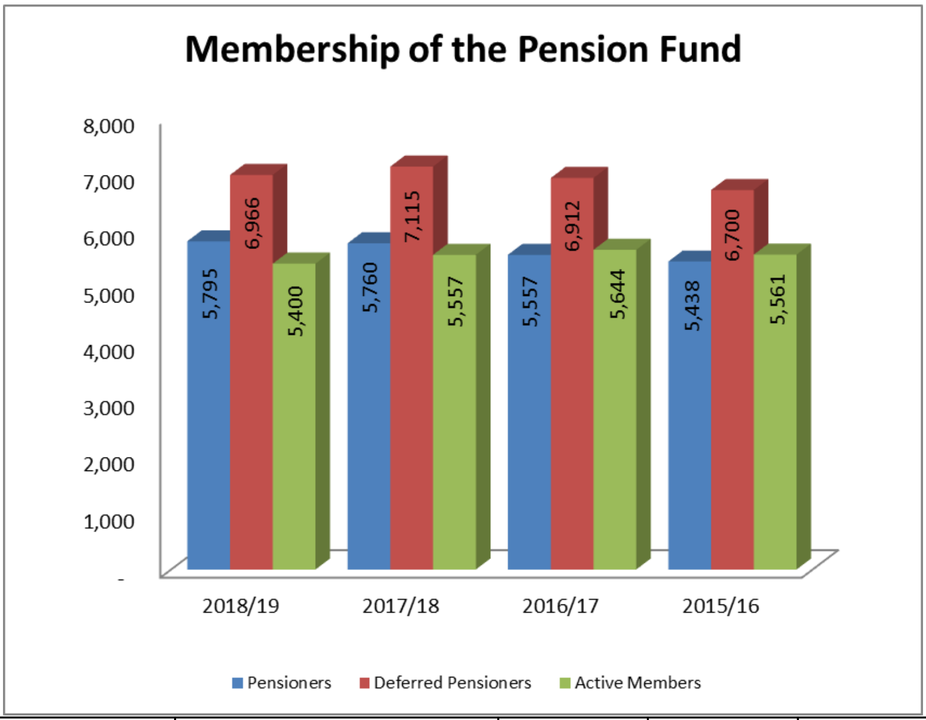
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

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 32 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5523	5890	3890	15,303	84.21
Stanmore College	Scheduled Body	81	155	63	299	1.65
St Dominics College	Scheduled Body	36	35	53	124	0.68
Bentley Wood School	Scheduled Body	8	81	58	147	0.81
Canons High School	Scheduled Body	11	60	99	170	0.94
Harrow High School	Scheduled Body	11	58	52	121	0.67
Hatch End High School	Scheduled Body	22	136	67	225	1.24
Nower Hill High School	Scheduled Body	15	135	146	296	1.63
Park High School	Scheduled Body	11	74	104	189	1.04
Rooks Heath College	Scheduled Body	12	78	109	199	1.10
Krishna Avanti Primary	Scheduled Body	0	13	19	32	0.18
Salvatorian Academy	Scheduled Body	13	54	25	92	0.51
Avanti House Primary School	Scheduled Body	1	12	14	27	0.15
Alexandra School	Scheduled Body	2	14	20	36	0.20
Heathland and Whitefriars	Scheduled Body	5	62	163	230	1.27
Aylward Primary School	Scheduled Body	6	22	74	102	0.56
St Bernadettes	Scheduled Body	0	2	40	42	0.23
Avanti School Trust	Scheduled Body	0	1	9	10	0.06
Pinner High Academy	Scheduled Body	0	4	34	38	0.21
St Jerome	Scheduled Body	0	0	21	21	0.12
Earlsmead Academy	Scheduled Body	0	8	48	56	0.31
Avanti House Secondary School	Scheduled Body	0	2	16	18	0.10
Grange Primary	Scheduled Body	0	0	45	45	0.25
Welldon Park School	Scheduled Body	0	0	37	37	0.20
Priestmead School	Scheduled Body	0	0	71	71	0.39
Moriah Jewish School	Scheduled Body	0	0	21	21	0.12
NLCS	Community Admission Body	33	47	58	138	0.76
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Jubilee Academy	Admitted Body	0	14	20	34	0.19
Govindas	Admitted Body	0	1	4	5	0.03
Chartwells	Admitted Body	1	4	11	16	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
	Total	5,795	6,966	5,400	18,161	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 2016 and showed that the Fund was 74% 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 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

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 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 2018/19 financial year and its position as at 31 March 2019. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' 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)*.

Administrative expenses

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.

Oversight and governance costs

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.

Investment management expenses

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 2018/19.

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)

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. 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.

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 Equitable Life Assurance Society 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)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2018-19 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation;
- IFRS 16 Leases (replaces IAS 17).

None of these changes are expected to have a material impact on the Pension Fund accounts

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 contributions 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 2019 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 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £130m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £15m • a 0.5% increase in Pension benefits would increase the liability by approximately £107m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* .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 £11.5m in the financial statements. There is a risk that this investment may be under 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.

On 12 March 2019 the Pension Fund Committee approved the disinvestment from Aberdeen Standard Investments GARS Fund and the reinvestment of the realised assets in the LCIV Multi Asset Credit Fund. On 29 April 2019 £95.7 million was realised from the sale of Aberdeen Standard Investments and £95 million was invested in the LCIV Multi Asset Credit Fund.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2017/18		2018/19
£'000		£'000
(6,830)	**Employees' contributions**	**(6,875)**
	Employers' contributions:	
(17,405)	Normal contributions	(17,551)
(6,036)	Deficit recovery contributions	(7,085)
(612)	Pension strain contributions	(246)
(24,053)	**Total employers' contributions**	**(24,882)**
(30,883)	**Total contributions receivable**	**(31,757)**

By type of employer

2017/18		2018/19
£'000		£'000
(24,237)	Administering Authority	(25,346)
(5,385)	Scheduled bodies	(5,403)
(819)	Community admission body	(784)
(442)	Transferee admission bodies	(224)
(30,883)		**(31,757)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18		2018/19
£'000		£'000
(2,554)	Group transfers	0
(5,449)	Individual transfers	(3,247)
(8,003)		**(3,247)**

NOTE 9: BENEFITS PAYABLE

By category

2017/18		2018/19
£'000		£'000
27,816	Pensions	28,765
4,631	Commutation and lump sum retirement benefits	4,343
827	Lump sum death benefits	419
33,274		**33,527**

By type of employer

2017/18		2018/19
£'000		£'000
31,061	Administering Authority	32,012
1,656	Scheduled bodies	1,236
256	Community admission body	190
301	Transferee admission bodies	89
33,274		**33,527**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£'000		£'000
116	Refunds to members leaving service	95
31,049	Group transfers	0
3,598	Individual transfers	3,002
34,763		**3,097**

NOTE 11: MANAGEMENT EXPENSES

2017/18		2018/19
£'000		£'000
646	Administrative costs	656
4,267	Investment management expenses	4,509
612	Oversight and governance costs	566
5,525		**5,731**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£'000		£'000
3,816	Management fees	3,478
34	Custody fees	90
417	Transaction costs	941
4,267		**4,509**

NOTE 12: INVESTMENT INCOME

2017/18		2018/19
£'000		£'000
(6,394)	Private equity investments	(4,156)
(2,038)	Pooled property investments	(1,845)
(2,895)	Pooled investments - units trusts and other managed funds	(2,906)
(11,327)		**(8,907)**

NOTE 13: EXTERNAL AUDIT COSTS

2017/18 £'000		2018/19 £'000
(21)	Payable in respect of external audit	(16)
(21)		**(16)**

NOTE 14: INVESTMENTS

Market value 31 March 2018 £'000		Market value 31 March 2019 £'000
	Investment assets	
430,168	Pooled equities investments	467,263
102,445	Pooled bonds investments	108,159
189,579	Pooled alternative investments	191,029
67,656	Pooled property investments	68,171
150	Equity in London CIV	150
13,844	Private equity	11,522
7,310	Derivative contracts: forward currency	3,156
53	Cash with investment managers	45
811,205		**849,495**
4,643	Cash deposits	3,068
815,848	**Total investment assets**	**852,563**
	Investment liabilities	
(1,445)	Derivative contracts: forward currency	(2,400)
(1,445)	**Total investment liabilities**	**(2,400)**
814,403	**Net investment assets**	**850,163**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2018	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 2019
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	430,168	218,594	(220,722)	39,223	**467,263**
Pooled bonds investments	102,445	2,916	(41)	2,839	**108,159**
Pooled alternative investments	189,579		(1,263)	2,714	**191,029**
Pooled property investments	67,656		(303)	818	**68,171**
Equity in London CIV	150				**150**
Private equity	13,844		(598)	(1,724)	**11,522**
Derivative contracts: forward currency	5,865	8,880	(3,720)	(10,269)	**756**
	809,707	**230,390**	**(226,647)**	**33,601**	**847,050**
Cash with investment managers	53				**45**
Cash deposits	4,643				**3,068**
	4,696				**3,113**
Net investment assets	**814,403**				**850,163**

	Market value 31 March 2017	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 2018
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	531,614	89,231	(214,830)	24,153	**430,168**
Pooled bonds investments	100,883	3,535	(698)	(1,275)	**102,445**
Pooled alternative investments	58,420	132,000	(869)	28	**189,579**
Pooled property investments	64,409		(346)	3,593	**67,656**
Equity in London CIV	150				**150**
Private equity	19,341		(285)	(5,212)	**13,844**
Derivative contracts: forward currency	(241)	1,009	(6,440)	11,537	**5,865**
	774,576	**225,775**	**(223,468)**	**32,824**	**809,707**
Cash with investment managers	52				**53**
Cash deposits	30,914				**4,643**
	30,966				**4,696**
Net investment assets	**805,542**				**814,403**

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2018 £'000			31 March 2019 £'000
	Pooled Funds		
	UK		
81,651	Fixed Interest Securities	Corporate	86,080
20,794	Index Linked Securities	Public Sector	22,079
102,445			**108,159**
67,656	Managed Funds - Property	Unit Trusts	68,171
67,656			**68,171**
	Global		
196,717	Managed Funds - Equities	Unitised Insurance Policy	217,821
233,451	Managed Funds - Equities	Other	249,442
430,168			**467,263**
95,601	Managed Funds - Alternatives	Unit Trusts	95,229
93,978	Managed Funds - Alternatives	Other	95,800
189,579			**191,029**
13,844	Managed Funds - Private Equity	Other	11,522
	Other Funds		
7,310	Derivatives		3,156
150	Equity in London CIV		150
53	Cash with investment managers		45
4,643	Cash Deposits		3,068
815,848	**Total Investment Assets**		**852,563**
	Investment Liabilities		
(1,445)	Derivatives		(2,400)
(1,445)	**Total Investment Liabilities**		**(2,400)**
814,403	**Net Investment Assets**		**850,163**

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2018	Percentage of Fund	Manager	Investment assets	Market value 31 March 2019	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
90,034	11	Longview	Developed world equities-active	105,031	12
0	0	BlackRock	Global equities-passive	217,821	26
90,034	11			322,852	38
Investments managed outside of the London CIV					
67,656	8	LaSalle	Pooled property	68,171	8
53	0	BlackRock	Cash with investment managers	44	0
81,651	10	BlackRock	Fixed interest securities	86,080	10
20,794	3	BlackRock	Index-linked securities	22,079	3
3,205	0	Cash Deposits		3,068	0
77,181	9	GMO	Emerging markets equities-active	73,784	9
93,978	12	Insight	Diversified growth fund	95,800	11
1,438	0	JP Morgan	Cash with investment managers	1	0
150	0	London CIV	UK equities-passive	150	0
66,236	8	Oldfields	Developed world equities-active	70,627	8
13,844	2	Pantheon	Private equity	11,522	2
5,865	1	Record	Forward currency contracts	756	0
95,601	12	Aberdeen Std	Diversified growth fund	95,229	11
196,717	24	State Street	Global equities-passive	0	0
724,369	89			527,311	62
814,403	**100**			**850,163**	**100**

The following investments represent more than 5% of the net assets of the Fund:

Market value 31 March 2018	% of total fund	Investment assets	Market value 31 March 2019	% of total fund
£'000			£'000	
196,717	24	SSGA MPF All World Equity Index Sub-Fund	0	0
95,601	12	SLI Global Absolute Return Strategies Fund	95,229	11
93,978	12	Insight Broad Opportunities Fund	95,800	11
90,034	11	LCIV LV Global Equity Fund (Longview)	105,031	12
81,651	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	86,080	10
77,181	9	GMO Emerging Domestic Opportunities Equity Fund	73,784	9
67,656	8	LaSalle Investors UK Real Estate Fund of Funds	68,171	8
66,236	8	Overstone Global Equity CCF (USD Class A1 Units)	70,627	8
		Blackrock Equity Beta Portfolio	217,821	26
769,054	**94**	**Total over 5% holdings**	**812,543**	**95**

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 Equity Beta Portfolio mandate. (Previously managed by State Street).

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 2019 £40.3m (13.3%) compared to £17.30m (8.8%) as at 31 March 2018.

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.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
One to six months	GBP	2,379	AUD	(4,185)	97	
One to six months	GBP	3,952	CAD	(6,758)	69	
One to six months	GBP	4,160	CHF	(5,254)	109	
One to six months	GBP	1,246	EUR	(1,398)	41	
One to six months	GBP	5,586	HKD	(55,848)	125	
One to six months	GBP	254	NOK	(2,752)	8	
One to six months	GBP	78	NZD	(144)	2	
One to six months	GBP	870	SEK	(9,913)	50	
One to six months	GBP	458	SGD	(799)	5	
Over six months	GBP	23,390	EUR	(26,044)	901	
Over six months	GBP	8,261	JPY	(1,180,800)	49	
Over six months	GBP	59,474	USD	(76,590)	958	
Up to one month	NZD	135	GBP	(70)	1	
Up to one month	NOK	2,408	GBP	(212)	3	
Up to one month	SGD	749	GBP	(420)	4	
Up to one month	SEK	9,203	GBP	(752)	10	
Up to one month	AUD	3,843	GBP	(2,072)	24	
Up to one month	CHF	5,254	GBP	(4,022)	29	
Up to one month	JPY	983,900	GBP	(6,792)	33	
Up to one month	HKD	41,526	GBP	(4,025)	35	
Up to one month	CAD	6,597	GBP	(3,742)	49	
Up to one month	EUR	12,808	GBP	(10,960)	82	

Up to one month	USD	67,658	GBP	(51,455)	472	
One to six months	AUD	342	GBP	(190)		(3)
One to six months	CAD	161	GBP	(95)		(2)
One to six months	EUR	1,826	GBP	(1,650)		(73)
One to six months	GBP	3,733	CAD	(6,597)		(49)
One to six months	GBP	4,017	HKD	(41,526)		(36)
One to six months	GBP	4,039	CHF	(5,254)		(29)
One to six months	GBP	2,066	AUD	(3,843)		(24)
One to six months	GBP	754	SEK	(9,203)		(10)
One to six months	GBP	419	SGD	(749)		(4)
One to six months	GBP	211	NOK	(2,408)		(3)
One to six months	GBP	70	NZD	(135)		(1)
One to six months	GBP	7,598	USD	(9,971)		(55)
One to six months	GBP	466	JPY	(68,700)		(11)
One to six months	HKD	14,322	GBP	(1,444)		(43)
One to six months	JPY	393,800	GBP	(2,887)		(152)
One to six months	NOK	344	GBP	(31)		(1)
One to six months	NZD	9	GBP	(5)		(0)
One to six months	SEK	710	GBP	(63)		(4)
One to six months	SGD	50	GBP	(29)		(1)
One to six months	USD	17,864	GBP	(14,047)		(367)
Over six months	GBP	11,030	EUR	(12,808)		(84)
Over six months	GBP	14,394	JPY	(2,096,000)		(183)
Over six months	GBP	101,343	USD	(134,277)		(1,265)
Open forward currency contracts at 31 March 2019					**3,156**	**(2,400)**
Net forward currency contracts at 31 March 2019						**756**
Prior year comparative						
Open forward currency contracts at 31 March 2018					**7,310**	**(1,445)**
Net forward currency contracts at 31 March 2018						**5,865**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset it 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 - 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	Not required
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 2019 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10.00%	11,522	12,674	10,370
Pooled investments - property funds	1.90%	68,171	69,466	66,876
		79,693	82,140	77,246

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 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	766,451	3,156	79,693	**849,300**
Financial liabilities at fair value through profit and loss	0	(2,400)	0	**(2,400)**
Net Investment asset	**766,451**	**756**	**79,693**	**846,900**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss	722,342	7,310	81,500	**811,152**
Financial liabilities at fair value through profit and loss	0	(1,445)	0	**(1,445)**
Net Investment asset	**722,342**	**5,865**	**81,500**	**809,707**

The following assets have been carried at cost (no investment assets were carried at cost in 2018/19)

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investment in London CIV				**150**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

Period 2018/19	**Market Value 31 March 2018**	**Transfers into level 3**	**Transfers out of level 3**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Unrealised gains/(losses)**	**Realised gains/(losses)**	**Market Value 31 March 2019**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Private Equity	13,844	0	0	0	(598)	0	(1,724)	**11,522**
Pooled investments - property funds	67,656	0	0	0	(303)	818	0	**68,171**
	81,500	0	0	0	(901)	818	(1,724)	**79,693**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF 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 2018				31 March 2019		
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			
430,168	0	0	Pooled equities investments	467,263	0	0
102,445	0	0	Pooled bonds investments	108,159	0	0
189,579	0	0	Pooled alternative investments	191,029	0	0
67,656	0	0	Pooled property investments	68,171	0	0
150	0	0	Equity in London CIV	150	0	0
13,844	0	0	Private equity	11,522	0	0
7,310	0	0	Derivative contracts	3,156	0	0
0	6,389	0	Cash	0	4,103	0
0	310	0	Debtors	0	589	0
811,152	**6,699**	**0**		**849,450**	**4,692**	**0**
			Financial liabilities			
(1,445)	0	0	Derivative contracts	(2,400)	0	0
0	0	(275)	Creditors	0	0	(410)
(1,445)	**0**	**(275)**		**(2,400)**	**0**	**(410)**
809,707	**6,699**	**(275)**		**847,050**	**4,692**	**(410)**
	816,131		**Grand Total**		**851,332**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£'000		**£'000**
	Financial assets	
21,287	Fair value through profit and loss	43,870
0	Loans and receivables	0
	Financial liabilities	
11,537	Fair value through profit and loss	(10,269)
0	Financial Liabilities at amortised cost	0
32,824	**Total**	**33,601**

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

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 an annual 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 (+/-) %
Total equities	9.20
Fixed interest & index linked securities	7.30
Alternative investments	3.30
Pooled property investments	1.90
Private Equity	10.00

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 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	468,019	9.20	511,077	424,961
Fixed interest & index linked securities	108,159	7.30	116,055	100,263
Alternative investments	191,029	3.30	197,333	184,725
Pooled property investments	68,171	1.90	69,466	66,876
Private Equity	11,522	10.00	12,674	10,370
Equity - London CIV	150	0.00	150	150
Total	**847,050**		**906,755**	**787,345**

Asset type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities	444,162	10.42	490,442	397,882
Fixed interest & index linked securities	102,445	8.26	110,909	93,981
Alternative investments	189,579	5.56	200,112	179,046
Pooled property investments	67,656	2.14	69,102	66,210
Derivative contracts: net forward currency	5,865	0.00	5,865	5,865
Total	**809,707**		**876,430**	**742,984**

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 2019 and 31 March 2018 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 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		**£'000**	**£'000**
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
Total change in assets available	**89,193**	**861**	**90,054**	**88,332**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		**£'000**	**£'000**
Cash and cash equivalents	4,696	0	4,696	4,696
Fixed interest securities	81,651	817	82,468	80,834
Total change in assets available	**86,347**	**817**	**87,164**	**85,530**

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 8.8%

A 8.8% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2019	Change to net assets	
		+8.8%	-8.8%
	£'000	£'000	£'000
Overseas Pooled Equities	426,328	463,845	388,811

Currency Exposure - asset type	Asset Value as at 31 March 2018	Change to net assets	
		+6.44%	-6.44%
	£'000	£'000	£'000
Overseas Pooled Equities	389,585	414,674	364,496

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 2019 was £3.1m (31 March 2018: £4.7m). This was held with the following institutions.

Summary	Balances at 31 March 2018	Balances at 31 March 2019
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	3,205	3,068
JP Morgan	1,438	1
BlackRock	53	44
	4,696	**3,113**

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 in to cash. As at 31 March 2019 the value of illiquid assets was £79.7m. This represented 9% of the total Fund assets (31 March 2018: £81.5m).

All financial liabilities at 31 March 2019 are due within one year.

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 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; 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 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2020.

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

The 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	2013 %	2016 %
Price inflation (CPI)	2.1	2.1
Salary increases	3.8	2.4
Pension increases	2.5	2.1
Gilt based discount rate	3.0	2.2
Funded basis discount rate	4.6	3.8

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	**Female**
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45)	24.0 years	26.4 years

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 2018		**31 March 2019**
£m		**£m**
(1,116)	Present value of promised retirement benefits	(1,213)
761	Fair value of scheme assets	807
(355)	**Net Liability**	**(406)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2017/18	**2018/19**
	% pa	**% pa**
Inflation/pensions increase rate assumption	2.4	2.5
Salary increase rate	2.7	2.8
Discount rate	2.6	2.4

NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£'000		**£'000**
	Debtors:	
248	Contributions due - employers	526
62	Sundry debtors	63
1,693	Cash owed to Fund	990
2,003		**1,579**

NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£'000		**£'000**
(158)	Sundry creditors	(344)
(117)	Benefits payable	(66)
(275)		**(410)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.51m were paid directly to the providers during the year (2017/18: £0.48m)

Market value 31 March 2018		Market value 31 March 2019
£'000		**£'000**
1,712	Prudential Assurance	2,011
666	Clerical Medical	599
234	Equitable Life Assurance Society	219
2,612		**2,829**

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 above.

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 on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2018		31 March 2019
£'000		£'000
(18,789)	Employer's Pension Contributions to the Fund	(19,770)
846	Administration expenses paid to the Council	846
1,693	Cash held by the Council	990

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 (S151 Officer) and the Treasury & Pension Fund Manager.

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

31 March 2018		31 March 2019
£'000		£'000
81	Short-term benefits	86
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2019 totalled £2.7m (31 March 2018: £2.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures in the private equity part of the portfolio.

NOTE 27: CONTINGENT ASSETS

Three admitted body employers in the Fund hold insurance bonds or guarantees 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.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

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

Present value of promised retirement benefits

Year ended	31 March 2019	31 March 2018
Active members (£m)	582	491
Deferred members (£m)	279	255
Pensioners (£m)	479	482
Total (£m)	**1,340**	**1,228**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £72m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.6%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.4 years

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

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	107
0.5% p.a. increase in the Salary Increase Rate	1%	15
0.5% p.a. decrease in the Real Discount Rate	10%	130

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Laura McInroy FFA

25 April 2019

For and on behalf of Hymans Robertson LLP

Governance Compliance Statement

London Borough of Harrow Pension Fund

March 2018

CONTENTS

Introduction

This is the Governance Compliance Statement of The London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority. The statement provides an overview of Harrow's approach towards the governance of the Pension Fund.

Any enquiries in relation to this Statement should be sent to:

Treasury and Pensions Manager
London Borough of Harrow
3rd Floor, West Wing
Civic Centre
Station Road
Harrow
HA1 2XF
TEL: 020 8424 1432

Regulatory Framework

This Statement is required by Regulation 55 of the Local Government Pension Scheme (Scheme) Regulations 2013.

The Regulation requires Harrow Council as the Administering Authority to prepare a written statement setting out:

"… (a) whether the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying, and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers)."

This Statement will be revised and republished following any material change in any of the matters set out above. A current version of the Statement will always be available either at the address on page three or on the intranet under – 'Employment with the Council' – 'Employees Pension' – 'Policy Statements' – 'Governance Compliance Statement'.

Delegated Functions

The Council has delegated its functions to the following:

- Pension Fund Committee
- Officer Sub – Group
- Director of Finance
- Chief Officers

Pension Fund Committee

The Pension Fund Committee comprises four Members representing two different political parties with voting rights and a co-optee, an investment adviser and two independent advisers without voting rights. Council senior officers attend each meeting and trade union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Committee meets approximately four times a year and has the following responsibilities:

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

Officer Sub – Group

The Officer Sub – Group comprises the Director of Finance and the Director of Legal and Governance Services. Other senior officers attend meetings as required.

The Sub-Group meets on an ad-hoc basis and has the responsibility to determine all early retirement applications in line with Council policy

Director of Finance

Pension Fund Investment

In respect of the discretionary management arrangements the Director of Finance has the following responsibilities:

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.

- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.

- To enter into under-writing agreements.

- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended to ensure the need for diversification and stability of investments

Chief Officers

Chief Officers are specifically authorised to take decisions on behalf of the Council or its non-Executive Committees in cases of urgency, using the procedure for non-executive decisions on minor matters or the procedure for urgent non-executive decisions.

Urgent Non-Executive Decisions and Minor Matters

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the two main political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Chief Executive who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

Safeguards

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

Pension Board

As required under the Public Service Pensions Act 2013 the Council has set up a Local Pension Board. Its responsibility under the Act is to assist the Administering Authority in ensuring the effective and efficient governance and administration of the Scheme including:

- Securing compliance with the Scheme regulations and other legislation relating to the governance and administration of the LGPS;
- Securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Such other matters the LGPS regulations may specify.

In particular the Board oversees:

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

Under the provisions of the Act the Board must include equal numbers of employer and member representatives and it is made up as follows:

- Employer representative – London Borough of Harrow
- Employer representative – Scheduled and admitted bodies
- Scheme members' representative – Active members
- Scheme members' representative – Pensioners
- Independent member.

Statement of compliance to guidance

Regulation 55(1)(c) requires Scheme administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement to give, in their Governance Compliance Statement, the reasons for not complying.

Principle A – Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant*				Fully Compliant
a)					√
b)	√				
c)					NA
d)					NA

* Please use this space to explain the reason for non-compliance.

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, but there is no representation of other employers or scheme members. Two trade unions have observer status. The Pension Board includes a representative of non-Council employers, active scheme members and pensioner members and the views of the Board are reported to the Committee.

Principle B – Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

- employing authorities (including non-Scheme employers, eg, admitted bodies);
- Scheme members (including deferred and pensioner Scheme members),
- where appropriate, independent professional observers, and
- expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant*				Fully Compliant
a)				√	
b)					√

* Please use this space to explain the reason for non-compliance.

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, two independent advisers and an expert investment adviser but no representation for other employers or scheme members. Two trade unions have observer status.

Principle C – Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*				Fully Compliant
a)					√
b)					√

* Please use this space to explain the reason for non-compliance.

Principle D – Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance

Principle E – Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Not Compliant*				Fully Compliant
a)				√	
b)					√
c)				√	

* Please use this space to explain the reason for non-compliance.

The Council policy is that the Pension Fund Committee are aware of the six areas of knowledge and skills relating to the LGPS which CIPFA has identified as being the core technical requirements for those involved in decision making. They are frequently advised of training opportunities and are advised of facility time and the reimbursement of expenses.
A training log for all elected members is maintained.
Included in the Terms of Reference for the Pension Board is:
Following appointment each member of the Board should be conversant with:

- *The legislation and associated guidance of the LGPS*
- *Any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund*

The Administering Authority will provide a training programme which all Committee and Board members will be encouraged to attend

Principle F – Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	Not Compliant*				Fully Compliant
a)					√
b)					NA
c)				√	

* Please use this space to explain the reason for non-compliance.

Key stakeholders including non-Council employers and the trade unions are consulted on an ad hoc basis eg actuarial valuation, Investment Strategy Statement, Funding Strategy Statement

Principle G – Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Principle H – Scope

a) That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Principle I – Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Please use this space if you wish to add anything to explain or expand on the ratings given above

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Communications Policy Statement

London Borough of Harrow Pension Fund

March 2018

CONTENTS

Introduction

This is the Communications Policy Statement of the London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority.

The Fund liaises with a number of employers, namely:-

- Alexandra School
- Avanti House Free School
- Aylward Primary School
- Bentley Wood School
- Canons High School
- Chartwells
- Engie
- Govindas
- Harrow High School
- Hatch End School
- Heathland and Whitefriars School
- Jubilee School
- Krishna Avanti Primary School
- North London Collegiate School
- Nower Hill High School
- Park High School
- Pinner High School
- Rooks Heath College
- Salvatorian College
- St Bernadette's Catholic School
- St. Dominic's College
- St Jerome School
- Sopria Steria
- Stanmore College
- Taylorshaw
- The Jubilee Academy
- Wates

And, at 31 March 2018 the Fund had 18,432 scheme members (5,557 active members, 7,115 deferred members and 5,760 pensioner members). The delivery of the benefits payable under the Local Government Pension Scheme involves communication with a number of interested parties. This Statement provides an overview of how we communicate and how we measure whether our communications are successful.

It is effective from 1 April 2018.

Any enquiries in relation to this Statement should be sent to:

Lesley Freebody

Team Leader
Pensions Team

Harrow Council
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

telephone: 0208 416 8087

email: Lesley.freebody@harrow.gov.uk

Regulatory Framework

This Statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provisions require the Council as the Administering Authority to:

"*….prepare, maintain and publish a written statement setting out its policy concerning communications with:*

(a) members.

(b) representatives of members.

(c) prospective members and

(d) Scheme employers."

In addition it specifies that the statement must include information relating to:

"(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers."

As a provider of an occupational pension scheme, the Council is already obliged to satisfy the requirements of the Occupational and Personal Pension Schemes Disclosure of Information Regulations 2013 and other relevant legislation, for example the Pensions Act 2014. The Regulations are supported by the Pension Regulator's Code of Practice 14 Governance and Administration of Public Service Pension Schemes April 2015. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Measurement section of this document.

Responsibilities and Resources

Communications material is provided through the Pensions Team and validated through the Communications Unit. The Team write all internally produced communications including information published on the internet/intranet. The Team is also responsible for arranging all forums and meetings covered within this Statement. The Team report through the Council's management structure with ultimate responsibility for ensuring compliance with the Regulations resting with the Corporate Director – Resources and Commercial.

Printing documentation is carried out internally.

Communication with key audience groups

Our audience

The Pensions Team communicates with a number of stakeholders on an on-going basis. For the purpose of this Statement, the Team engages with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- scheme employers;
- union representatives;
- Elected Members;
- Pension Board;
- Pensions Team staff;
- local taxpayers and residents;
- other stakeholders / interested parties

In addition there are a number of other stakeholders with whom the Council communicates on a regular basis including Her Majesty's Revenue and Customs (HMRC), Department for Communities and Local Government (DCLG), Department of Works and Pensions (DWP), Pensions Advisory Service, solicitors, actuaries and other pension providers. The Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

How we communicate

General communication

The Council has put in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. However, pensions information, for the most part, is still delivered through paper based communications. The Council has developed alternative communications media (e.g. documents in Braille and large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally the Team utilises the Council's internet/intranet facilities and is developing both email and internet self-service facilities that will enable a gradual move away from paper communications and reduce communication costs.

Within the Pensions Team staff are responsible for all administration of the Local Government Pension Scheme. Any member of staff within the Team can deal with general telephone calls, written correspondence or visitors. Communications on more complicated pensions issues are managed amongst the senior management.

Telephone calls are either routed through a dedicated direct dial number or, alternatively, through main Harrow contact centre and then onwards to one of the Pension Team's extensions.

Branding

As the Pension Fund is administered by Harrow Council, all literature and communications conform to the Council's branding policy.

Accessibility

The Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request. All publications include details of how a request for alternative communication format can be requested.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members as groups are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- in line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that all relevant stakeholders have sufficient material to hand to inform pension-related judgements.

In addition, as required, appropriate communications with individual members covering their own particular circumstances are arranged.

Our objectives are met by providing the following communications:

Method of communication	***Media***	***Frequency of issue***	***Method of distribution***	***Audience group (active, deferred or pensioner members or all members)***
Scheme Guide	Paper based and through Harrow's internet	At joining and at the time of major scheme changes	Post to home address, via scheme employers and online	Active members
Newsletters	Paper based and through Harrow's internet	Annually and ad hoc to ensure timely notification of major scheme changes	Post to home address and online	Separately for active, deferred and pensioner members
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's internet	Annually	Hard copy on request and online	All members

Pension Fund Financial Statements Summary	Paper based and through Harrow's internet	Annually	Post to home address and online	All members
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred members
Fact sheets	Paper based and through Harrow's internet	Topic specific information sheets	Post to home address and online	Active and deferred members
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All members
One to one education sessions	Personal interview	On request	As requested	All members

Explanation of communications

Scheme Guide - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters – Mainly an annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as European / UK pension matters, payroll pay dates/deadlines, a summary of the accounts for the year, contact details, etc.

Pension Fund Annual Report and Financial Statements – Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Financial Statements Summary – A handy summary of the position of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details.

Annual Benefit Statements – This is a key document . For active members these include the current value of benefits to 31 March as well as the projected benefits at Normal Pension Age. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Fact sheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, death benefits and pension rights on divorce etc.

Harrow Internet – The Harrow Pension Fund website provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and Annual Report), frequently asked questions and answers, links to related sites and contact information.

One to one education sessions – These sessions offer the individual a confidential interview with a member of the team.

Policy on Communication with Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- in line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Pensions Team do not have immediate access to prospective members but the benefits of a defined benefits scheme are referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Our objectives are met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Overview of the LGPS – Guide	Paper based, and Internet	On commencing employment	Starter pack	New employees

Explanation of communications

Overview of the LGPS – Guide - A brief guide that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Harrow's Pension Fund website.

Policy on Communication with Employing Bodies

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- given the costs associated with funding a defined benefits scheme, to provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide an infrastructure that will assist in maintaining an accurate database.
- to provide literature and processes around starters, changes during employment, leavers and retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure that each employing body understands the benefits of being an LGPS employer.
- to assist the employing body in the development of its discretionary policies.

Our objectives are met by providing the following communications:

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group***
Employers Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and data storage medium	Main contact for all employers
Employers meeting	Meeting with key employing body personnel	Triennially	Meeting	Employing body management
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's internet	Annually	Internet	Employing body
FRS102 report	Electronic file format.	Annually	Data storage medium.	Employing body.
Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at Contract renewal	Hard copy post and data storage medium	Admitted body

Explanation of communications

Employers Guide - A detailed publication that provides guidance on the employer's duties and responsibilities. It assists an employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).

Employers Meeting – A formal seminar style event where the Pensions Team provide an update on the triennial actuarial valuation.

Pension Fund Annual Report and Financial Statements – Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

IAS19 Report – This is a national accounting standard that all authorities administering pension funds must follow IAS19 requires an organisation to account for retirement benefits when it is committed to provide them, even if the actual provision will be well in the future.

Service Level Agreement – A document that sets out, alongside the admission agreement, the duties and responsibilities of the Council and the employing body for the duration of the service contract.

Policy on communication with Union Representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the Scheme to union members
- to ensure the unions are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the Scheme
- to engage in discussions over the future of the Scheme and to ensure that Union representatives have sufficient knowledge and opportunity to respond on all DCLG and HMRC consultations
- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members
- to liaise with unions and provide assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives are met by providing the following communications:

Method of communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Consultation on strategy statements	Paper based and electronic	As and when required	Email or hard copy	Union observers on Pension Fund committee
Education sessions 1-1 meetings and coaching	Paper based and electronic	On request	Various	Union representatives
Pension Fund Committee meetings	Reports and meetings	In line with published Committee meeting cycle	Notification through Committee Services	Named union observers

Explanation of communications

Consultation papers– documents dealing with key issues and developments relating to the LGPS and the Fund.

Education sessions – sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme or to explain possible changes to policies]

Pension Fund Committee meetings – formal meetings of Elected Members, attended by Council senior officers, investment managers, invited pensions specialists and union members.

Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members are:

- to ensure that Elected Members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.
- to seek Elected Member approval to the development or amendment of discretionary policies,
- to seek Elected Members approval to formal responses to government consultation in relation to the scheme

Our objectives are met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following member elections or in a timely manner briefings to ensure Elected Members are aware all relevant aspects of the Scheme	LGPS specific seminars	All Elected Members but specifically the Pension Fund Committee.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members but specifically the Pension Fund Committee
Pension Fund Committee Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All members of the Pension Fund Committee
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	All Elected Members but specifically the Pension Fund Committee

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Elected Member's key duties and responsibilities.

Briefing papers – briefings highlight key issues and developments in the LGPS**.**

Pension Fund Committee Meetings – reports submitted to the Committee.

Report and Verbal Briefing – occasions when Members require briefing on forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

Policy on communication with Pension Board

Our objective with regard to communication with the Pension Board is:

- to ensure that the Board members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.

Our objective is met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following the appointment / election of members of the Board or in a timely manner to ensure they are aware all relevant aspects of the Scheme	LGPS specific seminars	All Board Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Board members
Pension Board Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All Board members

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and the Board's key duties and responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS.

Pension Board Meetings – reports submitted to the Board.

Policy on communication with Pensions Team

Our objectives with regard to communication with Pensions Team staff are:

- to ensure they are aware of changes and proposed changes to the LGPS scheme.
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management and re-engineering service processes to monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives are met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Identify training/development needs as part of Appraisal	Appraisal documentation	Annual exercise, reviewed at 6 months. Informal bi-monthly meetings	Appraisal process	All Pensions Team staff
Staff meetings	Informal briefings	As and when required	By arrangement	All Pensions Team staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All Pensions Team staff

Explanation of communications

Appraisal – Formal staff review process where future training/development needs are identified in relation to the Team's strategic priorities.

Staff meetings - Informal training sessions which provide new and established staff with timely update on changes to pensions legislation or processes

Attendance at external courses – to provide more tailored training where it is cost-effective to use external trainers

Policy on communication with tax payers and residents

Our objective with regard to communication with tax payers is:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Reports/written response/electronic postings	Various	Reports published annually and when otherwise required in relation to general enquiries	Various	All Harrow tax payers and residents

Explanation of communications

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council's Pension Fund internet site. Other ad hoc requests are responded to in light of the specific information requested utilising the most appropriate communications medium.

Policy on communication with other stakeholders / interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the Scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Pension Fund Valuation reports • Rates and Adjustment Certificate • Revised Rates and Adjustment Certificate • Cessation valuations	Electronic	Every three years	Email	DCLG, HMRC and all Scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	New "admitted" bodies
Resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Email or post	Scheme member or his/her representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Email or post	As required

Explanation of communications

Pension Fund Valuation Reports – a statutory report issued every three years by the Scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Performance Measurement

The Pensions Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	***Audience***	***Statutory delivery period***	***Target delivery period***
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 working days of joining
Annual Benefit Statements as at 31 March	Active members	31 August	July each year
Telephone calls	All	Not applicable	All calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Within 5 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within 10 working days of relevant paperwork being received
Transfers in	Joiners/active members	Within two months of request	Within 10 working days of relevant paperwork being received
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Financial Statements	All	Within two months of request	Within five working days

Quality

Audience	***Method***	***To consider***	***Notes***
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: • retirements • new starts and transfers in • transfers out • deferred leavers
Employers	Electronic	Scheduled / Admitted body specific issues	feedback

Results

The Pension Board receives reports on performance at each of its meetings.

Review Process

Our Communications Policy Statement will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the Statement will always be available either from the Pensions Team at

Harrow Council
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

or on our internet site under www.harrowpensionfund.org

Funding Strategy Statement

London Borough of Harrow Pension Fund

March 2019

CONTENTS

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Harrow Pension Fund ("the Fund"), which is administered by Harrow Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. This revised version is effective from 12 March 2019.

1.2 What is the London Borough of Harrow Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Harrow Fund to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This Statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the Council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for Council money;
- a Council Tax payer: your Council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Iain MIllar, Treasury and Pension Fund Manager in the first instance at e-mail address iain.millar@harrow.gov.uk or on telephone number 0208 424 1432.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions are made to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant number of whom are new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing its membership of the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect Council and employer service provision, and Council Tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced Council spending, which in turn could affect the resources available for services, and/or greater pressure on Council Tax levels;
- Contributions which academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting Council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions in the future: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice; such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the Council will wish to minimise the extent to which Council Tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	**Council Pool**	**Academies**	**Colleges**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)		No	No		No
Maximum time horizon – Note (c)	20 years		20 years – subject to security / covenant check	15 years – subject to security / covenant check		same time horizon as letting authority
Secondary rate – Note (d)	Monetary amount					
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term – where deemed appropriate by the Administering Authority
Probability of achieving target – Note (e)	65%	67%	67%	67%	67%	75%
Phasing of contribution changes	Covered by stabilisation arrangement		None			
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt/surplus payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/surplus (if any) calculated on ongoing basis. Awarding Authority will

			be liable for future deficits and contributions arising.

*Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the awarding authority with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in Note (j).

Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council Pool	Academies
Max cont increase	1% for three years 1.5% thereafter	1% for three years 1.5% thereafter
Max cont decrease	0.6%	0.6%

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

At the 2016 valuation, existing academies were given the option to pay a stabilised rate of contribution or continue paying their individually calculated contribution rate. Those opting to stabilise contributions were certified an initial contribution rate for 2016/17 equal to the contribution rate payable by the London Borough of Harrow in that year.

In future, new Academies will be given the option to either pay their individual calculated rate at the conversion date or be stabilised. For those electing to stabilise, the initial contribution rate payable will be the contribution in payment by the London Borough of Harrow at the Academy's commencement date. The decision to stabilise would be one-off in nature – that is, Academies would make the decision only on conversion, and would not be able to choose the lower of two different rates at each triennial valuation.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the valuation date (31 March 2016 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were are low number of or no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer covering the three year period until the next valuation will be set as a monetary amount.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,

- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

The Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the Council's assets in the Fund. This asset share will be calculated using the estimated funding position of the Council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the Council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the Council funding position and, membership data, all as at the day prior to conversion.

v. As an alternative to (iv), the academy will have the option at conversion to pay a stabilised rate of contribution as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

“A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular, there are three different routes that such employers may wish to adopt:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout the duration of its contract and does not pay any cessation deficit or receive any cessation surplus.

From 26 February 2019, the Administering Authority's preferred approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contactor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum rate equal to the letting authority's primary rate on the contract start date. Upon cessation the contractor's assets and liabilities will transfer back to the awarding authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place and as if they were any other employer within the London Borough of Harrow Pension Fund. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then it will then be up to the awarding authority and the contractor to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body, where there is a surplus, an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus.. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit or surplus;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and

- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances, the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund.. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the Pension Fund Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in December 2016 for comment;

b) Comments were requested by 20 January 2017.;

c) There was an Employers Forum on 2 February 2017 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the Council website

A copy sent by [post/e-mail] to each participating employer in the Fund;

A copy sent to [employee/pensioner] representatives;

A full copy [included in/linked from] the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Compliance Statement and Communications Policy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Council website

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.

Risk	Summary of Control Mechanisms
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

For employers with a short time horizon, the Administering Authority may choose not to levy a secondary rate depending on the employer's individual circumstances.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;

4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;

6. the difference between actual and assumed increases to pensions in payment and deferred pensions;

7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;

2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.

Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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LONDON BOROUGH OF HARROW PENSION FUND

INVESTMENT STRATEGY STATEMENT

March 2018

CONTENTS

Executive Summary

The London Borough of Harrow Pension Fund Investment Strategy Statement has been prepared in accordance with the relevant Local Government Pension Scheme Regulations.

The objective of the Fund is to provide pension and lump sum benefits for its members and their dependants.

To assist in the achievement of this objective the Fund makes investments in accordance with:

- its investment beliefs;
- its asset allocation strategy reflecting its views on the suitability of particular investments and types of investments;
- its approach to risk, including its measurement and management;
- its approach to pooling;
- its policy on social, environmental and governance considerations;
- its policy as regards the stewardship of its assets including the exercise of voting rights; and
- its compliance with the "Myners Principles"

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity under **Regulation 7** of the Local Government **Pension** Scheme as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pension Fund Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority …….. save for those matters delegated to other committees of the Council or to an officer."

1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS, which was last approved by the Committee in March 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has previously consulted on the contents of the Strategy with each of its employers, the Pension Board and the two trade union observers. The ISS should be read in conjunction with the Fund's Funding Strategy Statement proposed amendments also on the committee agenda for approval by the Committee on 12 March 2019.

1.5 The amendments to the investment policy reflect the results of the Investment Strategy Review and Asset Liability Modelling exercise that was undertaken in 2017.

2. Statutory background

2.1 Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

3. Directions by Secretary of State

3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department for Communities and Local Government.

3.2 The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

4. Advisers

4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Committee and Council officers such advice is taken from:

- Aon Hewitt Ltd – investment consultancy
- Independent advisers

4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP

5. Objective of the Fund

5.1 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 (ie the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, 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.

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

6 Investment beliefs

6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk.
- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised

- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is very long, the time horizon of the investment strategy should be similarly long term
- Equities are likely to outperform most other asset classes in the long term and, in view of its current assets / liabilities structure, the Fund's investments should be heavily biased towards this asset class
- Performance advantage is likely to be realised from the successful selection of active asset managers
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to a passive equities manager and other asset classes
- The impact of currency mismatches is mitigated by implementing a currency hedging strategy
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used).

7.4 The Committee has set a strategic asset allocation benchmark for the Fund as detailed in the table below. This benchmark was set in 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. The table shows both a short term allocation and a desired movement in allocation over the medium-term.

ASSET CLASS	MANAGEMENT APPROACH	CURRENT ALLOCATION	CURRENT RANGE	DESIRED MOVEMENT IN MEDIUM-TERM
		%	%	
Equities				
Global	Passive	24.0		
Global	Active Unconstrained	18.0		
Emerging Markets	Active Unconstrained	8.0		
TOTAL		50.0	45-55	
Bonds				
Corporate	Active	10.4		
Index Linked Gilts	Active	2.6		
TOTAL		13.0	11-15	
Alternative Investments				
Diversified Growth Funds	Active	17.5	15-20	Decrease and use proceeds to fund Property and Infrastructure opportunities
TOTAL		17.5	15-24	
Property	Active	10.0	8-12	Increase as opportunities arise
Infrastructure	Active	7.5	0-8.5	Increase as opportunities arise
Private Equity	Active	2.0	0-3	Reduce as current funds wind down
TOTAL		**100.0**		

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in “growth assets” i.e. those expected to generate ‘excess’ returns over the long term. These include equities, and private equity. The structure also includes a small allocation to “cash flow matching” assets, mainly corporate bonds. The investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.

7.6 The Investment Strategy Review undertaken in 2017 resulted in the Fund reducing its strategic allocation to Equities from 62% to 50%. The proceeds of the reduction in the allocation to Equities are to be held in the Fund's Diversified Growth Funds at the current time, whilst the Committee undertake training and seek opportunities in two particular asset classes; infrastructure and value-add / opportunistic property. As part of the Review, the Committee also agreed to make no further commitments to Private Equity.

7.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

7.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for the private equity investment which is now subject to significant distributions, a re-balancing exercise is carried out to ensure that the allocation remains within the range set. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.

7.9 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future.

7.10 The following table shows the 10 year risk and return statistics for the Fund's revised investment strategy, which was agreed as part of the Investment Strategy Review. In the Asset Liability Modelling with formed part of the Investment Strategy Review, two types of risk were considered:

- Absolute risk – the risk that the value of the Fund's assets decreases. This is measured through the absolute volatility of the assets.
- Relative risk – the risk associated with the volatility of the value of the Fund's assets relative to the value of its liabilities. This reflects the fact that the assets and liabilities do not necessarily react to market conditions in the same way.

Return expectations are also shown in both absolute and relative terms.

Current Strategy	Key Statistics
10 year return (absolute)	6.5%
10 year return (relative)	4.0%
10 year volatility (absolute)	12.7%
10 year volatility (relative)	16.1%

Data as at 31 March 2017

7.11 The table below shows the 10 year expected returns, volatilities and correlations for the asset classes modelled as part of the investment strategy review (data as at 31 March 2017):

	10y Return (%p.a.)	10y Risk (%p.a.)	Correlation							
	Median (GeoM)	Annual Volatility	Private Equity	Index Linked Gilts	UK Corporate Bonds	DGFs	Property	Infrastructure	Global Equities	EM Equities
Private Equity	8.2	27.5	1.00							
Index Linked Gilts	0.5	10.2	-0.05	1.00						
UK Corporate Bonds	1.5	9.9	0.00	0.48	1.00					
DGFs	5.2	9.0	0.60	0.10	0.40	1.00				
Property	5.5	12.6	0.31	-0.04	0.01	0.28	1.00			
Infrastructure	5.1	14.6	0.31	-0.01	0.02	0.27	0.21	1.00		
Global Equities	7.0	17.7	0.73	-0.08	0.00	0.72	0.41	0.39	1.00	
EM Equities	8.9	31.8	0.61	-0.07	0.02	0.67	0.35	0.30	0.82	1.00

Data as at 31 March 2017. Additional assumptions used when modelling specific asset classes are:

- Corporate bonds modelled as passive over 15 year AA non-gilts
- Index-linked gilts modelled as passive over 5 year ILGs
- Global Equities modelled to reflect the Fund's actual active/passive and UK/overseas split. Overseas equities modelled as 50% GBP currency hedged.
- Emerging market equity allocation modelled as actively managed and currency unhedged.
- Infrastructure modelled as USD Infrastructure Total Return Hedged. This is Infrastructure equity.
- DGFs modelled as 50% GARS style, 50% Capital Preservation style DGFs

\- 7.12 When considering relative risk, the Asset Liability Modelling exercise also looked at a short-term measure known as the Value at Risk ("VaR"). This indicates the amount that the Fund's surplus/deficit stands to deteriorate by in a 1 in 20 event. The overall VaR for the Fund's investment strategy was £271m as at 31 March 2017.

7.13 Further details on the Fund's risks, including the approach to mitigating them, is provided in section 11.

8 Asset classes

8.1 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.

8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

8.3 Apart from the maximum level of investments detailed in the table above the Fund has no further restrictions.

8.4 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity and property. Over 70% of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8.5 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

9 Fund managers

9.1 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.

9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style 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 also performance related fees.

9.3 Except for the passive global equities manager, the managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.4 The management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

9.5 As at the date of this ISS the details of the managers appointed by the Committee are as follows:

9.5.1 BlackRock Investment Management (UK) Ltd (through London CIV)
Asset class – Global equities
Benchmark – FTSE All-World Index
Performance objective – Match the performance of the benchmark

9.5.2 Longview Partners (through the London CIV)
Asset class – Developed World equities
Benchmark – MSCI World (Local) (TR Net)
Performance objective – +3% to +3.5% p.a. (gross) over three year rolling periods

9.5.3 Oldfield Partners
Asset class – Developed World equities
Benchmark – MSCI World NDR
Performance objective – Outperform the benchmark by 2-3% net of fees over the long term

9.5.4 GMO LLC

Asset class – Emerging Markets equities
Benchmark – MSCI Emerging Markets
Performance objective – Outperform the index over a market cycle

9.5.5 BlackRock Investment Management (UK) Ltd

Asset class – Corporate bonds
Benchmark – iBoxx Sterling Non-Gilts 10+ Years Index
Performance objective – Match the performance of the benchmark

9.5.6 BlackRock Investment Management (UK) Ltd

Asset class – Index linked gilts
Benchmark – FTSE Actuaries UK Index Linked Gilts Over 5 Years Index
Performance objective – Match the performance of the benchmark

9.5.7 Insight Investment

Asset class – Diversified Growth Fund
Benchmark – 3 Month GBP LIBID
Performance objective – Sterling 3-month LIBID + 3-5%p.a. net of fees

9.5.8 Standard Life Investments

Asset class – Diversified Growth Fund
Benchmark – 3 Month GBP LIBOR
Performance objective – LIBOR (6 month) +5% p.a. over rolling 3 year periods (gross of fees)

9.5.9 Pantheon Ventures

Asset class – Private equity
Benchmark: Europe Fund V 'A' LP - MSCI Europe Net TR; FTSE Europe Net TR; Russell Europe Index
Benchmark: USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index
Benchmark: Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR; Russell Global Net TR
Performance objective – Outperform the quoted benchmarks by 3-5% over the long term.

9.5.10 La Salle Investment Management

Asset class – Property

Benchmark – IPD UK PPF All Balanced Fund

Performance objective – To outperform the benchmark by maximising total returns through a combination of capital growth and income return.

9.5.11 Record Currency Management Limited

Asset class – Passive Currency Hedging

Objective – To provide a passive currency hedge of 50% of the Fund's global equity exposure

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.

9.8 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration

10 Stock lending

10.1 Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request.

11 Approach to risk

11.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

11.2 At least once a year (most recently on 28 June 2017) the Committee reviews its risk register which details the principal risks identified and the Committee's approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.

11.3 Funding risks

11.3.1 The major funding risks identified are:

- Fund assets are not sufficient to meet long term liabilities
- Relative movement in value of Fund assets does not match the relative movement in Fund liabilities
- Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
- Insufficient assets to meet short and medium term liabilities

11.3.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set in 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

11.3.3 On a quarterly basis the Committee receives a report from the Investment Adviser on de-risking "triggers" that could be catalysts for a move towards a more liability driven investment strategy. The "triggers" are related to:

- The Fund's funding level
- The 20 year spot yield
- Aon Hewitt's view of bond yields

11.3.4 The Committee also seeks to understand the assumptions used in any analysis and modelling so that they can be compared to their own views and to enable the level of risks associated with these assumptions to be assessed.

11.3.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service provided by Club Vita, a "sister" company of the Fund's Actuary, Hymans Robertson. Club Vita carries out a comprehensive analysis of the Fund's longevity data to facilitate an understanding which helps to manage this issue in the most effective way.

11.4 Asset risks

11.4.1 The major asset risks identified are:

- Significant allocation to any single asset category and its underperformance relative to expectation.
- General fall in investment markets
- Failure by fund managers to achieve benchmark returns

11.4.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.
- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- Whilst part of the objective of the Committee is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Committee acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

11.5 Security risks

11.5.1 The major security risks identified are:

- Investment manager may not have an appropriate control framework in place to protect and value Fund assets
- Custody arrangements may not be sufficient to safeguard fund assets
- Counterparty default in stock lending programme and foreign exchange forward contracts

11.5.2 The Committee monitors and manages risks in these areas through the regular scrutiny of the audit of the operations independently conducted for each of its investment managers. Where appropriate (e.g. custody risk in relation to pooled funds), the Fund has delegated such monitoring and management of risk to the appointed investment managers. The Committee has the power to replace a provider should serious concerns arise.

12 Approach to pooling

12.1 In line with the Government's pooling agenda the Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV is operating were set out in the July 2016 submission to Government.

12.2 The London CIV is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid classes to follow.

12.3 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress. The Fund currently holds its global equity assets with Longview through the London CIV.

12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments.

12.5 However, it has since become clear that, in accordance with Government guidance, assets held in life funds should be retained outside pools. The Fund's allocation of 25% of its total assets in a global equities passive mandate is held in a life fund which thereby reduces the "poolable" universe to 65%. Nevertheless, the Fund agrees that the London CIV should monitor its passive fund as part of the broader pool.

12.6 Any assets deemed not appropriate for investment through the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate and whether the non-pooled investments continue to demonstrate value for money. The next such review will take place no later than 2019.

12.7 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London boroughs (in Harrow's case the Pension Fund Committee Chair), and the Investment Advisory Committee which includes both

London borough treasurers and pension officers from a number of boroughs. At the company level it is the Board of Directors that is responsible for decision making within the company, which includes decisions to appoint and remove investment managers.

13 Social, environmental and governance considerations

13.1 As considered earlier, the Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.

13.2 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

13.3 All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which they invest. Further, it expects its managers to follow good practice and use their influence as major institutional investors and long term stewards of capital to promote good practice in companies in which they invest and markets to which the Fund is exposed.

13.4 The Fund expects its investment managers (and especially the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund. Effective monitoring can inform engagement with boards and management of investee companies to seek the resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed the Fund expects its managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

13.5 The Council expects its managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.

13.6 Over the last year each of the Fund's investment managers has been asked:

- Whether they had signed up to UN Principles for Responsible Investment (PRI)
- Whether they had signed up to "The UK Stewardship Code"
- To provide reports on their engagement and voting actions

The responses to these queries are available on the Fund's website

13.7 In addition the Committee meets most of its managers at least once a year and they are always asked to discuss the activities they undertake in respect of socially responsible investment and how they consider long term environmental, social and governance risks in making specific investment decisions.

13.8 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with many companies on a wide range of environmental, social and governance issues.

13.9 The Fund does not hold any assets which it deems to be social investments.

14 Exercise of the rights (including voting rights) attaching to investments

14.1 The Fund recognises the importance of its role as a steward of capital and of the need to seek to ensure the highest standards of governance and corporate responsibility in the underlying companies in which its investments reside.

14.2 The Council sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

14.3 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality with the objective of preserving and enhancing long term shareholder value.

14.4 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

14.5 The fund managers provide reports on their voting and engagement activities.

15 Stewardship

15.1 Whilst the Committee expects its investment managers to have signed up to The Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors ("The UK Stewardship Code") it has not yet done so itself. It will be considering whether to do so during the next year

15.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.

15.3 The Fund also believes in collective engagement and is a member of the LAPFF which exercises a voice on behalf of over 70 local authority pension funds across a range of corporate governance issues.

15.4 Additionally the Fund is a member of the Pensions and Lifetime Savings Association through which it joins with other investors to maximize the influence of investors as asset owners.

16 Compliance with "Myners" Principles

16.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated "Myners" 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 in the United Kingdom 2012." These principles codify best practice in investment decision making

Appendix 1

Compliance with “Myners” Principles

1. Effective decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

<u>Fund compliance – Full</u>

- The Council has delegated decision making in respect of the Pension Fund to the Pension Fund Committee, comprising four Councillors with full voting rights with representatives from the trade unions invited.
- The Committee, with advice from its Investment Adviser and independent advisers has appropriate skills for, and is run in a way that facilitates, effective decision making.
- Members of the Committee are provided with training opportunities in line with the skills and knowledge framework produced by CIPFA.
- There are sufficient internal resources and access to external resources for the Pension Fund Committee to make effective decisions.

2 Clear objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the Administering Authority and scheme employers. These should be clearly communicated to advisers and investment managers.

<u>Fund compliance - Full</u>

- The Fund’s Investment Strategy Statement and Funding Strategy Statement set out its investment objectives which are agreed after consultation with the Fund actuary and take into account the Fund’s liabilities, the impact on employer contribution rates, future cashflows and the Fund’s attitude to risk.
- Asset allocation, benchmarks and risk parameters are set with the aim of achieving these objectives.
- Fund managers have clear written mandates with individual performance targets and benchmarks and their performance is measured and reviewed by the Committee on a quarterly basis.
- Full account is taken of the strength of the sponsor covenant for all non-local authority employers admitted to the fund and contribution rates set accordingly.

3 Risks and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

<u>Fund compliance – Full</u>

- A risk register is maintained with specific investment risks identified
- The Committee, in setting its investment strategy, has taken account of the form and structure of its liabilities following advice from the Fund's actuary. The strategy aims to achieve the return required to meet its liabilities whilst taking into account stability of contributions and affordability for employers.
- Consideration is given to the payment of a bond by prospective admitted bodies to the Fund to minimise the financial consequences of default.
- A risk assessment and suggestions as to how the risks can be managed is included in the triennial valuation.
- Longevity risk is built into the triennial actuarial and is therefore included when determining the investment strategy
- Investment risk, including that of underperformance is taken into account in the Investment Strategy Statement and the Fund's Annual Report.

4 Performance Assessment

Arrangements should be in place for the formal measurement of the performance of investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

<u>Fund compliance – Partial</u>

- In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
- Up to 31 March 2016 regular performance measurement reports were received from State Street Global Services, the most active provider of these services to Local Government Pension Scheme administering authorities. State Street no longer provide these services.
- The Council has now agreed a contract with Pensions and Investment Research Consultants Ltd for them to provide quarterly and annual reports detailing the performance of the Fund and its managers and identifying the achievements resulting from asset allocation and manager performance.
- The performance of actuaries and advisers is informally assessed on an ongoing basis.

- The performance of the Fund is reported annually to all scheme members and is included in the Annual report.
- The relationships between the Committee and the Pension Board are being developed in order that the Board can assist the Committee in its work.

5 Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the Investment Strategy Statement.
- Report periodically to members on the discharge of such responsibilities.

Fund compliance – Partial

- The Fund's policy on the extent to which its investment managers take account of social, environmental and ethical considerations is stated in the Investment Strategy Statement.
- The Fund expects its managers to engage positively and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.
- Where applicable, the Fund expects its managers to have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Whilst the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers the Council encourages its managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

6 Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to members in the form they consider most appropriate.

Fund compliance – Full

- The Fund publishes a Communications Policy Statement detailing its policy and strategy for communicating information to members, prospective members and their employers, union representatives, elected Members, tax payers and other interested parties. The Fund makes available a range of documents including:

- Annual Report including Statement of Accounts.
- Governance Compliance Statement which includes level of compliance.
- Communications Policy Statement.
- Investment Strategy Statement.
- Funding Strategy Statement.
- Triennial Actuarial Valuation.
- Agenda and Minutes of Pension Fund Committee and Pension Board.
- Annual Statement of Benefits to all active and deferred members.
- Newsletter to pensioners once a year.
- Newsletters to active members at least once a year.

- The Communications Policy Statement details the methods of communication available for each "target" group which include:
    - The Council's website
    - Hard copy
    - Annual employers meeting

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A brief guide to the Local Government Pension Scheme (LGPS)

Employees in England and Wales

Highlights of the LGPS

The LGPS gives you:

Secure benefits –
the Scheme provides you with a future income, independent of share prices and stock market fluctuations.

At a low cost to you –
with tax-efficient savings.

And your employer pays in too –
the Scheme is provided by your employer who meets the balance of the cost of providing your benefits in the LGPS.

You can look forward to your retirement in the LGPS with:

A secure pension –
worked out every ***Scheme year*** and added to your ***pension account***. The pension added to your account at the end of a ***Scheme year*** is, if you are in the main section of the Scheme, an amount equal to a 49^{th} of your ***pensionable pay*** in that year. At the end of every ***Scheme year*** the total amount of pension in your account is adjusted to take into account the cost of living (as currently measured by the ***Consumer Prices Index (CPI)***).

Flexibility to pay more or less contributions –
you can boost your pension by paying more contributions, which you would get tax relief on. You also have the option in the LGPS to pay half your normal contributions in return for half your normal pension. This is known as the 50/50 section of the Scheme and is designed to help members stay in the Scheme when times are financially tough.

Tax-free cash –
you have the option when you take your pension to exchange part of it for some tax-free cash.

Peace of mind –
your family enjoys financial security, with immediate life cover and a pension for your spouse, ***civil partner*** or ***eligible cohabiting partner*** and ***eligible children*** in the event of your death in service. If you ever become seriously ill and you've met the two years ***vesting period***, you could receive immediate ill health benefits.

Freedom to choose when to take your pension –
you do not need to have reached your ***Normal Pension Age*** in order to take your pension as, once you've met the two years ***vesting period***, you can choose to retire and take your pension at any time between age 55 and 75. Your ***Normal Pension Age*** is simply the age you can retire and take the pension you've built up in full. However, if you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

Redundancy and Efficiency Retirement –
if you are made redundant or retired in the interests of business efficiency at or after age 55 you will, provided you've met the two years ***vesting period***, receive immediate payment of the main benefits you've built up without any reduction for early payment (but any additional pension you have chosen to buy would be reduced if you are under your ***Normal Pension Age*** when you retire).

Flexible retirement –
if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, and you've met the two years ***vesting period***, take some or all of the benefits you have already built up, helping you ease into retirement, although your benefits may be reduced for early payment.

The Scheme

This guide is a short description of the conditions of membership and main Scheme benefits that apply if you pay into the LGPS on or after 1 April 2014.

What kind of scheme is it?

The LGPS is a tax approved, defined benefit occupational pension scheme which was set up under the Superannuation Act 1972 (but, in the future, Scheme rules will be made under the Public Service Pension Schemes Act 2013).

The LGPS was contracted out of the State Second Pension scheme (S2P) until 5 April 2016; from 6 April 2016 the ‘contracted out’ status ceased to exist for all pension schemes due to the introduction of the single tier State Pension. The LGPS meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

The amount of pension you earn in a ***Scheme year*** is worked out each year and added to your ***pension account***. The total amount of pension in your ***pension account*** is revalued at the end of each ***Scheme year*** so your pension keeps up with the cost of living.

The LGPS is very secure because the benefits are set out in law.

Who can join?

The LGPS covers employees working in local government and for other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and work for an employer that offers membership of the Scheme. If you are employed by a designating body, such as a town or parish council, or by a non-local government organisation which participates in the LGPS (an ***admission body***), you can only join if your employer nominates you for membership of the Scheme. Police officers, operational firefighters and, in general, teachers and employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

If you start a job in which you are eligible for membership of the LGPS you will be brought into the Scheme if your contract of employment is for three months or more.

- If your contract of employment is for less than three months and you are, or during that period you become, an ***Eligible Jobholder*** you will be brought into the Scheme from the ***automatic enrolment date*** (unless your employer issues you with a postponement notice to delay bringing you into the Scheme for up to a maximum of three months) or
- if your contract is extended to be for three months or more you will be brought into the Scheme from the beginning of the pay period after the one in which your contract is extended or
- if you opt to join by completing an application form you will be brought into the Scheme from the beginning of the pay period after the one in which you opt to join.

If you are brought into the Scheme you have the right to opt out. You cannot complete an opt out form until you have started your employment.

How do I ensure that I have become a member of the LGPS?

On joining the LGPS relevant records and a ***pension account*** (for each employment in the Scheme, if you have more than one) will be set up and an official notification of your membership of the LGPS will be sent to you. **You should check your payslip to make sure that pension contributions are being deducted.**

Can I opt out of the LGPS and re-join at a later date?

Yes, you can opt out of the Scheme but if you are thinking of opting out you might first want to consider an alternative option which is to elect to move to the 50/50 section of the Scheme. The 50/50 section allows you to pay half your normal contributions in return for half your normal pension build up. To find out more, see the section on **Flexibility to pay less**.

If, having considered the 50/50 option, you still decide the LGPS is not for you, you can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing. You might, however, want to take independent financial advice before making the final decision to opt out.

If you opt out of the LGPS before completing three months' membership you will be treated as never having been a member and your employer will refund to you, through your pay, any contributions you have paid during that time.

If you opt out of the LGPS with three or more months' membership and before completing the two years ***vesting period*** you can take a refund of your contributions (less any statutory deductions) or transfer out your pension to another scheme.

If you opt out of the LGPS after meeting the two years ***vesting period*** you will have deferred benefits in the Scheme and will generally have the same options as anyone leaving their job before retirement, except you cannot take your deferred benefits unless you have left your job. Also, if you re-join the Scheme you will not be permitted to join your deferred benefit with the ***pension account*** that will be created when you re-join the Scheme. Instead, you will have two separate sets of pension benefits.

If you opt out, you can, provided you are otherwise eligible to join the Scheme, opt back into the Scheme at any time before age 75.

If you opt out of the LGPS then:

- on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will automatically enrol you back into the LGPS if you are an ***Eligible Jobholder*** at that time in the job you've opted out from, or
- if on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008 you are not an ***Eligible Jobholder*** in the job you opted out from, your employer will, if you subsequently become an ***Eligible Jobholder*** in that job, automatically enrol you back into the LGPS from the ***automatic enrolment date***.

Your employer must notify you if this happens. You would then have the right to again opt out of the LGPS.

If you stay opted out your employer will normally automatically enrol you back into the LGPS approximately every three years from the date they have to comply with the automatic enrolment provisions provided, at the date your employer has to enrol you back in, you are an ***Eligible Jobholder***.

However, in any of the above cases, your employer can choose not to automatically enrol you if:

- you had opted out of the LGPS less than 12 months before the date you would have been automatically enrolled in the job, or

- notice to terminate employment has been given before the end of the period of 6 weeks beginning with what would have been the date you were automatically enrolled in the job, or
- your employer has reasonable grounds to believe that, on what would have been the date they would have automatically enrolled you, you hold Primary Protection, Enhanced Protection, Fixed Protection, Fixed Protection 2014, Individual Protection 2014, Fixed Protection 2016 or Individual Protection 2016.

What do I pay?

Your contribution rate depends on how much you are paid but it's currently between 5.5% and 12.5% of your ***pensionable pay***. If you elect for the 50/50 section of the Scheme you would pay half the rates listed below. The rate you pay depends on which pay band you fall into. When you join, and every April afterwards, your employer will decide your contribution rate. Also, if your pay changes throughout the year, your employer may decide to review your contribution rate.

Here are the pay bands and the rates that apply from April 2019.

Contribution bandings 2019/20			
If your actual pensionable pay is:			**You pay a contribution rate of:**
Up to		£ 14,400	5.5%
£ 14,401	to	£ 22,500	5.8%
£ 22,501	to	£ 36,500	6.5%
£ 36,501	to	£ 46,200	6.8%
£ 46,201	to	£ 64,600	8.5%
£ 64,601	to	£ 91,500	9.9%
£ 91,501	to	£ 107,700	10.5%
£ 107,701	to	£ 161,500	11.4%
£ 161,501		Or more	12.5%

The contribution rates and / or pay bands in the table above will be reviewed periodically and may change in the future.

Do I get tax relief?

As a member of the LGPS, if you earn enough to pay tax, your contributions will attract tax relief at the time they are deducted from your ***pensionable pay***. There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the standard annual allowance of £40,000 (2019/20) you may have to pay a tax charge. Most people will not be affected by the annual allowance.

Does my employer contribute?

Your employer currently pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the Scheme.

Is there flexibility to pay less in contributions?

Yes, in the Scheme there is an option known as 50/50 which provides members with the facility to pay half the normal contributions and to build up half the normal pension during the time the reduced contributions are being paid - see the section on **Flexibility to pay less**.

Can I make extra contributions to increase my benefits?

You can increase your benefits by paying extra contributions, known as Additional Pension Contributions (APCs), to buy extra LGPS pension, or by making payments to the Scheme's ***Additional Voluntary Contributions (AVC)*** arrangement. Your LGPS administering authority can give you more information on these options. Contact details are at the end of this guide.

You are also able to make payments to a personal pension, stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

What if I've been a member before and re-join the LGPS?

If you re-join the LGPS and you have deferred benefits in a LGPS fund in England or Wales (which you were awarded other than as a result of electing, on or after 11 April 2015, to opt out of membership of the Scheme) your deferred benefits will normally be automatically joined with your new active ***pension account***. If, for benefits that are normally automatically joined together, you want to retain separate deferred benefits then you must make an election within 12 months of re-joining the Scheme (or such longer period as your employer and LGPS administering authority may allow).

If you have deferred benefits in a LGPS fund in England or Wales which you were awarded as a result of electing, on or after 11 April 2015, to opt out of membership of the Scheme, you cannot join those benefits with your new active ***pension account***. They will remain as a separate deferred benefit.

If you re-join the LGPS in England or Wales and have a deferred refund this **must** be joined with your new active ***pension account***.

What about any non-LGPS pension rights I have?

If you have paid into another non-LGPS pension arrangement or to the LGPS in Scotland or Northern Ireland, you may be able to transfer your previous pension rights into the LGPS (provided you are not already taking them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer and LGPS administering authority allow you longer.

What if I'm already receiving an LGPS pension – will it be affected?

If you are already receiving a pension from the Scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you must tell the LGPS administering authority that pays your pension about your new employment, regardless of whether you join the Scheme in your new position or not. They will let you know whether your pension in payment is affected in any way.

If you are receiving a pension from the Scheme, all of which you built up after 31 March 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS administering authority that pays your pension as there is no effect on your pension in payment. The only exception to this is if you are in receipt of a LGPS ill-health pension of the type that is stopped if you are in any gainful employment, in which case **you must inform the employer who awarded you that pension** and they will let you know whether your pension in payment should be stopped.

Contribution Flexibility

Flexibility to pay less

When you join the Scheme you will be placed in the main section of the Scheme. However, once you are a member of the Scheme you will be able to elect in writing, at any time, to move to the 50/50 section if you wish.

The 50/50 section gives you the ability to pay half your normal contributions. This flexibility may be useful during times of financial hardship as it allows you to remain in the Scheme, building up valuable pension benefits, as an alternative to opting out of the Scheme.

A 50/50 option form is available from your employer. If you have more than one job in which you contribute to the Scheme you would need to specify in which of the jobs you wish to move to the 50/50 section.

If you elect for 50/50 you would be moved to that section from the next available pay period. You would then start paying half your normal contributions and build up half your normal pension during the time you are in that section. When you make an election for the 50/50 section your employer must provide you with information on the effect this will have on your benefits in the Scheme.

If you were to die in service whilst in the 50/50 section of the Scheme the lump sum death grant and any survivor pensions would be worked out as if you were in the main section of the Scheme. If you are awarded an ill-health pension which includes an amount of enhanced pension, the amount of enhanced pension added to your ***pension account*** is worked out as if you were in the main section of the Scheme.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this, your employer is required to re-enrol you back into the main section of the Scheme approximately three years from the date they first have to comply with the automatic enrolment provisions of the Pensions Act 2008 (and approximately every three years after that). If you wished to continue in the 50/50 section at that point you would need to make another election to remain in the 50/50 section.

There is no limit to the number of times you can elect to move between the main and the 50/50 sections, and vice versa.

Flexibility to pay more

There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by paying:

- Additional Pension Contributions (APCs) to buy extra LGPS pension
- ***Additional Voluntary Contributions (AVCs)*** arranged through the LGPS (in-house AVCs),
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,
- contributions to a stakeholder or personal pension plan.

Your LGPS administering authority can give you more information on the first two of these options. Contact details are at the end of this guide.

Your Pension

Your LGPS benefits are made up of:

- an annual pension that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- the option to exchange part of your pension for a tax-free lump sum paid when you take your pension benefits.

How is my pension worked out?

Every year, you will build up a pension at a rate of 1/49th of the amount of ***pensionable pay*** (and ***assumed pensionable pay***) you received in that ***Scheme year*** if you are in the main section of the Scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the Scheme).

If during the ***Scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is based on your ***assumed pensionable pay*** (other than during any period of ***relevant child related leave*** where the ***pensionable pay*** you received was higher than your ***assumed***

pensionable pay). The amount of pension built up during the ***Scheme year*** is then added to your ***pension account*** and revalued at the end of each ***Scheme year*** so your pension keeps up with the cost of living.

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently using your membership built up to 31 March 2014 and your final year's pay. On 1 April 2014 the LGPS changed from a final salary scheme to a career average scheme.

If you were paying into the LGPS on 31 March 2012 and were within 10 years of age 65 at 1 April 2012, you may qualify for an additional protection called **the underpin.** If you are covered by the underpin, you will get a pension at least equal to that which you would have received in the Scheme if it had not changed on 1 April 2014.

The underpin can also apply if you were an active member of another public service pension scheme on 31 March 2012 (and within 10 years of age 65 on 1 April 2012) if you subsequently join the LGPS and transfer your pension benefits from the other public service pension scheme into the LGPS.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your protected ***Normal Pension Age*** if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section of the Scheme at any time, the pension you would have built up had you always been in the main section of the Scheme) is at least equal to that which you would have received if the Scheme had not changed on 1 April 2014. If it isn't, the difference will be added into your ***pension account*** when your pension is paid to you.

More information on the underpin is available from the **national website for LGPS members**.

What pensionable pay is used to work out the pension built up after 31 March 2014?

The amount of pension added into your ***pension account*** at the end of the ***Scheme year*** is worked out using your ***pensionable pay*** which is the amount of pay on which you pay your normal pension contributions.

If, during the ***Scheme year,*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is worked out based on your ***assumed pensionable pay*** (other than during any part of ***relevant child related leave*** where the ***pensionable pay*** you received was higher than your ***assumed pensionable pay***).

Can I exchange part of my pension for a lump sum?

You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £263,750 (2019/20 figure), or if you have previously taken payment of (crystallised) pension benefits, 25% of your remaining lifetime allowance. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

How is my pension worked out? - an example

Let's look at the build-up in a member's ***pension account*** for six years in the Scheme.

Let's assume that:

- the member joins the Scheme on 1 April 2014,
- their ***pensionable pay*** is £24,500 in ***Scheme year*** 1
- their ***pensionable pay*** increases by 1% each year
- The cost of living (revaluation adjustment) for the end of the Scheme years ending 31 March 2015, 31 March 2016, 31 March 2017, 31 March 2018 and 31 March 2019 is 1.2%, -0.1%, 1%, 3% and 2.4% respectively
- the cost of living (revaluation adjustment) for the following year is 2%.

Scheme Year	Opening Balance	Pension Build up in Scheme Year Pay / Build up rate = Pension	Total Account 31 March	Cost of Living Revaluation Adjustment	Updated Total Account
1 2014/15	£0.00	£24,500 / 49 = **£500**	£500	1.2% = £6	£500 + £6 = **£506**
2 2015/16	£506	£24,745 / 49 = **£505**	£1,011.00	-0.1% = -£1.01	£1,011.00 + -£1.01 = **£1,009.99**
3 2016/17	£1,009.99	£24,992.45 / 49 = **£510.05**	£1,520.04	1% = £15.20	£1,520.04 + £15.20 = **£1,535.24**
4 2017/18	£1,535.24	£25,242.37 / 49 = **£515.15**	£2,050.39	3% = £61.51	£2,050.39 + £61.51 = **£2,111.90**
5 2018/19	£2,111.90	£25,494.79 / 49 = **£520.30**	£2,632.20	2.4% = £63.17	£2,632.20 + £63.17 = **£2,695.37**
6 2019/20	£2,695.37	£25,749.74 / 49 = **£525.50**	£3,220.87	2.0% = £64.42	£3,220.87 + £64.42 = **£3,285.29**

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 are calculated differently.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your ***final pay*** plus an automatic tax-free lump sum of three times your pension.

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your ***final pay***. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

Taking AVCs as cash

If you pay ***Additional Voluntary Contributions (AVCs)*** via the LGPS you may elect to take all of your AVC fund as a tax-free lump sum if you take it at the same time as your main LGPS benefits provided, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum doesn't exceed £263,750[1] (2019/20 figure).

Details of this option will be given to you shortly before your retirement.

Retirement

When can I retire and take my LGPS pension?

You can choose to retire and take your pension from the LGPS at any time from age 55 to 75, provided you have met the two years ***vesting period*** in the Scheme.

The ***Normal Pension Age*** in the LGPS is linked to your ***State Pension Age*** (but with a minimum of age 65). If the ***State Pension Age*** changes in the future then this change will also apply to your ***Normal Pension Age*** for benefits built up after 31 March 2014.

If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later. You must take your LGPS benefits before your 75th birthday.

You may have to retire at your employer's instigation, perhaps because of redundancy, business efficiency or permanent ill health. Your LGPS benefits, in these circumstances, provided you have met the two years ***vesting period*** in the Scheme, can provide you with an immediate retirement pension, which may even be enhanced.

If you voluntarily choose to retire before, on or after your ***Normal Pension Age*** you can defer taking your benefits but you must take them before age 75. If you take your pension after your ***Normal Pension Age***, your benefits will be paid at an increased rate to reflect late payment.

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[1]Or if you have previously taken payment of (crystallised) pension benefits the total lump sum should not exceed 25% of your remaining lifetime allowance

If you built up membership in the LGPS before 1 April 2014 then you will have membership in the final salary scheme. These benefits have a different ***Normal Pension Age***, which for most people is age 65.

Will my pension be reduced if I voluntarily retire before my Normal Pension Age?

If you choose to retire before your ***Normal Pension Age*** your benefits will normally be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed in the section called **How is my pension worked out?** and are then reduced. How much your benefits are reduced by depends on how early you take them.

If you were a member of the LGPS at any time between 1 April 1998 and 30 September 2006, some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

What if I lose my job through redundancy or business efficiency?

If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits, provided you have met the two years ***vesting period*** in the Scheme. However, any additional pension paid for by Additional Pension Contributions (APCs) or by Shared Cost Additional Pension Contributions (SCAPCs) would be paid at a reduced rate if the retirement occurred before your ***Normal Pension Age*** (to take account of the additional pension being paid for longer). Also if you have bought additional pension by Additional Regular Contributions (ARCs), that additional pension would be paid at a reduced rate if the retirement occurred before your pre 1 April 2014 ***Normal Pension Age*** which, for most, is age 65.

What happens if I have to retire early due to ill health?

If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you must have met the two years ***vesting period*** in the Scheme and your employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that you will be permanently unable to do your own job until your ***Normal Pension Age*** and that you are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement if you are unlikely to be capable of gainful employment within three years of leaving.

What if I want to have a gradual move into retirement?

This is known as flexible retirement. If your employer agrees, from age 55:

- if you reduce your hours or
- move to a less senior position
  and
- provided you have met the two years ***vesting period*** in the Scheme

you can take some or all of the pension benefits you have built up – helping you ease into retirement.

If you take flexible retirement before your ***Normal Pension Age*** your benefits may be reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part. If your employer agrees to flexible retirement you can still receive your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the Scheme. Flexible retirement is at the discretion of your employer and they must set out their policy in a published statement.

What if I carry on working after my Normal Pension Age?

If you carry on working after your ***Normal Pension Age*** you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay taking it. Your pension must be paid to you by age 75. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

How does my pension keep its value?

On retiring on or after age 55 your LGPS pension increases in line with the cost of living every year throughout your retirement. As the cost of living increases, so will your pension. If you are retired on ill health grounds, your pension is increased each year regardless of your age.

Protection for your family

What benefits will be paid if I die?

If you die in service as a member of the LGPS the following benefits are payable:

- A lump sum death grant of three times your ***assumed pensionable pay***
- Pensions for ***eligible children***
- A spouse's (from an opposite sex or same sex marriage), ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension.

How will the pension paid to my spouse, civil partner or eligible cohabiting partner be worked out?

For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (ie 1/49th or, for any period you were in the 50/50 section of the Scheme, 1/98th) of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) you received during that year.

The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is the total of:

- 1/160th of your ***pensionable pay*** (or ***assumed pensionable pay*** where applicable)

- 49/160^{ths} of the amount of any pension credited to your pension account following a transfer of pension rights into the Scheme, and
- 1/160th of your ***assumed pensionable pay*** for each year of membership you would have built up from your date of death to your ***Normal Pension Age***.

For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the Scheme up to 31 March 2014 upon which your pension is based. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

If you are in the 50/50 section of the Scheme when you die this does not impact on the value of any pension for your **spouse, *civil partner*, *eligible cohabiting partner*** or ***eligible children*.**

If you die after retiring on pension, a spouse's (from an opposite sex or same sex marriage), ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension and pensions for ***eligible children*** are payable.

For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (ie 1/49th or, for any period you were in the 50/50 section of the Scheme, 1/98th) of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) you received during that year (plus 1/49th of ***assumed pensionable pay*** for any enhancement given if retirement had been on ill health grounds).

The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is the total of:

- 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable)
- 49/160^{ths} of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the Scheme from another pension Scheme or arrangement.

For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the Scheme up to 31 March 2014 upon which your pension is based, unless you marry or enter into a ***civil partnership*** after retiring in which case it could be less. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's pension***).

A lump sum death grant will be paid if:

- you die after retiring on pension
- less than ten years pension has been paid and
- you are under age 75.

The amount payable would be ten times the level of your annual pension before giving up any pension for a tax-free cash lump sum, reduced by any pension already paid to you and the amount of any tax-free cash lump sum you chose to take when you retired. There is a slight modification to this calculation for any part of the pension you were receiving which relates to membership before 1 April 2014.

If you are receiving a pension and are also an active member of the Scheme, or have a separate deferred benefit when you die this may impact on the death grant that is paid.

What conditions need to be met for an eligible cohabiting partner's survivor's pension to be payable?

If you have a cohabiting partner, of either opposite or same sex, they will be entitled to receive a survivor's pension on your death if they meet the criteria to be considered to be an ***eligible cohabiting partner***.

For an ***eligible cohabiting partner's*** survivor's pension to be payable, all of the following conditions must have applied for a continuous period of at least two years on the date of your death:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were a married couple, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were a married couple or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies the LGPS administering authority that the above conditions had been met for a continuous period of at least two years immediately before your death.

Who is the lump sum death grant paid to?

The LGPS allows you to indicate who you would like any death grant to be paid to by completing and returning an expression of wish form. This form is available from the LGPS administering authority. The Scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to. You can find out how to contact your administering authority at the end of this guide.

Leavers without an immediate entitlement to benefits

If you leave your job before retirement and have met the two years *vesting period* you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave your job before retirement and have not met the two years *vesting period* you will have three options:

- you will normally be able to claim a refund of your contributions, or
- you may be able to transfer your benefits to a new pension arrangement, or
- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must be paid within five years of the date you left the Scheme (or by age 75 if earlier).

Refunds of contributions

If you leave with less than two years' Scheme membership, or opt out of the Scheme with more than three months but less than two years' membership, you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P) in relation to any membership before 6 April 2016. A refund of contributions must be paid within five years of the date you left the Scheme (or age 75 if earlier).

Deferred benefits

If you leave before your ***Normal Pension Age*** and you meet the two years ***vesting period*** you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in the **How is my pension worked out?** section using the length of your membership up to the date that you left the Scheme.

During the period your pension benefits are deferred they will be increased each year in line with the cost of living.

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your ***Normal Pension Age***, but:

- they may be put into payment earlier and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be capable of undertaking any gainful employment within three years of the date you applied for your LGPS pension to be paid because of ill-health or by your ***Normal Pension Age***, whichever is the earlier; or

- you can elect to receive your deferred benefits early from age 55 onwards, or
- you can elect not to receive your deferred benefits at your ***Normal Pension Age*** and defer receiving your pension until some time later (although it must be paid by age 75).

Benefits paid earlier than your ***Normal Pension Age***, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Benefits paid after your ***Normal Pension Age*** will be increased.

If you leave with deferred benefits and you die before they come into payment, a lump sum death grant equal to 5 years' pension will be paid. If you have deferred benefits and are also an active member of the Scheme when you die this may impact on the death grant that is paid.

The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from your LGPS administering authority. You can find out how to contact the administering authority at the end of this guide. The Scheme's administering authority retains absolute discretion when deciding on who to pay any death grant to.

If you leave with deferred benefits and die before they come into payment a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's pension*** and pensions for ***eligible children*** are payable.

For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (ie 1/49th or, for any period you were in the 50/50 section of the Scheme, 1/98th) of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) you received during that year.

The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is calculated on a different proportion ie 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) to which is added 49/160^{ths} of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the Scheme from another pension scheme or arrangement.

For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the Scheme up to 31 March 2014 on which your pension is based, unless you marry or enter into a ***civil partnership*** after leaving in which case it could be less. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

What if I have two or more LGPS jobs?

If you have two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all of them, and you are entitled to deferred benefits from the job (or jobs) you have left, your deferred benefits from the job that has ended are automatically transferred to the active ***pension account*** for the job you are continuing in, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you are not entitled to deferred benefits from the job (or jobs) you have left, you cannot have a refund of your contributions and you must transfer your benefits to the ***pension account*** for the job you are continuing in.

Transferring your benefits

If you leave the Scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into another pension arrangement or a new employer's pension scheme. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions.

You cannot transfer your benefits if you leave with less than three months' membership or (other than in respect of ***Additional Voluntary Contributions (AVCs)***) if you leave less than one year before your ***Normal Pension Age***. An option to transfer (other than in respect of ***Additional Voluntary Contributions (AVCs)***) must be made at least 12 months before your ***Normal Pension Age***.

Your new pension provider will require a transfer value quotation which, under the provisions introduced by the Pensions Act 1995, your LGPS administering authority will guarantee for a period of three months from the date of calculation.

Alternatively, if you return to employment with an employer participating in the LGPS and re-join the LGPS after having previously built up LGPS pension rights (ie you previously left an LGPS employment with deferred benefits) then these deferred benefits will normally automatically be transferred to the active ***pension account*** for your new job, unless you elect to keep them separate. If, for benefits that are normally automatically transferred, you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer.

If you re-join the LGPS after having previously left an LGPS employment without building up pension rights but you deferred taking a refund of contributions (normally where you have less than two years membership) then this deferred refund **must** be joined with your new active ***pension account*** in the Scheme.

Transferring your benefits to a defined contribution scheme

Flexible benefits were introduced by the Government from 6 April 2015 to allow members of defined contribution schemes, who are over age 55, more freedom on how they take money from their pension pot.

The LGPS is not a defined contribution pension scheme (it is a defined benefit scheme) and as such, it is not directly affected by these changes. However, if you stop paying into the LGPS and you have three or more months' membership, then unless you are retiring with immediate effect due to redundancy, business efficiency or ill health, you will have the right to transfer your LGPS pension to a defined contribution scheme providing flexible benefits. The transfer must be completed more than 12 months before you reach your ***Normal Pension Age*** in the LGPS.

Please note that you will be required by law to take independent financial advice if the value of your pension benefits in the LGPS (excluding AVCs) is more than £30,000. You are not required to take independent financial advice if the value of your benefits is less than £30,000. However, transferring your pension rights is not always an easy decision to make and seeking the help of an independent financial adviser before you make a final and irreversible decision to transfer could help you in making an appropriate decision.

There are four main options for members, aged over 55, who are in a defined contribution scheme which provides flexible benefits:

- purchasing an annuity
- flexi-access drawdown
- taking a number of cash sums at different stages
- taking the whole pot as cash in one go

Keep in touch – remember to let the LGPS administering authority know if you move house.

Help with pension problems

Who can help me if I have a query or complaint?

If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact your LGPS administering authority**.** They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If your query is about your contribution rate, please contact your employer's personnel/HR or payroll section so they can explain how they have decided which contribution band you are in.

If you are still dissatisfied with any decision made in relation to the Scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the Scheme is well regulated. There are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**
  In the first instance you should write to the adjudicator appointed by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer period as the adjudicator considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The adjudicator will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the Scheme's administering authority to have it reconsidered.

  A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the LGPS administering authority.

- **The Pensions Advisory Service (TPAS)**
  TPAS provides independent and impartial information about pensions, free of charge, to members of the public. TPAS is available to assist members and beneficiaries of the Scheme with any pension query they have or any general requests for information or guidance concerning their pension benefits. TPAS can be contacted:

In writing:	11 Belgrave Road London SW1V 1RB
By telephone:	0800 011 3797
Website:	www.pensionsadvisoryservice.org.uk (where you can submit an online enquiry form).

- **The Pensions Ombudsman (TPO)**
  TPO deals only with pension complaints. It can help if you have a complaint or dispute about the administration and / or management of personal and occupational pension schemes. Some examples of the types of complaints it considers are (this list is not exhaustive):

  - automatic enrolment
  - benefits: including incorrect calculation, failure to pay or late payment
  - death benefits
  - failure to provide information or act on instructions
  - ill health
  - interpretation of scheme rules
  - misquote or misinformation
  - transfers

You have the right to refer your complaint to TPO free of charge. There is no financial limit on the amount of money that TPO can make a party award you. Its determinations are legally binding on all parties and are enforceable in court.

Contact with TPO about a complaint needs to be made within three years of when the event(s) you are complaining about happened – or, if later within three years of when you first knew about it (or ought to have known about it). There is a discretion for those time limits to be extended.

TPO can be contacted:

In writing:	10 South Colonnade Canary Wharf E14 4PU
By telephone:	0800 917 4487
Website:	www.pensions-ombudsman.org.uk (where you can submit an online complaint form)

- **The Pensions Regulator (TPR)**
  This is the regulator of work based pension schemes. TPR has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. If you have a concern about your workplace pension you can contact them:

By telephone:	0345 600 7060
Website:	www.thepensionsregulator.gov.uk

How can I trace my pension rights?
The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service:

Write to:	The Pension Tracing Service The Pension Service 9 Mail Handling Site A Wolverhampton WV98 1LU
Telephone:	0800 731 0193
Website:	https://www.gov.uk/find-pension-contact-details

Don't forget to keep your pension providers up to date with any change in your home address.

Some terms we use

Additional Voluntary Contributions (AVCs)
These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government administering authorities have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Admission body
An admission body is an employer that chooses to participate in the Scheme under an admission agreement. These tend to be employers such as charities and contractors.

Assumed pensionable pay
This provides a notional ***pensionable pay*** figure to ensure your pension is not affected by any reduction in ***pensionable pay*** due to a period of sickness or injury on reduced contractual pay or no pay, or ***relevant child related leave*** or ***reserve forces service leave***.

If you have a period of reduced contractual pay or no pay due to sickness or injury or you have a period of ***relevant child related leave*** or ***reserve forces service leave*** then your employer needs to provide the LGPS administering authority with the ***assumed pensionable pay*** you would have received during that time unless during the period of ***relevant child related leave*** the ***pensionable pay*** received was higher than the value of the ***assumed pensionable pay***. This requires a calculation to be carried out by your employer to determine what your pay would have been for the period when you were on reduced contractual pay or no pay due to sickness or the period of ***relevant child related leave*** or ***reserve forces service leave***.

The ***assumed pensionable pay*** is calculated as the average of the ***pensionable pay*** you received for the 12 weeks (or three months if monthly paid) before the pay period in which you went on to reduced pay or no pay because of sickness or injury or you started a period of ***relevant child related leave*** or ***reserve forces service leave***. In calculating the average, any reduction due to authorised leave of absence or due to a trade dispute is ignored. If the pay you received in the 12 weeks (or three months if monthly paid) before the pay period in which you went on to reduced pay or no pay is materially lower than the pay you would normally receive, your employer has a discretion to use a higher pay in the calculation. Your employer must have regard to the ***pensionable pay*** you earned over the previous 12 months when determining what your normal level of ***pensionable pay*** is.

Once the average pay has been determined the resulting figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on ***relevant child related leave*** or ***reserve forces service leave.***

Assumed pensionable pay is also used to work out:

- any enhancement to your pension awarded as a result of ill health retirement
- any lump sum death grant following death in service, and
- any enhancement which is included in survivor benefits following death in service.

The ***assumed pensionable pay*** for these purposes is calculated as the average of the ***pensionable pay*** you received for the 12 weeks (or three months if monthly paid) before you died in service or before you left employment due to ill-health retirement. In calculating the average, any reduction due to authorised leave of absence or due to a trade dispute is ignored.

If the pay you received in the 12 weeks (or three months if monthly paid) before you died in service or before you left employment due to ill-health retirement is lower than the pay you would normally receive, your employer has a discretion to use a higher pay in the calculation. Your employer must have regard to the pensionable pay you earned over the previous 12 months when determining what your normal level of pensionable pay is. If an independent registered medical practitioner certifies that, during the period used to determine ***assumed pensionable pay***, you were working reduced contractual hours because of the ill-health which led to your retirement or death in service, the ***assumed pensionable pay*** is to be calculated on the pay you would have received during that period had you not been working reduced contractual hours. The resulting figure is then grossed up to an annual figure.

Automatic enrolment date

This is the earlier of:

- the day you reach age 22 provided you are earning more than £10,000 (2019/20 figure) a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 (2019/20 figure) in the job, on an annualised basis, provided you are aged 22 or more and under ***State Pension Age*** at that time.

Civil partnership (civil partner)

A ***Civil Partnership*** is a relationship between two people of the same sex (***civil partners***) which is formed when they register as civil partners of each other.

Consumer Prices Index (CPI)

The ***Consumer Price Index (CPI)*** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your ***pension account*** at the end of every ***Scheme year*** when you are an active member of the Scheme and, after you have ceased to be an active member, it is used to adjust (each April) the value of your deferred pension in the Scheme and any pension in payment from the Scheme. The adjustment ensures your pension keeps up with the cost of living.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be your natural child (who must be born within 12 months of your death), or
- be your adopted child, or
- be your step-child or a child accepted by you as being a member of your family (this doesn't include a child you sponsor for charity) and be dependent on you.

Eligible children must meet the following conditions:

- be under age 18, or
- be aged between 18 and 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
    - has not reached the age of 23, or
    - the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

Eligible cohabiting partner

An ***eligible cohabiting partner*** is a partner you are living with who, at the date of your death, has met all of the following conditions for a continuous period of at least two years:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were a married couple, or ***civil partners***, and
- neither you nor your cohabiting partner have been living with someone else as if you/they were a married couple or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally.

For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies your LGPS administering authority that the above conditions had been met for a continuous period of at least two years immediately before your death.

You are not required to complete a form to nominate a cohabiting partner for entitlement to a cohabiting partner's pension. However, you can provide your LGPS administering authority with your cohabiting partner's details. Your LGPS administering authority will require evidence on your death to check that the conditions for a cohabiting partner's pension are met.

Eligible jobholder

An ***eligible jobholder*** is a worker who is aged at least 22 and is under ***State Pension Age*** and who earns more than the annual amount of £10,000 (2019/20 figure).

Final pay

This is usually the pay in respect of (ie due for) your final year of Scheme membership on which you paid contributions, or one of the previous two years if this is higher, and includes your normal pay, contractual shift allowance, bonus, contractual overtime (but not non-contractual overtime), Maternity Pay, Paternity Pay, Adoption Pay, Shared Parental Pay and any other taxable benefit specified in your contract as being pensionable.

Normal Pension Age

Normal Pension Age is linked to your ***State Pension Age*** for benefits built up from 1 April 2014 (but with a minimum of age 65) and is the age at which you can take the pension you have built up in full. If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

You can use the Government's ***State Pension Age*** calculator (www.gov.uk/calculate-state-pension) to find out your ***State Pension Age***.

Remember that your ***State Pension Age*** may change in the future and this would also change your ***Normal Pension Age*** in the LGPS for benefits built up from 1 April 2014. Once your LGPS pension is being paid to you, any subsequent change in your ***State Pension Age*** will not affect your ***Normal Pension Age*** in the LGPS.

If you were paying into the LGPS before 1 April 2014 your final salary benefits retain their protected ***Normal Pension Age*** - which for most is age 65.

However, all pension benefits paid on normal retirement must be taken at the same date, ie you cannot choose to have your final salary pension (built up before April 2014) paid at age 65 and your pension in your ***pension account*** (built up from April 2014) at your ***Normal Pension Age*** (which for benefits built up from 1 April 2014 is linked to your ***State Pension Age*** but with a minimum of age 65).

Pension account

Each ***Scheme year*** the amount of pension you have built up during the year is worked out and this amount is added into your active ***pension account***. Adjustments may be made to your account during the ***Scheme year*** to take account of:

- any transfer of pension rights into the account during the year
- any additional pension you purchased during the year
- any additional pension which is granted to you by your employer
- any reduction due to a Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and
- any reduction due to an Annual Allowance tax charge that you have asked the Scheme to pay on your behalf.

Your account is revalued at the end of each ***Scheme year*** to take account of the cost of living. This adjustment is carried out in line with the Treasury Revaluation Order index which, currently, is the rate of the ***Consumer Prices Index (CPI).***

You will have a separate ***pension account*** for each employment. That ***pension account*** will hold the entire pension built up for that employment.

In addition to an active member's ***pension account*** there are also:

- a deferred member's ***pension account***
- a deferred refund account
- a retirement ***pension account***
- a flexible retirement ***pension account***
- a deferred pensioner member's account
- a pension credit account and
- a survivor member's account.

With the exception of a deferred refund account, these accounts will be adjusted by any debits for any Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and for any Annual Allowance tax charge that you have asked the Scheme to pay on your behalf. With the exception of a deferred refund account, these accounts are currently increased each April in line with the ***Consumer Prices Index (CPI)***.

Pensionable pay

The pay on which you normally pay contributions is your normal salary or wages plus any shift allowance, bonuses, overtime (both contractual and non-contractual), Maternity Pay, Paternity Pay, Adoption Pay, Shared Parental Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on:

- any travelling or subsistence allowances
- pay in lieu of notice
- pay in lieu of loss of holidays
- any payment as an inducement not to leave before the payment is made
- any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay
- pay relating to loss of future pensionable payments or benefits,
- any pay paid by your employer if you go on reserve forces service leave nor
- the monetary value of a car or pay received in lieu of a car (apart from some historical cases).

Relevant child related leave

Relevant child related leave includes periods of Ordinary Maternity, Adoption or Shared Parental Leave (normally first 26 weeks), Paternity Leave and any periods of paid Additional Maternity or Adoption Leave (normally after week 26 and up to week 39) or Shared Parental Leave.

Reserve forces service leave

This occurs when a Reservist is mobilised and called upon to take part in military operations. The period of mobilisation can be up to a maximum of 12 months. During a period of ***reserve forces service leave*** you will, if you elect to stay in the LGPS during that leave, continue to build up a pension based on the rate of ***assumed pensionable pay*** you would have received had you not been on ***reserve forces service leave***.

Scheme year

The Scheme year runs from 1 April to 31 March each year.

State Pension Age

This is the earliest age you can receive the basic state pension. ***State Pension Age*** for women was increased between 2010 and December 2018 to be equalised with the ***State Pension Age*** of 65 that applied to men up to December 2018.

State Pension Age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

The ***State Pension Age*** increases to 66 for both men and women between December 2018 and October 2020.

Increase in State Pension Age from 65 to 66 for men and women

Date of Birth	New State Pension Age
6 December 1953 - 5 October 1954	In the range 65 - 66
After 5 October 1954	66

Under current legislation the State Pension Age is due to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046. However the government has announced plans to bring forward the rise to 68 to between 2037 and 2039.

Vesting Period

The ***vesting period*** in the LGPS is two years. You will meet the two years ***vesting period*** if:

- you have been a member of the LGPS in England and Wales for two years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was two or more years or, when added to the period of time you have been a member of the LGPS is, in aggregate, two or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (ie to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation as at April 2019.

The national website for members of the LGPS is www.lgpsmember.org

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees eg those whose total pension benefits exceed the lifetime allowance (£1,055,000 million in 2019/20), those whose pension benefits increase in any tax year by more than the standard annual allowance (£40,000 in 2019/20) or for high earners, the tapered annual allowance, those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the Scheme is available from:

L B Harrow Pension Fund
Pension Team
3rd Floor South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

Tel no: 020 8424 1186
Email: pension@harrow.gov.uk

Version 2.0 April 2019

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Harrow COUNCIL LONDON

Summary Statement of Accounts 2018-2019

This document contains summarised information from the Council's 2018-19 Statement of Accounts, providing information on where the Council's money is spent, where the money comes from and the summary of the Council's assets and liabilities.

Financial Review

During the year the Council delivered its services within the approved budget of £168.9m, contained the pressures arising from the challenging financial environment and managed the risks around demand pressures.

The Council's General Fund Balances remains at £10.008m with £11m being added to the balance of earmarked reserves. This maintains the Council's capacity to manage risks arising in future years from demographic pressures, the economy, welfare reforms and further changes to Central Government funding.

Examples of the Council's key achievements over the last year are summarised below:

- The Council's new state of the art transport fleet, including emission-free electric vehicles, launched in January 2019
- Cabinet in February 2019 approved the detailed Homes for Harrow programme, to provide 639 new genuinely affordable council homes, and agreed the letting of a contract for 26 new homes for Council rent at Chichester Court
- Harrow's school performance continues to be amongst the best in the country and there is continued improvement in the Early Years and educational outcomes for Children Looked After (standards and progress)
- The commercial team successfully launched the Meals on Wheels service for Hammersmith & Fulham
- Some 324 units for older people requiring Extra Care settings are now planned, with 109 units in the pipeline ready for 2020/21, following approval of a new strategy by Cabinet in November 2018

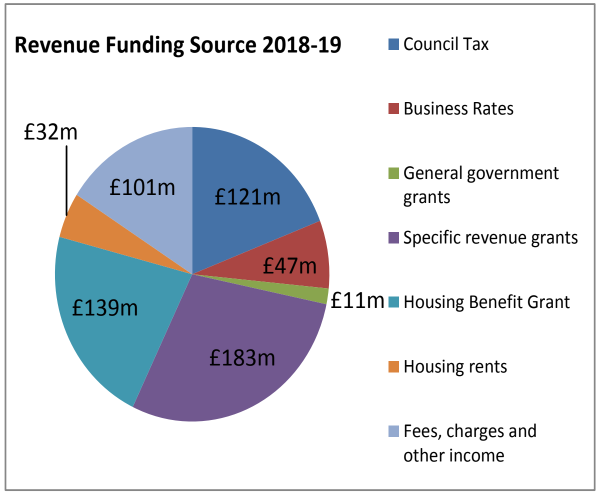
The full Statement of Accounts has been prepared in accordance with accounting policies applicable to local authorities and is available on the Council's website (www.harrow.gov.uk). The Audit opinion will be issued on 31st July 2019.

Dawn Calvert CPFA
Director of Finance 16th July 2019

Expenditure and Funding Analysis (EFA)

The EFA shows how expenditure in the year is applied and funded as per the outturn report, and compares this with the true economic cost valued in accordance with proper accounting practices shown in the Consolidated Income and Expenditure Statement (CIES). The true economic cost is different from the outturn report because amounts charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes are specified by regulations.

2017-18 £000 Net Expenditure in Outturn Report		2018-19 £000 Net Expenditure in Outturn Report	£000 Adj between Funding and Accounting Basis	£000 Net Expenditure in CIES
66,426	People - Adult Services & Public Health	**67,687**	**(2,069)**	**65,618**
39,254	People - Children & Families	**40,971**	**10,006**	**50,977**
37,834	Community	**45,618**	**(1,664)**	**43,954**
21,290	Resources & Commercial	**14,641**	**5,826**	**20,467**
164,804	Net Cost of Services	**168,917**	**12,099**	**181,016**
(164,804)	Other Income & Expenditure	**(168,917)**	**50,277**	**(118,640)**
0	(Surplus) or Deficit	**0**	**62,376**	**62,376**
(10,008)	Opening General Fund Balance	**(10,008)**		
0	Plus Surplus on General Fund in Year	**0**		
(10,008)	Closing General Fund Balance as at 31st March	**(10,008)**		



The graph shows the various sources of Council income. 26.6% of income comes from Council Tax and Business Rates, 50.8% from grants for specific revenue purposes and the other 22.6% from general grants, fees, charges, tenant rents and investment income etc.

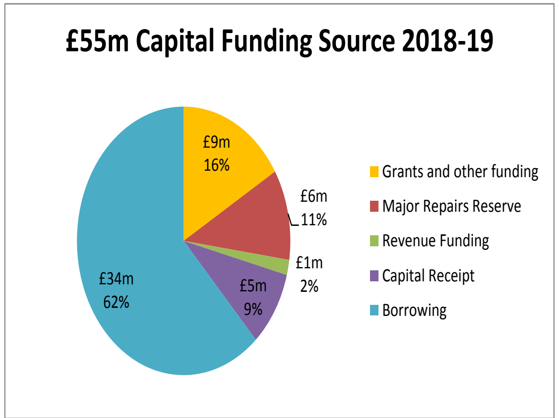
Balance Sheet as at 31 March 2019

	2018-19	2017-18
	£000	£000
Land, Buildings and Other Assets *	**1,197,646**	1,235,933
Other Long Term Assets	**39,075**	39,094
Cash & Cash Equivalents	**12,652**	5,140
Current Assets	**44,504**	51,533
Current Liabilities	**(127,642)**	(101,191)
Long term Liabilities **	**(734,325)**	(696,926)
Net Assets	**431,910**	533,583
Usable Reserves	**(134,109)**	(111,193)
Unusable Reserves	**(297,801)**	(422,390)
Total Reserves	**(431,910)**	(533,583)

* **Land, Buildings and Other Assets**: This includes assets owned by the Council such as housing stock, schools, office buildings, roads, bridges, etc.

** **Long term Liabilities**: This includes borrowing (£302m) to fund investments in buildings and other assets and Pensions liability of (£406m) for the accrued cost of retirement benefits. This liability will be funded from future pension contributions and pension investment returns.

Capital Expenditure



Capital expenditure is expenditure that provides long term benefit to the council such as the buying, improvement or construction of buildings, road improvements, IT equipment purchases etc. During 2018-19, the Council invested £55m on a new vehicle fleet, new technology, the acquisition of investment properties, as well as various redevelopments like the Central Depot, improvements and updates to the infrastructure etc.

The capital programme is mainly funded from borrowing, government grants, revenue contributions and sale proceeds from disposal of assets.

Housing Revenue Account

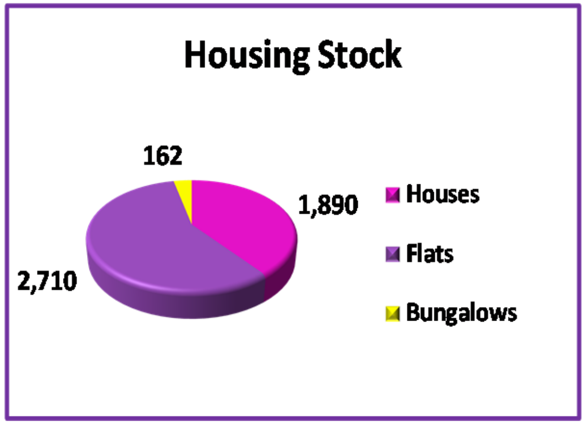
The Council owns and manages 4,762 properties which it lets for the purpose of social housing. The income and expenditure relating to these properties is required by legislation to be accounted for separately in a ring-fenced Housing Revenue Account.

	2018-19	2017-18
HRA	**£000**	£000
Income		
Council House Rents	**(27,650)**	(28,109)
Other Income	**(4,125)**	(4,936)
	(31,775)	(33,045)
Expenditure		
Repairs & Maintenance	**8,351**	7,932
Supervision & Management	**9,057**	10,329
Capital Charges	**7,634**	7,909
Financing Expenditure	**8,126**	6,406
Other Costs	**2,893**	(1,447)
	36,061	**31,129**
Surplus for the year	**4,286**	(1,916)
Transfers to/from reserves	**(4,286)**	1,336
HRA balance b/f	**(7,474)**	(6,894)
Balance c/f	**(7,474)**	(7,474)

What happens to the rents paid by council tenants?

Tenant rents can only be used to manage, repair and maintain the properties and pay interest on the borrowings taken out to build and improve them.

Unused income is carried forward to future years as the Housing Revenue Account balance.



- At 31st March 2019 0.71% of available properties were vacant.
- There was a net decrease of 51 properties during the year. 55 properties were sold to tenants during the year while 4 properties were built or acquired.
- Average weekly rents were £111.57 per week in 2018-19.

Audit Completion Report DRAFT

London Borough of Harrow

Year ending 31 March 2019

MAZARS

CONTENTS

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

London Borough of Harrow
Governance, Audit, Risk Management and Standards Committee
Civic Centre
Station Road
Harrow
HA1 2XY

16 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 January 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of the Director of Finance and her team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 020 7063 4634.

Yours faithfully

Lucy Nutley
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the Council for the year ended 31 March 2019, and forms the basis for discussion at the Governance, Audit, Risk Management and Standards Committee (GARMS) meeting on 16 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 4 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Revenue and expenditure recognition
- Property plant and equipment valuation
- Defined benefit liability valuation
- Regeneration programme costs

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.
Value for Money conclusion	We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.
Whole of Government Accounts (WGA)	We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 13 September 2019.
Wider powers	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Pension liability	We are awaiting a further IAS 19 valuation from Hymans Robertson, the Pension Fund actuary, this may result in an adjustment to the accounts (see page 8).
Comprehensive Income and Expenditure Statement	We are awaiting evidence from management on our income and expenditure samples, monthly payroll breakdowns, and overhead recharges.
Bank and borrowing confirmations	We are awaiting one school bank account confirmation and one local authority borrowing confirmation.
Land and buildings	Our testing for the rights and obligations of a sample of properties is in progress.
Housing Revenue Account	Our testing of HRA income and expenditure is in progress.
Narrative Report and AGS	Our review of the Narrative Report and AGS is in progress.
Closure procedures and review	Our final reviews and completion work needs to be performed, including consideration of post balance sheet events until the date of sign-off.
Whole of Government Accounts (WGA)	Our work on the WGA return will take place in August – the deadline for completing this work is 13 September 2019.

We will provide GARMS with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum .

Materiality

We set materiality at the planning stage of the audit at £6.2m using a benchmark of 1% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors remains at £6.2m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to GARMS, at £186k based on 3% of overall materiality.

Misstatements and internal control recommendations

We have not raised any internal control recommendations and nor are there any recommendations that required an update from the prior year.

Section 3 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to GARMS in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.
	Audit conclusion There were no significant findings arising from our review of areas of potential management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue and expenditure recognition	Our audit methodology incorporates revenue recognition as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Authority's revenue income. In particular we can rebut the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts. We are not rebutting the income risk relating to other material income streams within the Council, such as car parking income and charges for use of Council facilities, where the level of inherent risk is higher. We consider that the pressure to manage income and expenditure to deliver forecast performance in a challenging financial environment could increase the risk of fraudulent financial reporting, leading to material misstatement. Our risk based testing on income will therefore be extended to cover expenditure also.

How we addressed this risk

We addressed this risk by obtaining a detailed understanding of the Authority's processes which assure it that revenue and expenditure is recognised in the correct accounting year. We carried out:

- detailed testing of transactions within the 2018/19 financial statements to confirm they are accounted for in the correct year;
- testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts.

Audit conclusion

There were no significant findings arising from our review of revenue and expenditure recognition.

Note: our work in this area is ongoing.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, plant and equipment valuation	Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate fair value as at that date. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, which may result in individual assets not being revalued for four years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value. In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG. Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.

How we addressed this risk

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach.

We also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially.

In addition, for those assets which have been revalued during the year we:

- assessed the valuer's qualifications;
- assessed the valuer's objectivity and independence;
- reviewed the methodology used; and
- performed testing of the associated underlying data and assumptions.

Audit conclusion

There were no significant findings arising from our review of property, plant and equipment valuation.

Significant risk	Description of the risk
Defined benefit liability valuation	The last triennial valuation of the Harrow Pension Fund was completed as at 31 March 2016. As an admitted body within the Fund, the valuation provides the basis of the associated net pension liability for the Council as at 31 March 2019. The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area. Local Government Pension Schemes have included an interim solution since 2016 on Guaranteed Minimum Pension (GMP) equalisation and as such, this is not considered part of the defined benefit liability valuation risk.

How we addressed this risk

As the Council is the Fund administrator, we addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary Hymans Robertson.

We also:

- assessed the skill, competence and experience of the Fund's actuary;
- challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation;
- carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

Audit conclusion

The NAO's consulting actuary (PwC) has reviewed assumptions used by all LGPS actuaries in 2018/19. Their review identified two matters:

- The impact of GMP equalisation may not be fully included in LGPS annual IAS 19 valuations; and
- The impact of a legal case held during the year (known as the McCloud case), concerning potential age discrimination in relation to transitional provisions introduced as part of pension reform measures, has not been included in any LGPS annual IAS 19 valuations.

In our view, these matters gives rise to at least a constructive obligation, which are required to be recognised under IAS 19, which could have a potential material impact on the Fund and the Council. The Council is currently consulting with its actuary to obtain an assessment of the impact of these matters. Once the actuary has provided this assessment the Council will update the amounts or disclosures in the statement of accounts to reflect the additional liability.

Subject to the updated actuarial valuation being received, there were no significant findings arising from our review of the defined benefit liability valuation.

Management judgement

Regeneration programme costs

Description of the management judgement

The Council has placed a pause on its Regeneration Programme which included plans for the sale of the current Civic Centre and relocation to Wealdstone as part of the Harrow New Civic Project. Costs and assets arising from earlier stages of the programme will need to be assessed to ensure they are correctly accounted for and disclosed in the Council's financial statements.

How our audit addressed this area of management judgement

We reviewed in detail the costs to date associated with the programme to ensure these are correctly accounted for and disclosed appropriately in the financial statements.

Audit conclusion

There were no significant findings arising from our review of the regeneration programme costs.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2019 and were of a good quality. Supporting working papers were made available to us on the first day of the audit and were of a good quality.

Significant matters discussed with management

We discussed the following significant matters with management:

- GMP and McCloud – these two pension liability issues give rise to at least a constructive obligation, which are required to be recognised under IAS 19. The Council is currently consulting with its actuary to obtain an assessment of the impact of these matters. This may result in an adjustment to the accounts. Further details are set out on page 8.
- Group Accounts – the Council has assessed its subsidiaries, associates and joint ventures and considers them to be not material either qualitatively or quantitatively. We have considered management's judgement and are satisfied that the accounts are not materially misstated as a result of this judgement. In the coming years the Council will need to ensure it reviews this assessment and updates it for any significant changes.
- NDR Appeals Provision – the Council has not made any provision for appeals associated with NHS Trusts claiming charitable status. We are satisfied , based on the Council's assessment of the outcome of this case, that this matter does not affect the risk of material misstatement.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections.

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £186k.

There were no unadjusted misstatements.

The table below outlines the misstatements that have been identified by management and adjusted during the course of the audit.

Adjusted misstatements 2018/19

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Community expenditure	1,029			
	Cr: Community income		1,029		
	The Council identified a grossing-up formula error within community income and expenditure. This has been amended to agree to the amounts set out in the subjective analysis note (Note 5.25).				
2	Dr: Flexible homeless support grant	90			
	Cr: Other general grants		90		
	The Council identified a transposition error in the taxation and non-specific grant income note (Note 5.10). The flexible homeless support grant has been amended to £2,014k.				
	Total	**1,119**	**1,119**	**-**	**-**

Disclosure amendments

During our review of the financial statements we identified some amendments to disclosures. The following were amended by management.

Note 5.1, Accounting policies: an additional policy has been added for group accounts.

General: A number of other changes have been made to the financial statements not requiring individual analysis.

4. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	A Council Constitution, setting out the governance structure of the Council is in place which is reviewed regularly. The Governance, Audit, Risk Management and Standards Committee (GARMS) fulfils the function of an audit committee. GARMS has met regularly throughout the year. The Committee has received the reports of internal and external audit, and challenged the findings and recommendations as appropriate. During quarter 1 of 2018/19, the Corporate Risk Register (CRR) was refreshed, ensuring that the risks being reported on in the CRR were of a sufficiently high level. This saw a significant decrease in the number of risks being reported and now nine risks are shown on the CRR, arguably making it easier to understand. The CRR is reported regularly to the Corporate Strategic Board and to GARMS, with a supporting report detailing movement in risk levels in the preceding quarter. During the year there has been regular reporting to Cabinet of financial information. The year-end position reported is not significantly different to that forecast during the year. A medium term financial plan was in place for the year ended 31 March 2019, covering the period 2018/19 to 2020/21. This was approved by Cabinet and Council in February 2018. The 2018/19 budget was balanced, with planned underspends in year, to be utilised to support the 2019/20 budget. A Treasury Management Strategy was in place for the year ended 31 March 2019. GARMS has received regular treasury management reporting during the financial year. The 2018/19 Treasury Management Strategy Statement was approved by the Council in February 2018. The Regeneration Programme, which was initially approved by the Council in 2014, was paused during the year. This was following a limited assurance internal audit review and external review commissioned by the Council as part of their due diligence on the project. The outcomes of both reviews, led to a consideration of development options and delivery arrangements for regeneration projects. In May 2019, Cabinet approved commencing a procurement exercise to procure a Strategic Development Partner to assist with the delivery of a number of the Council's core strategic development sites.	Yes

4. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Medium Term Financial Strategy (MTFS) 2018/19– 2020/21 was approved by Cabinet and Council in February 2018 alongside the 2018/19 budget. During the year, there were regular financial reports submitted to Cabinet and the Council, which reported on the level of savings proposed and the Council's progress in achieving them. The Council achieved savings of £7.4m during 2018/19, leading to a surplus position of £3.1m, better than the £2.2m planned for. The final financial outturn was very close to the projected position throughout the year, which was consistently and regularly reported to Cabinet and Council. The Council has a good track record of achieving high levels of savings during the financial year and monitors achievement on a Red-Amber-Green basis, giving Members a clear indication of progress being made with savings. We further note that during the 2018/19 year the Council was successful in allocating in-year savings to increase earmarked reserves to be used to mitigate and manage future budget gaps. During the year, following an external review, the Council was considering its development options and delivery arrangements for a number of its regeneration projects. This led to minimal spend in year resulting in a large capital underspend. The capital budget for the Regeneration Programme was reset for 2019/20 to ensure budget activity accurately reflected current activity. Again, progress against the capital plan was reported to Cabinet and Council during the year. The 2019/20 budget was approved in February 2019, alongside the MTFS 2020/21 – 2021/22 (MTFS). Including utilising the revenue balances carried forward from 2018/19, the 2019/20 budget is balanced. The MTFS as approved, however, identified a funding gap of £26.1m over the two year period, £16.8m in 2020/21 and £9.3m in 2021/22. The Council has chosen to work with the deficit on a two-year basis, allowing a longer lead time for some savings to materialise. We appreciate that at the point of setting the budget and MTFS in February 2019, there were, and still are, key uncertainties in local authority funding relating to the Government Comprehensive Spending Review, the Fair Funding Review in Local Government, and the impact on the Council of the 100% business rates retention scheme. There is no guarantee that these elements would all have a positive effect on the Council's funding. Initial planning by the Council and evaluation of income assumptions, mainly surrounding council tax increase levels has reduced the funding gap to £13.6m over the two years. Initial review of the assumptions employed by the Council to get to this point considers them reasonable, but they do carry a level of risk extrinsic to the Council which they, and other local authorities, cannot control – such as the result of the Fair Funding Review. During 2019/20, the Council will work on four key themes to reduce expenditure and/or generate income to mitigate the funding gap and protect front line services. Early indications are positive, with a number of savings identified. The Council is not complacent, and continues to work on reducing expenditure and/or generating income. Reports will continue to be received regularly by Cabinet and Council on the MTFS.	Yes

4. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Council's Constitution details the arrangements for contracting with third parties. The Council has written procedures for procuring products and services, which are within its constitution. The Health and Wellbeing Board is responsible for the Harrow Better Care Fund plan. The Board, made up of representatives from the Council, NHS Harrow CCG, local police and the voluntary sector, monitors the outcome performance of the plan.	Yes

4. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
The Council is currently forecasting a planned underspend of approximately £2.2million in 2018/19, based on draw down and use of reserves of £5.3million. The underspend is planned to be applied to the 2019/20 budget. In December 2018, Cabinet approved the draft 2019/20 budget and 3 year Medium Term Financial Strategy (2019/20 to 2021/22) for consultation. This showed a balanced budget position for 2019/20 with further savings of £22.8million required for 2020/21 (£13.5million) and 2021/22 (£9.3million). The final approved budget and MTFS approved in February 2019, showed a balanced budget for 2019/20 with further savings of £26.1m required for over 2020/21 and 2021/22.	We addressed this risk by reviewing arrangements for: • Delivery of the 2018/19 savings against target; • Developing the MTFS 2020/21 – 2021/22, considering the reasonableness of assumptions; • Identifying future savings, including a review of robustness of identified plans for 2019/20 and beyond. The Council has achieved a high level of savings in 2018/19 and has set a balanced budget for 2019/20. The MTFS 2020/21 – 2021/22 identified a significant funding gap over the two years it relates to. Initial planning assumptions have reduced the funding gap over the two year period from £26.1m, to £13.6m, and work is well underway to identify further savings / income generation opportunities.	We obtained sufficient assurance to conclude arrangements are in place.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unmodified Value for Money conclusion for the 2018/19 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

[To be provided to us on client headed note paper]

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

[Date]

Dear Lucy

London Borough of Harrow - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts
I confirm I consider the inclusion of the Council's subsidiary companies would not have a material impact on the accounts. Group accounts have therefore not been completed.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Dawn Calvert
Director of Finance, Section 151 Officer

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of London Borough of Harrow
Report on the financial statements

Opinion on the financial statements of London Borough of Harrow
We have audited the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of London Borough of Harrow as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Opinion on the financial statements of Harrow Pension Fund
We have audited the financial statements of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:
- give a true and fair view of the financial transactions of Harrow Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Director of Finance's use of the going concern basis of accounting in the preparation of the Council's and the Pension Fund's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinions on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Council's and Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Council's and Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on London Borough of Harrow's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council
The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report
This report is made solely to the Members of London Borough of Harrow, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

[Date]

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Lucy Nutley
Director

Tel: 020 7063 4634
Email: Lucy.Nutley@mazars.co.uk

Gary McLeod
Senior Manager

Tel: 020 7063 4154
Email: Gary.McLeod@mazars.co.uk

Audit Completion Report DRAFT

London Borough of Harrow Pension Fund

Year ending 31 March 2019

MAZARS

CONTENTS

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Governance, Audit, Risk Management and Standards Committee
Civic Centre
Station Road
Harrow
HA1 2XY

16 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 January 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of the Director of Finance and her team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 020 7063 4634.

Yours faithfully

Lucy Nutley
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the London Borough of Harrow Pension Fund for the year ended 31 March 2019, and forms the basis for discussion at the Governance, Audit, Risk Management and Standards Committee (GARMS) meeting on 16 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014.

Section 2 of this report outlines the detailed findings from our work on the financial statements. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.
Consistency Report	We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. Our draft consistency report is provided in Appendix C.
Wider powers	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts.

Misstatements and internal control recommendations

We have not raised any internal control recommendations and nor are there any recommendations that required an update from the prior year.

Section 3 outlines that no misstatements were noted as part of our audit as at the time of issuing this report. If any misstatements are noted on completion of the outstanding work, these will be reported to GARMS in a follow-up letter.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Closure procedures and review	Our final reviews and completion work needs to be performed, including consideration of post balance sheet events until the date of sign-off.

We will provide GARMS with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £8.161m using a benchmark of 1% of net assets available to pay benefits. Our final assessment of overall materiality, based on the final financial statements is £8.513m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to GARMS) at £255k based on 3% of overall materiality.

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2. FINANCIAL STATEMENTS AUDIT

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Fund's financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

There were no significant findings arising from our review of areas of potential management override of controls.

Significant risk	Description of the risk
Valuation of unquoted investments for which a market price is not readily available	As at 30 September 2018, the Pension Fund held investments which were not quoted on an active market with a fair value of £89.5m (£79.7m as at 31 March 2019), which accounted for 10.5% (9.4% as at 31 March 2019) of the Fund's investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers. This is mostly based on Net Asset Value statements. This results in an increased risk of material misstatement.

How we addressed this risk

In addition to our standard programme of work in this area we have:

- agreed the valuation to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreed the investment manager valuation to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;
- where audited accounts were available, we checked that they were supported by a clean opinion; and
- where available, we reviewed any independent control assurance reports and confirm that they do not highlight any risks of material misstatement

Audit conclusion

There were no significant findings arising from our review of the valuation of unquoted investments.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

2. FINANCIAL STATEMENTS AUDIT (CONTINUED)

Qualitative aspects of the entity's accounting practices
We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 31 May 2019 and were of a good quality. Supporting working papers were made available to us and were of a good quality.

Significant difficulties during the audit
During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections.

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £255k.

There were no unadjusted or adjusted misstatements.

Disclosure amendments

The following disclosure amendments were made:

General: A number of other changes have been made to the financial statements not requiring individual analysis.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

[To be provided to us on client headed note paper]

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

[Date]

Dear Lucy

London Borough of Harrow Pension Fund - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of London Borough of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Assets
I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions
I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments
Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Dawn Calvert
Director of Finance, Section 151 Officer

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of London Borough of Harrow
Report on the financial statements

Opinion on the financial statements of London Borough of Harrow
We have audited the financial statements of London Borough of Harrow ('the Council') for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of London Borough of Harrow as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Opinion on the financial statements of Harrow Pension Fund
We have audited the financial statements of Harrow Pension Fund ('the Pension Fund') for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:
- give a true and fair view of the financial transactions of Harrow Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Director of Finance's use of the going concern basis of accounting in the preparation of the Council's and the Pension Fund's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinions on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Council's and Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Council's and Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Conclusion on London Borough of Harrow's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council
The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report
This report is made solely to the Members of London Borough of Harrow, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

[Date]

APPENDIX C
DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of London Borough of Harrow on the Pension Fund Financial Statements included within Harrow Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Harrow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion
In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Harrow for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Finance and the auditor
As explained more fully in the Statement of the Director of Finance, the Director of Finance is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Harrow as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Harrow.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Harrow describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the Members of London Borough of Harrow, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the Members of London Borough of Harrow those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Harrow and London Borough of Harrow's Members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

[Date]

APPENDIX D INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Lucy Nutley
Director

Tel: 020 7063 4634
Email: Lucy.Nutley@mazars.co.uk

Gary McLeod
Senior Manager

Tel: 020 7063 4154
Email: Gary.McLeod@mazars.co.uk