

# Pension Board AGENDA

**DATE:** Thursday 17 September 2020

**TIME:** 6.30 pm

**VENUE:** Virtual Meeting - Online

**MEMBERSHIP** (Quorum 3, including at least one Employer representative and one Scheme Member representative).

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**Chair:** Mr R Harbord

**Board Members:**

Councillor James Lee	- Harrow Council, Employer Representative
Gerald Balabanoff (VC)	- Scheme Members' Representative - Pensioners
Vacant	- Scheme Members' Representative – Active Members
Vacant	- Employer Representative – Scheduled and Admitted Bodies

**Contact:** Nikoleta Nikolova, Senior Democratic and Electoral Services Officer  
Tel: 020 8424 8284 Email: [nikoleta.nikolova@harrow.gov.uk](mailto:nikoleta.nikolova@harrow.gov.uk)

# Useful Information

## Meeting details:

This meeting is open to the press and public and can be viewed on [www.harrow.gov.uk/virtualmeeting](http://www.harrow.gov.uk/virtualmeeting)

## Filming / recording of meetings

Please note that proceedings at this meeting may be recorded or filmed. If you choose to attend, you will be deemed to have consented to being recorded and/or filmed. The recording will be made available on the Council website following the meeting.

**Agenda publication date: Wednesday 9 September 2020**

# **AGENDA - PART I**

## **1. DECLARATIONS OF INTEREST**

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

## **2. APPOINTMENT OF VICE CHAIR**

To appoint a Vice-Chair for the 2020/21 Municipal Year.

## **3. MINUTES (Pages 5 - 8)**

That the minutes of the meeting held on 8 January 2020 be taken as read and signed as a correct record.

## **4. PUBLIC QUESTIONS \***

To receive any public questions received in accordance with Committee Procedure Rule 17.

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

**[The deadline for receipt of public questions is 3.00 pm, 14 September 2020. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

**No person may submit more than one question].**

## **5. PETITIONS**

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

## **6. DEPUTATIONS**

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

## **7. PENSION FUND COMMITTEE - 9 SEPTEMBER 2020 (Pages 9 - 18)**

Report of the Director of Finance and Assurance.

## **8. LONDON BOROUGH OF HARROW PENSION FUND: DRAFT ANNUAL REPORT, EXTERNAL AUDIT PLAN AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (Pages 19 - 88)**

Report of the Director of Finance and Assurance.

## **9. PENSIONS ADMINISTRATION PERFORMANCE MONITORING TO 30 JUNE**

**2020.** (Pages 89 - 94)

Report of the Director of Finance and Assurance.

**10. RECRUITMENT TO PENSION BOARD VACANCIES** (Pages 95 - 98)

Report of the Director of Finance and Assurance.

**11. PENSION BOARD WORK PROGRAMME - 2019-20 AND 2020-21** (Pages 99 - 102)

Report of the Director of Finance and Assurance.

**12. ANY OTHER BUSINESS**

Which cannot otherwise be dealt with.

## **AGENDA - PART II**

**Nil**

**\* DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

# **PENSION BOARD**

## **MINUTES**

### **8 JANUARY 2020**

**Chair:** \* Mr R Harbord

**Board Members:** \* Councillor James Lee Harrow Council, Employer Representative  
\* Gerald Balabanoff (VC) Scheme Members' Representative - Pensioners

**In attendance: (Officers)** Iain Millar Treasury and Pensions Manager

\* Denotes Member present

#### **56. Declarations of Interest**

**RESOLVED:** To note that there were no declarations of interests made by Members.

#### **57. Minutes**

**RESOLVED:** That the minutes of the meeting held on 31 October 2019, be taken as read and signed as a correct record.

#### **58. Public Questions, Petitions and Deputations**

**RESOLVED:** To note that no public questions, petitions or deputations had been received.

## RESOLVED ITEMS

### 59. Pension Fund Committee Meetings 18 December 2019

The Board received a report which summarised the matters considered by the Pension Fund Committee at the meeting on 18 December 2019. The Chair advised the Board of his attendance at the meeting.

The performance dashboard prepared by Aon for quarter 3 2019, which updated the value of the fund to November, was discussed. There was nothing to bring to the attention of the Board with regard to manager performance.

The PFC was generally comfortable with the direction of travel of the CIV. There were some aspects of concern, particularly with regard to the high turnover of key staff and the asset structure. The CIV Chief Investment Officer had been invited to present a training session prior to the next Committee meeting on 25 March 2020.

In response to a question it was noted that the Investment Strategy Review would include property as it was an asset class

The officer informed the Board to that a report would be submitted on the source of future performance measurement reports, ideally something comparable to PIRC

**RESOLVED:** That the report be noted.

### 60. Pension Administration Performance Monitoring to 30th September 2019

The Board received a report on performance monitoring information for the quarter ending 30 September 2019.

An amendment to the reported figure for the calculation and notification of actual ill health benefits within 5 days was noted. The officer reported that all benefit statements had been published and distributed in August well before the 31 August deadline. All employer contributions had been paid on time in the year to date.

The Board was informed of the staffing make up of the pension administration team. An officer confirmed that staff retention was a risk to the service but the aim was to use flexible working and to give the opportunities to build a career in pension administration to recruit and retain staff.

**RESOLVED:** That

- (1) the report be noted;
- (2) future performance monitoring reports include a line on complaints, both active and resolved.

## **61. Scheme Advisory Board Good Governance Review**

The Board received a report which summarised the recommendations to date from the Scheme Advisory Board Review of the effectiveness of Local Government Pension Scheme Governance Arrangements.

Members of the Board discussed the Gap Analysis. It was noted that at present the Council was substantially compliant with the proposed governance requirements and would review current policies to ensure compliance with the guidance and best practice. It was not known what would be in the statutory guidance and any gaps would require more formalised training to show the Board was being developed. A Member stated that a training programme was important due to the changes in membership in recent years. Appointees from Party Groups would require significant training particularly for the Pension Fund Committee. Training was statutory for Board members but not Pension Fund Committee.

The Board referred to the triannual review and discussion took place on how this would be undertaken. It was noted that there would be an opportunity to review the MHCLG statutory guidance.

In response to a question it was noted that:

:

- discussion would take place with the Director of Finance on the work plan regarding the new requirement to publish the administration strategy;
- the officer would check the timeline for the government response in Phase 3;
- the TPR report was separate and it took on board the views of the Board expressed at earlier meetings. The officer undertook to circulate a paper copy of the report.

**RESOLVED:** That the report be noted.

## **62. Pension Board Work Programme 2019-20**

The Board received a report which reviewed the Pension Boards' actions to date and invited comment on a suggested work programme for 2019-20 and 2020-21.

The officer referred to the discussion at the last meeting of the review of Pension Board representation and terms of reference. The officer sought clarification that the Board wished to increase the membership by two in order to ensure that a quorum was in attendance and stated that he would prepare a report accordingly. In response to a question it was reported that the union had not put forward a replacement for the current vacancy.

The view was expressed that the increase in membership could bring in members with different views and expertise in areas that were not currently represented.

Board members discussed whether payment should be offered as an incentive. With regard to officers of the Council, It would depend on whether the meetings took place during office hours as had been the previous practice. The Board agreed that an honorarium, to cover expenses and a small sum, should be considered in order to attract Board members. The officer stated that a media campaign would be launched.

With regard to training, the Chair asked that the Chair of the Pension Fund Committee be requested to enable the Board to attend the presentation from CIV on 25 March as it would not be viable to request a separate session for the Board. Further suggestions were: two induction sessions prior to Board meetings, an update on benefits, investment management and current themes for new members.

### **63. Any Other Business**

The next meeting was scheduled for 20 April 2020. The proposed dates for 2020/21 were: 2 July 2020, 17 September 2020, 2 December 2020 and 4 March 2021.

(Note: The meeting, having commenced at 6.45 pm, closed at 7.25 pm).

(Signed) RICHARD HARBORD  
Chair






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**REPORT FOR: PENSION BOARD**

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**Date of Meeting:** 17 September 2020

**Subject:** Pension Fund Committee - 9 September 2020

**Responsible Officer:** Dawn Calvert – Director of Finance and Assurance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Appendix 1: Investment Dashboard (Aon)  
Appendix 2: Pension Fund Committee notes (to follow)

**Section 1 – Summary and Recommendations**

The report summarises the matters considered by the Pension Fund Committee at the meeting on 9 September 2020 and invites the Board to agree any comments they might wish to make to Pension Fund Committee.

**Recommendations:**  
Pension Board is requested to note the report and comment as necessary.

**Section 2 – Report**

1. The matters considered by the Pension Fund Committee at its meeting on 9 September 2020 are summarised in the table below.

Report	Comments
<b>Part I</b>	
Pension Fund Draft Annual Report and Accounts 2019-20	The Committee considered the Fund’s draft annual report and financial statements for 2019-2020 – these documents are subject to audit and are

	<p>reported in full elsewhere on the Board's agenda.</p> <p>The Committee also reviewed the external audit plan.</p>
<p>Review of Internal Controls at Investment Managers</p>	<p>This report summarised the findings of external auditors' reviews of the internal controls in place at each of the Investment managers, plus the reports made available by the London CIV of the reviews of controls undertaken at the managers available via the CIV.</p> <p>The reports indicated in each case that controls were operating effectively, and where exceptions were identified that an appropriate management response was received.</p>
<p>Performance Dashboard and Update on Regular items</p>	<p>The report summarised the position of the Fund at 30 June 2020 and set out a proposed work programme for the Committee for the remainder of 2020-21.</p> <p>The performance dashboard is attached at appendix 1.</p>
<p><b>Part II</b></p>	
<p>Investment Strategy Review</p>	<p>Members received a confidential report of the Director of Finance and Assurance on the Investment Strategy Review and were recommended to agree the actions required to progress the Review.</p>
<p>London CIV update</p>	<p>This report summarised the current work and Funds available through the CIV, including some recent changes in key management personnel at the CIV, and explained some actions take in response to concerns regarding performance of one Fund manager.</p>
<p>Appointment of Independent Advisors</p>	<p>This report sought the Committee's approval for the extension of the appointments of the two Independent Advisors until 31 March 2022 to enable a procurement exercise to be undertaken.</p>

2. The timing of the meetings of this Board means that the Committee's meeting took place after publication of this agenda.

## Legal Implications

3. None

## Financial Implications

4. Whilst this report discusses numerous matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

## Risk Management Implications

5. Relevant risks are included in the Pension Fund risk register.

## Equalities implications / Public Sector Equality Duty

6. Was an Equality Impact Assessment carried out? No
7. There are no direct equalities implications arising from this report.

## Council Priorities

8. Investment performance has a direct impact on the financial health of the Pension Fund. This directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

## Section 3 - Statutory Officer Clearance

Name: Jeremy Randall	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 1/9/2020		

Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 3/09/2020		

Name: Dawn Calvert	<input checked="" type="checkbox"/>	On behalf of the Corporate Director of Resources
Date: 1/9/2020		

<b>Ward Councillors notified:</b>	<b>NO</b>
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## **Section 4 - Contact Details and Background Papers**

**Contact:** Jeremy Randall – Interim Pensions Consultant  
Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None

# Investment Dashboard

Q2 2020

Prepared by Aon

Presentation to the London Borough of Harrow Pension Fund Committee



# Investment Dashboard

## Funding

86.1%

Qtr ▲ 3.2%

Source: Hymans Robertson

## Assets

£872m

Qtr ▲ £94m

## Liabilities

£1,013m

Qtr ▲ £74m

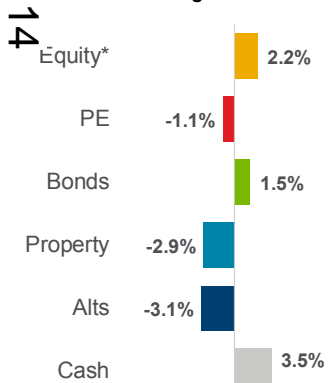
## Yields & MTAA views

	Now	3yr		5yr	
		Market Pricing	Aon View*	Market Pricing	Aon View*
Nominal	0.7%	▲ 0.8%	▲ n/a	▲ 0.9%	▲ n/a
Real	-2.5%	▲ -2.4%	▲ n/a	▲ -2.3%	▲ n/a
Inflation	3.3%	= 3.3%	▲ n/a	▼ 3.2%	▲ n/a

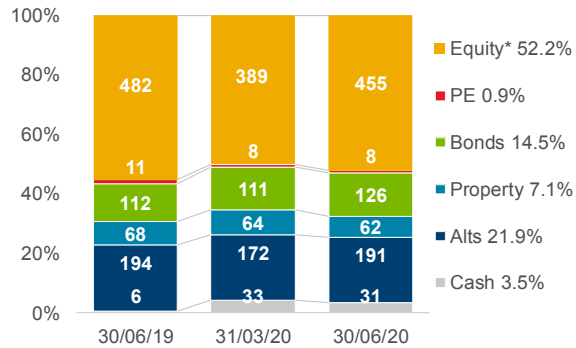
Source: Aon \*Given the uncertainty surrounding Brexit Aon's Fixed Income Team has suspended its medium-term projections on rates.

## Asset Allocation

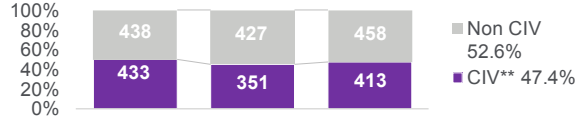
### Relative to strategic



### Absolute



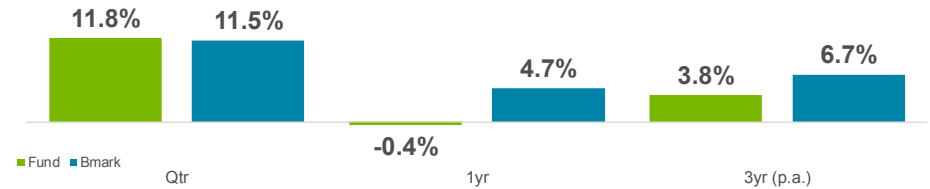
### London CIV



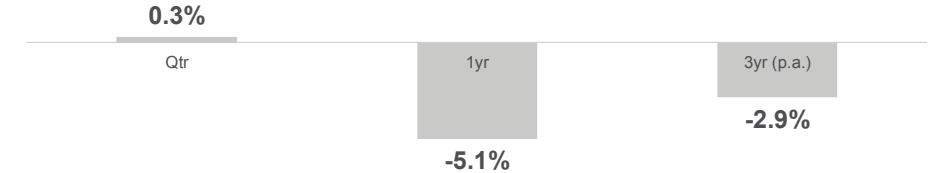
Source: London Borough of Harrow Pension Fund Officers \*includes passive currency hedge \*\* includes passive equity (BlackRock from Q4 2018)

## Performance

### Absolute



### Relative



Fund and Benchmark Performance Source: PIRC

## Managers in Focus

### InReview

Oldfield Global Equities\*

### Qualified

GMO Emerging Markets  
LaSalle UK Property

### Not Recommended\*\*

### Sell

Source: Aon

\*Aon InForm Assessment

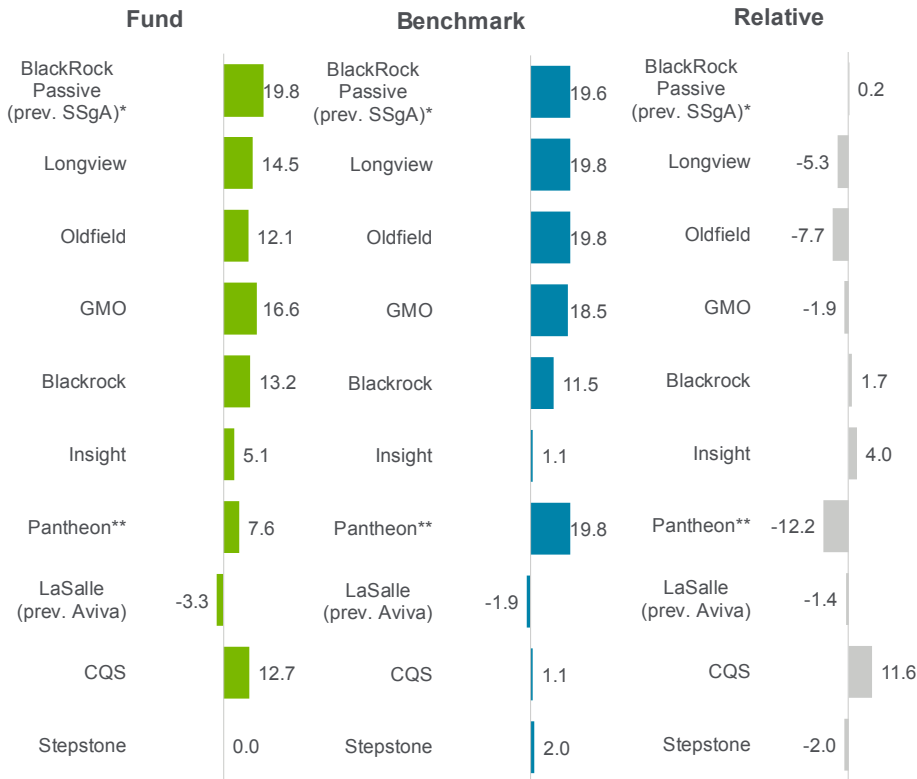
\*\* Not Recommended means the strategy scores below median in the InForm Assessment

# Manager Performance Dashboard

## Quarterly

## 12 months

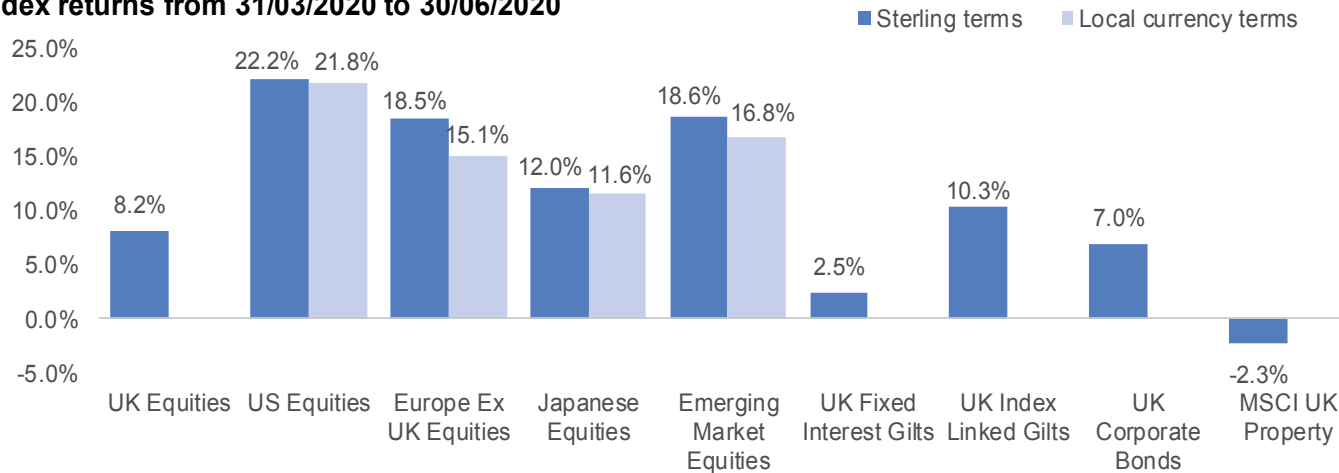
15



Fund and Benchmark Performance Source: PIRC Relative performance calculated by Aon using an arithmetic methodology  
 \*The passive equity assets were moved from SSgA to BlackRock on 7 September 2018 \*\*Pantheon performance uses the previous quarter value adjusted for cash flow in the month

# COVID-19: Impact on Markets

Index returns from 31/03/2020 to 30/06/2020



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

19

- Global equities rebounded sharply over the second quarter, recovering the bulk of the losses sustained in the previous quarter's selloff
- Gilt yields continued their descent over the quarter as quantitative easing programmes and sustained demand for safe haven assets, amidst an uncertain economic outlook, kept downward pressure on yields
- UK property capital values fell by 3.6% over the quarter as property valuations continued to be written down to reflect the economic downturn. Despite steady income returns, the MSCI UK Monthly Property Index returned -2.3% overall
- The Fund's Equity, Bonds and Alternatives buckets all had strong absolute performance over the quarter while the Property manager (LaSalle) fell as a result of the Coronavirus impact over Q2 2020.



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**REPORT FOR: Pension Board**

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**Date of Meeting:** 17 September 2020

**Subject:** London Borough of Harrow Pension Fund:  
Draft Annual Report, External Audit Plan  
and Financial Statements for the year  
ended 31 March 2020

**Responsible Officer:** Dawn Calvert, Director of Finance and  
Assurance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Appendix 1 – London Borough of Harrow  
Pension Fund: Draft Annual Report and  
Financial Statements for the year ended  
31 March 2020  
Appendix 2 – External Audit Plan 2019-20

## **Section 1 – Summary and Recommendations**

This report presents the draft Pension Fund Annual Report, External Audit plan and Financial Statements for the year ended 31 March 2020 on which the Board's comments are invited.

**Recommendations:**

The Board is recommended to note the report.

## Section 2 – Report

1. Attached is the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2020. This document was also submitted to the Pension fund Committee on 9 September 2020.
2. The statutory timetable for the publication and audit of the Council's accounts for 2019-20 has been changed by the Government in the light of the Covid-19 pandemic. The Audit of Accounts will again be carried out by the Council's auditor, Mazars. The external audit plan was reported to the Governance, Audit, Risk Management and Standards (GARMS) Committee on 21 January 2020, and to the Pension Fund Committee on 9 September 2020. Had the Pension Fund Committee met in March 2020 it would have been reported at that time. The audit plan document is enclosed as Appendix 2.
3. Approval of the Council's draft accounts, including those for the Pension fund, will be sought from GARMS Committee on 8 September 2020. Mazars commenced the Audit of Accounts in August 2020. It will be concluded in early October, and the outcome of the audit will be reported to the GARMS Committee at their next meeting on 22 October 2020.
4. The audited Pension Fund Annual report is required to be published by 1 December 2020 – this requirement has not changed.
5. To assist in the Board's consideration of this matter they are advised of the following key points:

- Introduction (Page 3) and Fund Performance (Page 12)

During the year the net assets of the Fund decreased from £851.3m to £777.8m. This reflects the fall in markets which took place in the last quarter of the year as the Covid-19 pandemic developed.

- The Harrow annual return performance has been as follows:

	Annual Performance (%)	Benchmark (%)
1 year	-8.1	-3.2
3 years	0.4	3.4
5 years	4.0	5.9

- Audit Statement (Page 4)

To be provided in September or early October 2020.

- Accounts for year ended 31 March 2020 (Page 19)

	£m
Contributions by members and employers (including transfers)	-35.7
Benefits paid (including transfers)	38.4
Investment income	-9.1

Management expenses (including fees charged by investment managers of £4.1m)	5.4
Decrease in market value of investments	74.5

- [Scheme Overview \(Page 21\)](#)

Number of pensioners increased from 5,557 in 2016-17 to 6,004 in 2019-20.  
 Number of deferred pensioners increased from 6,912 in 2016-17 to 7,037 in 2019-20.

Number of active members decreased from 5,644 in 2016-17 to 5,410 in 2019-20.

The Fund continues to mature in that benefit payments exceed contributions. This trend towards maturity can be expected to continue as the number of pensioners grows and active membership either stabilises or falls. However, when investment income is taken into account, cashflow remains positive. The impact of stable membership, longevity and pension increases will steadily increase future cash outflows which, in the longer term, may have to be factored into the investment strategy.

The appendices to the Accounts have, as appropriate, been reviewed by the Pension Fund Committee during 2019-20.

## **Legal Implications**

6. Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority must produce an annual report containing certain specified matters. The report must be published before 1 December of the scheme year end.

## **Financial Implications**

7. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## **Risk Management Implications**

8. The annual report summarises the Fund's approach to risk management which is overseen by the Pension Fund Committee.

## **Equalities implications / Public Sector Equality Duty**

9. Was an Equality Impact Assessment carried out? No.  
 There are no direct equalities implications arising from this report.

## **Council Priorities**

10. The financial health of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

### Section 3 - Statutory Officer Clearance

Name: Dawn Calvert  Chief Financial Officer

Date: 27/08/2020

Name: Caroline Eccles  on behalf of the  
Monitoring Officer

Date: 03/09/2020

Name: Dawn Calvert  on behalf of the  
Corporate Director of  
Resources

Date: 27/08/2020

**Ward Councillors notified:** NO

### Section 4 - Contact Details and Background Papers

**Contact:** Jeremy Randall – Interim Pensions Consultant  
[Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None

# **London Borough of Harrow Pension Fund**

**Annual Report and Financial Statements for the  
year ended 31 March 2020**

**(subject to audit)**



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- Appendix 1 Governance Compliance Statement**
- Appendix 2 Communications Policy Statement**
- Appendix 3 Funding Strategy Statement**
- Appendix 4 Investment Strategy Statement**
- Appendix 5 A Brief Guide to the Local Government Pension Scheme**



## 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 2020. 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 50/51.

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

The Fund is a shareholder of the London LGPS Collective Investment Vehicle Ltd (LCIV) (the organisation set up to run pooled LGPS investments in London in 2015) and holds £150,000 of regulatory capital in the company in the form of unlisted UK equity shares. The Pension Fund Committee has committed to investing in LCIV as and when suitable pool investment solutions 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.

During 2019-20, the Pension Fund Committee's decision to reallocate funds from Diversified Growth Funds to alternative assets and infrastructure as part of a risk diversification strategy was implemented. The Fund divested from Aberdeen Standard Investments (GARS Fund) and invested 10% of fund assets in the LCIV Multi Asset Credit Fund. The Committee has approved investing 7.5% of fund assets in the LCIV Infrastructure Fund, and the first investment of £700,000 was made when the sub-fund is opened. Further investments will be made in 2020-21.

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. During 2019-20, Pension Board met three times and considered reports on pension administration performance and pension fund governance arrangements.

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. This status has been maintained in 2019-20.

The net assets of the Fund as at 31 March 2020 were £777.8m compared to £851.3m as at 31 March 2019. The Fund's overall investment return for the year was -8.1%, reflecting market turbulence in the final quarter arising from the Covid-19 pandemic.



**Dawn Calvert - CPFA**  
Director of Finance  
30 June 2020

**INDEPENDENT AUDITOR’S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HARROW ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED WITHIN THE LONDON BOROUGH OF HARROW PENSION FUND ANNUAL REPORT**

## **SCHEME MANAGEMENT AND ADVISORS**

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Keith Ferry (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Dean Gilligan 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 London LGPS CIV Ltd
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 three 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 2019-20 all Annual Benefit Statements were issued on time.

### Performance Monitoring 2019/20

Service	National Benchmarking Target	Harrow Actual Performance %
Issue letter notifying of dependent's benefit in 5 days	5 days	60
Calculation and notification of ill health estimate within 7 days	10 days	100
Calculation and notification of retirement benefits estimate in 7 days	10 days	99.22
Issue letter to new pension provider detailing transfer-out quote in 9 days	10 days	89.47
Calculation and notification of deferred benefits in 8 days	10 days	98.16
Calculation and notification of retirement benefits in 3 days	5 days	65.96
Process refund and issue payment within 5 days	5 days	99
Calculation and notification of actual ill health benefits within 3 days	5 days	75
Issue statutory notification on receipt of transfer funds in 8 days	10 days	100

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. There were no new complaints referred through the internal procedure during the year.

The costs of running the Pension Fund are shown below:

<b>Process</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Investment management expenses</b>			
Total Cost (£000)	4,267	4,509	4,050
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	231	248	220
<b>Administration costs</b>			
Total Cost (£000)	646	656	721
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	35	36	39
<b>Oversight &amp; governance costs</b>			
Total Cost (£000)	612	566	634
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	33	31	34
<b>Total cost per member (£)</b>	<b>300</b>	<b>316</b>	<b>293</b>

Investment management costs include fund manager fees and the additional costs of fund transition on restructuring and fund re-balancing. The reduction in total management expenses reflects the benefit of fee reductions negotiated by the London Collective Investment Vehicle, as more of the Fund is now invested in the CIV.

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. The increase in these costs in 2019/20 reflects the fact that the work required for the triennial valuation as at 31 March 2019 was largely carried out in 2019/20.

# INVESTMENT POLICY AND PERFORMANCE

## Investment Market Commentary (provided by Aon, April 20)

The MSCI AC World Index fell by 9.5% in local currency terms over the past twelve months. Global equities performed well in the first three quarters of the period, recording the best annual equity market gain in a decade in 2019 as trade war concerns faded with the eventual agreement of a “phase one” US-China trade deal. However, Covid-19 brought an end to the decade-long bull market in Q1 2020, as the virus outbreak in China escalated into a global pandemic. Whilst unprecedented fiscal and monetary stimulus provided support to markets, the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020. With much of the global economy shuttered going into Q2 2020, a deep global recession appears to be inevitable. Sterling depreciation limited global equity losses for unhedged UK investors. The MSCI AC World Index returned -6.2% in sterling terms.

On a sector level, Information Technology (7.5%) and Health Care (1.6%) were the best performers in local currency terms. These sectors were relatively unhindered by coronavirus-driven lockdowns. Energy (-41.6%) was the worst-performing sector as oil prices collapsed in Q1 2020.

Sterling ended a highly volatile twelve-month period 1.7% lower on a trade-weighted basis. Sterling was driven by Brexit developments for most of 2019. Whilst fears of an acrimonious “No Deal” Brexit kept pressure on sterling over 2019, sterling rallied after Prime Minister Boris Johnson agreed a Withdrawal Agreement with the European Union and his Conservative Party won a sizeable majority in the UK general election, paving the way for the Brexit Withdrawal Agreement to be ratified. Sterling fell sharply in Q1 2020, briefly hitting a 30-year low of \$1.15/£ against the US dollar amidst safe haven dollar inflows and a deteriorating UK coronavirus situation.

The US Federal Reserve (Fed) implemented three 25bps rate cuts over the second half of 2019, bringing the Federal Funds Rate target down to 1.50%-1.75%. The Fed then announced two emergency rate cuts in Q1 2020 in a bid to mitigate the severe economic impacts of Covid-19, lowering the Fed Funds Rate target by a total of 150bps to 0.00%-0.25%. The Fed also relaunched quantitative easing, pledging to buy potentially unlimited amounts of treasuries, corporate bonds, and other credit assets.

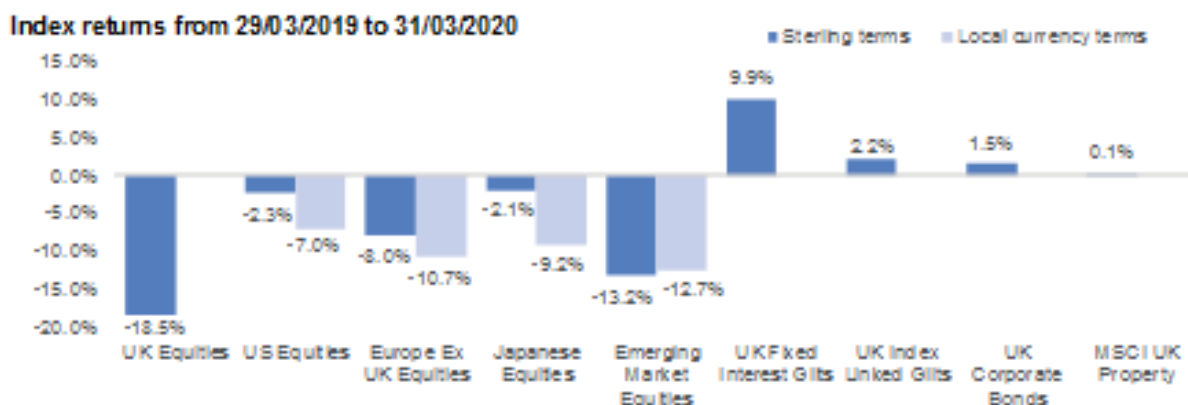
Following the Fed’s lead, the Bank of England (BoE) cut its base rate by 65bps to an all-time low of 0.10% in Q1 2020. Meanwhile, the European Central Bank (ECB) cut its deposit rate by 10bps to -0.5% in September 2019 but, with limited room to cut rates further, kept interest rates unchanged in Q1 2020 amidst the coronavirus outbreak. The BoE joined the ECB in launching new asset purchase programme in Q1 2020.

Brent Crude oil prices fell sharply by 66.7% to US\$23/BBL over the last twelve months. Weakening global economic growth and heightened trade tensions kept a lid on crude oil prices over 2019 but almost all of the decline occurred in Q1 2020. Over that quarter, oil prices fell by 65.5% in USD terms as demand for fuel fell due to social distancing measures to reduce the spread of Covid-19 whilst Saudi Arabia ramped up production after it failed to agree a plan with Russia to cut oil supply.

UK gilt yields fell in tandem with global government bond yields as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking “safe haven” assets amidst an equity market sell-off and from central banks implementing quantitative easing measures also drove prices up and yields down further. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 9.9% whilst index-linked gilts returned 2.2%.

Investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 75bps higher at 217bps, their highest level since 2012. Credit spreads widened by 94bps just in Q1 2020, a reflection of the risk asset sell-off which tormented equity markets over the quarter, as concerns over future corporate earnings and existing corporate leverage resurfaced.

UK commercial property returned 0.1%, supported by a steady income return of 5.4% which offset the 5.0% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering a total return of -9.7% over the period.



Source: FactSet, FTSE, MSCI

□

## 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 disinvestment from the diversified growth fund managed by Aberdeen (GARS) and the transition of these funds to the LCIV Multi Asset Credit mandate, Harrow had 45% of fund assets managed through the London CIV and its preferred providers at 31 March 2020. The commitment of 7.5% to the LCIV infrastructure will increase this further in 2020-21. The committed strategic allocation through the London CIV is currently up to 55% of fund assets.

The cumulative cost of pooling for the Pension Fund to 31 March 2020 is £0.347m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2020 to the agreed allocation

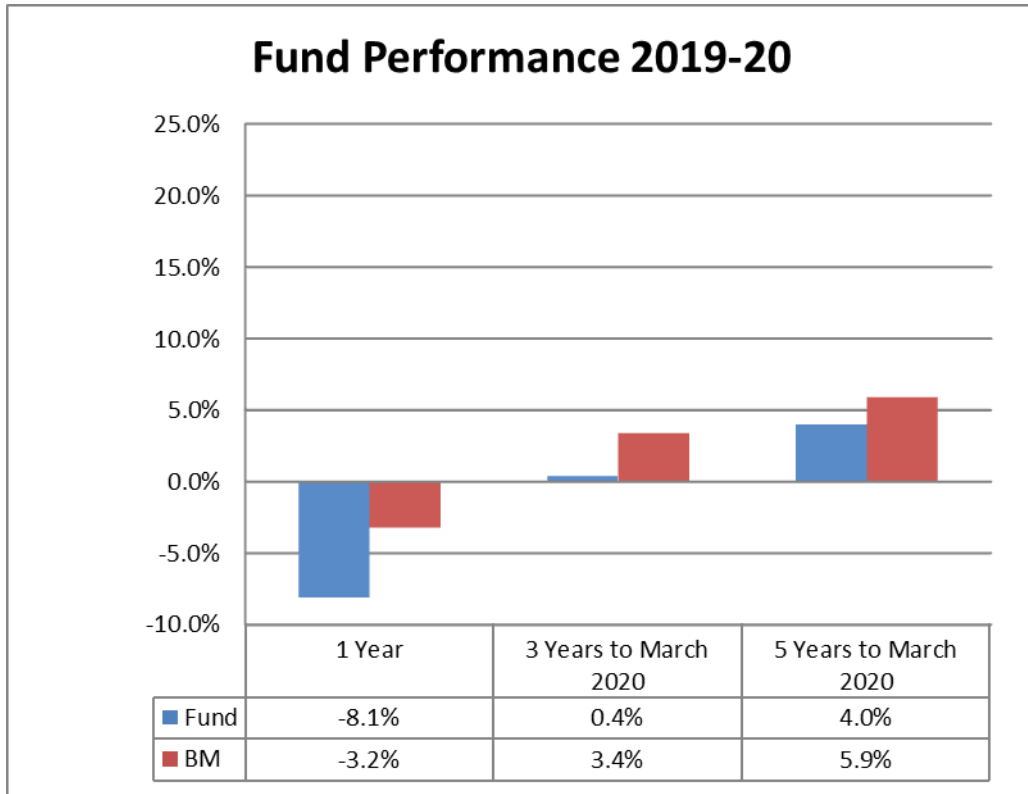
Investment assets	Actual	Agreed
	Percentage of Fund	Allocation
	%	%
Global equities-passive	23	24
Developed world equities-active	19	18
Emerging markets equities-active	9	8
Fixed interest securities	11	10
Index linked securities	3	3
Private equity	2	2
Cash	3	0
Forward currency contracts	(1)	0
Diversified growth funds	12	6.5
Multi Asset Credit	10	11
Pooled property	8	10
Infrastructure	0	7.5
<b>Total</b>	<b>100</b>	<b>100</b>

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 through performance related fees.

## Fund performance

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

Investment returns over 1, 3, and 5 years at 31<sup>st</sup> March 2020 are shown below.



The Fund's return of -8.1% during 2019-20 was due to the significant fall in asset prices experienced during the 4<sup>th</sup> quarter as the Covid-19 pandemic impacted across all asset classes. There has been a partial recovery in asset values since 31 March 2020.

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 approved by the Pension Fund Committee on 18 December 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-statement-march-2019.pdf>

Following the 2019 Actuarial Valuation, the Fund is currently reviewing its Investment Strategy. The Investment Strategy Statement will be updated as part of that work.

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

### **Pricing Risk**

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments decreased in value by 8.1% in 2019-

20, largely due to the Covid-19 pandemic in the last quarter of the year, having increased by 6.0% in 2018-19. 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 to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non- Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

### Liquidity Risk

Investments in some asset classes e.g. private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Around 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.

### Counterparty Risk

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

### **Actuarial Risk**

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

### **Operational Risk**

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

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

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

## INTERNAL CONTROLS

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

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

The results of the latest reviews are summarised below.

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

## CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email address: <a href="mailto:Pension@harrow.gov.uk">Pension@harrow.gov.uk</a> Telephone Number: 020 8416 8087 Website: <a href="http://www.harrowpensionfund.org">www.harrowpensionfund.org</a>
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB  Pensions Help line: 0800 011 3797 Website: <a href="http://www.pensionsadvisoryservice.org.uk">www.pensionsadvisoryservice.org.uk</a>  The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW  Telephone Number: 0345 600 1011 Website: <a href="http://www.thepensionsregulator.gov.uk">www.thepensionsregulator.gov.uk</a>  The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU  Telephone Number: 0800 917 4487  Email: <a href="mailto:enquiries@pensions-ombudsman.org.uk">enquiries@pensions-ombudsman.org.uk</a> Website: <a href="http://www.pensions-ombudsman.org.uk">www.pensions-ombudsman.org.uk</a>
Tracing Service	The Pension Tracing Service The Pension Service 9 Mail Handling Site A Wolverhampton WV98 1LU  Telephone Number: 0800 731 0193 Website: <a href="http://www.gov.uk/find-lost-pension">www.gov.uk/find-lost-pension</a>

# 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 2020 and its income and expenditure for the year then ended.



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**Dawn Calvert – CPFA**  
Director of Finance  
30 June 2020



# Harrow Pension Fund Account as at 31 March 2020

2018/19		Notes	2019/20
£'000			£'000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(31,757)	Contributions	7	(34,229)
(3,247)	Transfers in from other pension funds	8	(1,366)
(44)	Other income		(70)
<b>(35,048)</b>			<b>(35,665)</b>
33,527	Benefits	9	35,905
3,097	Payments to and on account of leavers	10	2,470
0	Other Expenditure		0
<b>36,624</b>			<b>38,375</b>
<b>1,576</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>2,710</b>
5,731	Management expenses	11	5,405
<b>7,307</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>8,115</b>
	<b>Return on investments</b>		
(8,907)	Investment income	12	(9,059)
(33,601)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	74,518
<b>(42,508)</b>	<b>Net return on investments</b>		<b>65,459</b>
(35,201)	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		73,574
(816,131)	<b>Opening net assets of the scheme</b>		<b>(851,332)</b>
<b>(851,332)</b>	<b>Closing net assets of the scheme</b>		<b>(777,758)</b>

# Net Assets Statement as at 31 March 2020

31 March 2019		Notes	31 March 2020
£'000			£'000
	<b>Investment assets</b>		
846,294	Investments	14	749,955
3,156	Derivative contracts	14	1,092
45	Cash with investment managers	14	28,153
<b>849,495</b>			<b>779,200</b>
3,068	Cash deposits	14	2,641
<b>852,563</b>			<b>781,841</b>
	<b>Investment liabilities</b>		
<b>(2,400)</b>	Derivative contracts	14	<b>(5,852)</b>
<b>850,163</b>			<b>775,989</b>
1,579	Current assets	21	2,005
<b>(410)</b>	Current liabilities	22	<b>(236)</b>
<b>851,332</b>	<b>Net assets of fund available to fund benefits at the period end</b>		<b>777,758</b>

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  
30 June 2020

# Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2020

## 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.

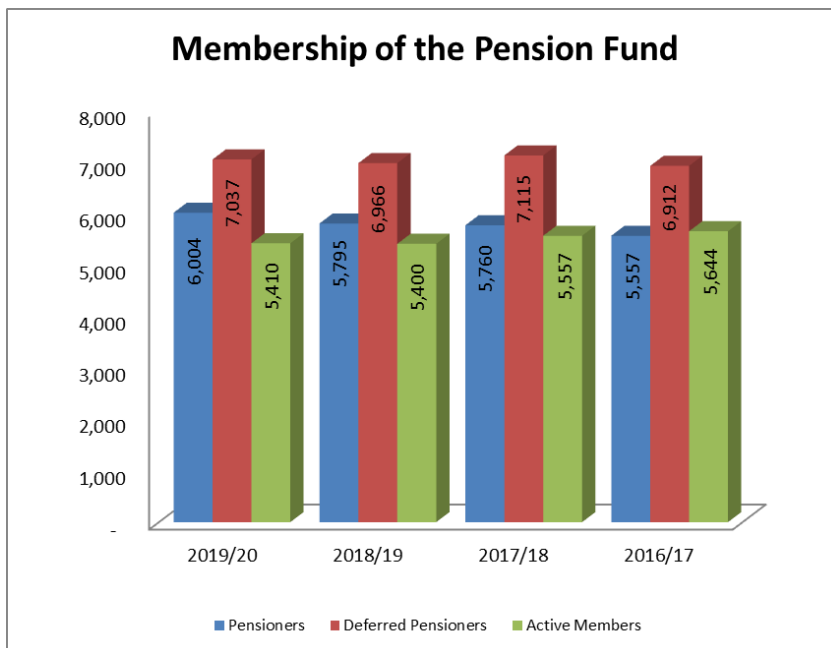
### b) Membership

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



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5675	5880	3655	15,210	82.43
Stanmore College	Scheduled Body	86	154	79	319	1.73
Nower Hill High School	Scheduled Body	22	145	143	310	1.68
Heathland and Whitefriars	Scheduled Body	7	74	172	253	1.37
Hatch End High School	Scheduled Body	28	133	71	232	1.26
Rooks Heath College	Scheduled Body	19	90	109	218	1.18
Park High School	Scheduled Body	12	77	109	198	1.07
Canons High School	Scheduled Body	15	73	105	193	1.05
Bentley Wood School	Scheduled Body	8	89	55	152	0.82
NLCS	Community Admission Body	35	48	54	137	0.74
Harrow High School	Scheduled Body	11	57	63	131	0.71
St Dominics College	Scheduled Body	40	37	53	130	0.70
Aylward Primary School	Scheduled Body	7	25	65	97	0.53
Salvatorian Academy	Scheduled Body	20	54	15	89	0.48
Priestmead School	Scheduled Body	1	0	80	81	0.44
St Georges Primary	Scheduled Body	2	1	62	65	0.35
Pinner High Academy	Scheduled Body	0	4	57	61	0.33
St John Fisher	Scheduled Body	0	3	56	59	0.32
St Josephs Primary	Scheduled Body	0	3	53	56	0.30
Earlsmead Academy	Scheduled Body	1	9	43	53	0.29
Welldon Park School	Scheduled Body	0	2	42	44	0.24
Alexandra School	Scheduled Body	2	16	22	40	0.22
St Bernadettes	Scheduled Body	3	3	34	40	0.22
Sacred Heart High School	Scheduled Body	2	3	30	35	0.19
Krishna Avanti Primary	Scheduled Body	0	14	20	34	0.18
Avanti House Primary School	Scheduled Body	1	12	20	33	0.18
Jubilee Academy	Scheduled Body	0	15	18	33	0.18
Avanti House Secondary School	Scheduled Body	0	3	30	33	0.18
St Jerome	Scheduled Body	1	1	27	29	0.16
Moriah Jewish School	Scheduled Body	1	0	20	21	0.11
Chartwells	Admitted Body	1	4	12	17	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
Avanti School Trust	Scheduled Body	0	0	10	10	0.05
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
ISS Catering	Admitted Body	0	1	3	4	0.02
Evergreen Aylward	Admitted Body	0	0	4	4	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
<b>Total</b>		<b>6,004</b>	<b>7,037</b>	<b>5,410</b>	<b>18,451</b>	<b>100</b>

### c) Funding

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

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

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

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 18.0% to 26.5% of pensionable pay with the largest employers paying between 19.3% and 19.9%.

### 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.

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

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

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

## **NOTE 2: BASIS OF PREPARATION**

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' 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 2019/20.

## 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 2019-20 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

## **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 2020 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
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	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.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> <li>• a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £93m</li> <li>• a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £7m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £86m</li> </ul>
<b>Private equity (Note 16C)</b>	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i> . 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 £8.0m 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 that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2019-20.

## NOTE 7: CONTRIBUTIONS RECEIVABLE

### By category

2018/19		2019/20
£'000		£'000
<b>(6,875)</b>	<b>Employees' contributions</b>	<b>(7,162)</b>
	<b>Employers' contributions:</b>	
(17,551)	Normal contributions	(18,643)
(7,085)	Deficit recovery contributions	(8,211)
(246)	Pension strain contributions	(213)
<b>(24,882)</b>	<b>Total employers' contributions</b>	<b>(27,067)</b>
<b>(31,757)</b>	<b>Total contributions receivable</b>	<b>(34,229)</b>

### By type of employer

2018/19		2019/20
£'000		£'000
(25,346)	Administering Authority	(26,159)
(5,403)	Scheduled bodies	(7,131)
(784)	Community admission body	(777)
(224)	Transferee admission bodies	(162)
<b>(31,757)</b>		<b>(34,229)</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
0	Group transfers	0
(3,247)	Individual transfers	(1,366)
<b>(3,247)</b>		<b>(1,366)</b>

## NOTE 9: BENEFITS PAYABLE

### By category

2018/19		2019/20
£'000		£'000
28,765	Pensions	29,973
4,343	Commutation and lump sum retirement benefits	4,999
419	Lump sum death benefits	933
<b>33,527</b>		<b>35,905</b>

## By type of employer

2018/19		2019/20
£'000		£'000
32,012	Administering Authority	33,753
1,236	Scheduled bodies	1,906
190	Community admission body	202
89	Transferee admission bodies	44
<b>33,527</b>		<b>35,905</b>

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
95	Refunds to members leaving service	125
0	Group transfers	0
3,002	Individual transfers	2,345
<b>3,097</b>		<b>2,470</b>

## NOTE 11: MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
656	Administrative costs	721
4,509	Investment management expenses	4,050
566	Oversight and governance costs	634
<b>5,731</b>		<b>5,405</b>

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
3,478	Management fees	3,457
90	Custody fees	134
941	Transaction costs	459
<b>4,509</b>		<b>4,050</b>

## NOTE 12: INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
(4,156)	Private equity investments	(3,882)
(1,845)	Pooled property investments	(2,026)
(2,906)	Pooled investments - units trusts and other managed funds	(3,151)
<b>(8,907)</b>		<b>(9,059)</b>

## NOTE 13: EXTERNAL AUDIT COSTS

2018/19		2019/20
£'000		£'000
(16)	Payable in respect of external audit	(16)
(16)		(16)

## NOTE 14: INVESTMENTS

Market value		Market value
31 March 2019		31 March 2020
£'000		£'000
	<b>Investment assets</b>	
467,263	Pooled equities investments	394,247
108,159	Pooled bonds investments	111,463
191,029	Pooled alternative investments	171,230
0	Pooled infrastructure	700
68,171	Pooled property investments	64,140
150	Equity in London CIV	150
11,522	Private equity	8,025
3,156	Derivative contracts: forward currency	1,092
45	Cash with investment managers	28,153
<b>849,495</b>		<b>779,200</b>
3,068	Cash deposits	2,641
<b>852,563</b>	<b>Total investment assets</b>	<b>781,841</b>
	<b>Investment liabilities</b>	
(2,400)	Derivative contracts: forward currency	(5,852)
<b>(2,400)</b>	<b>Total investment liabilities</b>	<b>(5,852)</b>
<b>850,163</b>	<b>Net investment assets</b>	<b>775,989</b>

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2019	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 2020
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	467,263	0	(33,102)	(39,914)	394,247
Pooled bonds investments	108,159	3,062	(39)	281	111,463
Pooled alternative investments	191,029	95,000	(96,850)	(17,949)	171,230
Pooled property investments	68,171		(426)	(3,605)	64,140
Pooled infrastructure	0	700			700
Equity in London CIV	150				150
Private equity	11,522		(249)	(3,248)	8,025
Derivative contracts: forward currency	756	7,932	(3,365)	(10,083)	(4,760)
	<b>847,050</b>	<b>106,694</b>	<b>(134,031)</b>	<b>(74,518)</b>	<b>745,195</b>
Cash with investment managers	45				28,153
Cash deposits	3,068				2,641
	<b>3,113</b>				<b>30,794</b>
<b>Net investment assets</b>	<b>850,163</b>				<b>775,989</b>

	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
<b>Investment assets</b>					
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
	<b>809,707</b>	<b>230,390</b>	<b>(226,647)</b>	<b>33,601</b>	<b>847,050</b>
Cash with investment managers	53				45
Cash deposits	4,643				3,068
	<b>4,696</b>				<b>3,113</b>
<b>Net investment assets</b>	<b>814,403</b>				<b>850,163</b>

## NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2019		31 March 2020	
£'000		£'000	
<b>Pooled Funds</b>			
<b>UK</b>			
86,080	Fixed Interest Securities	Corporate	87,635
22,079	Index Linked Securities	Public Sector	23,828
<b>108,159</b>			<b>111,463</b>
68,171	Managed Funds - Property	Unit Trusts	64,140
<b>68,171</b>			<b>64,140</b>
<b>Global</b>			
217,821	Managed Funds - Equities	Unitised Insurance Policy	177,589
249,442	Managed Funds - Equities	Other	216,658
<b>467,263</b>			<b>394,247</b>
95,229	Managed Funds - Alternatives	Unit Trusts	0
95,800	Managed Funds - Alternatives	Other	171,230
0	Managed Funds - Infrastructure	Other	700
<b>191,029</b>			<b>171,930</b>
11,522	Managed Funds - Private Equity	Other	8,025
<b>Other Funds</b>			
3,156	Derivatives		1,092
150	Equity in London CIV		150
45	Cash with investment managers		28,153
3,068	Cash Deposits		2,641
<b>852,563</b>	<b>Total Investment Assets</b>		<b>781,841</b>
<b>Investment Liabilities</b>			
(2,400)	Derivatives		(5,852)
<b>(2,400)</b>	<b>Total Investment Liabilities</b>		<b>(5,852)</b>
<b>850,163</b>	<b>Net Investment Assets</b>		<b>775,989</b>

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019	Percentage of Fund	Manager	Investment assets	Market value 31 March 2020	Percentage of Fund
£'000	%			£'000	%
<b>Investments managed by London CIV</b>					
105,031	12	LCIV - Longview	Developed world equities-active	91,705	12
0	0	LCIV - CQS	Multi Asset Credit	80,816	10
0	0	LCIV	Infrastructure	700	0
217,821	26	BlackRock	Global equities-passive	177,589	23
322,852	38		Total LCIV	350,810	45
<b>Investments managed outside of the London CIV</b>					
68,171	8	LaSalle	Pooled property	64,140	8
44	0	BlackRock	Cash with investment managers	25,128	3
86,080	10	BlackRock	Fixed interest securities	87,635	11
22,079	3	BlackRock	Index-linked securities	23,828	3
3,068	0	Cash Deposits		2,641	0
73,784	9	GMO	Emerging markets equities-active	67,577	9
95,800	11	Insight	Diversified growth fund	90,414	12
1	0	JP Morgan	Cash with investment managers	3,025	0
150	0	LCIV	UK equities-passive	150	0
70,627	8	Oldfields	Developed world equities-active	57,376	7
11,522	1	Pantheon	Private equity	8,025	2
756	0	Record	Forward currency contracts	(4,760)	(1)
95,229	11	Aberdeen Std	Diversified growth fund	0	0
527,311	62		Total - Managers	425,179	55
<b>850,163</b>	<b>100</b>		<b>Total Investments</b>	<b>775,989</b>	<b>100</b>

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

Market value 31 March 2019	% of total fund	Investment assets	Market value 31 March 2020	% of total fund
£'000			£'000	
95,229	11	SLI Global Absolute Return Strategies Fund	0	0
95,800	11	Insight Broad Opportunities Fund	90,414	12
105,031	12	LCIV LV Global Equity Fund (Longview)	91,705	12
0	0	LCIV Multi Asset Credit (CQS)	80,816	10
86,080	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	87,635	11
73,784	9	GMO Emerging Domestic Opportunities Equity Fund	67,577	9
68,171	8	LaSalle Investors UK Real Estate Fund of Funds	64,140	8
70,627	8	Overstone Global Equity CCF (USD Class A1 Units)	57,376	7
217,821	26	Blackrock Equity Beta Portfolio	177,589	23
<b>812,543</b>	<b>95</b>	<b>Total over 5% holdings</b>	<b>717,252</b>	<b>92</b>



## **NOTE 14D: STOCK LENDING**

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

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

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

Value of Stock on Loan as at 31 March 2020 £23.8m (8.24%) compared to £40.3m (13.3%) as at 31 March 2019.

## **NOTE 15: ANALYSIS OF DERIVATIVES**

### **Objectives and policies for holding derivatives**

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

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

## Analysis of Open forward currency contracts:-

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	NOK	2,337	GBP	(178)	2	
Up to one month	SEK	10,339	GBP	(838)	4	
Up to one month	SGD	708	GBP	(401)	0	
Up to one month	USD	78,064	GBP	(62,904)	61	
One to six months	CHF	1,098	GBP	(865)	51	
One to six months	EUR	427	GBP	(364)	14	
One to six months	GBP	4,122	AUD	(8,006)	171	
One to six months	GBP	8,563	CAD	(14,854)	146	
One to six months	GBP	3,744	CHF	(4,426)	39	
One to six months	GBP	4,741	HKD	(45,608)	2	
One to six months	GBP	203	NOK	(2,356)	22	
One to six months	GBP	159	NZD	(320)	6	
One to six months	GBP	768	SEK	(9,386)	3	
Over six months	EUR	427	GBP	(365)	13	
Over six months	GBP	27,940	EUR	(31,192)	266	
Over six months	GBP	15,657	JPY	(2,071,200)	136	
Over six months	GBP	60,496	USD	(74,810)	155	
Up to one month	AUD	4,003	GBP	(1,992)		(15)
Up to one month	CAD	7,427	GBP	(4,239)		(30)
Up to one month	CHF	4,426	GBP	(3,733)		(41)
Up to one month	EUR	15,134	GBP	(13,513)		(115)
Up to one month	HKD	45,608	GBP	(4,751)		(5)
Up to one month	JPY	1,080,000	GBP	(8,090)		(18)
Up to one month	NZD	160	GBP	(78)		(1)
One to six months	GBP	4,349	CHF	(5,524)		(259)
One to six months	GBP	4,450	HKD	(45,608)		(297)
One to six months	GBP	674	JPY	(95,700)		(41)
One to six months	GBP	178	NOK	(2,337)		(2)
One to six months	GBP	916	SEK	(11,292)		(5)
One to six months	GBP	801	SGD	(1,416)		(2)
One to six months	GBP	5,535	USD	(7,297)		(351)
One to six months	NOK	19	GBP	(2)		(0)
Over six months	EUR	497	GBP	(446)		(6)
Over six months	GBP	13,372	EUR	(15,561)		(434)
Over six months	GBP	7,590	JPY	(1,080,000)		(501)
Over six months	GBP	122,013	USD	(156,128)		(3,720)
Over six months	JPY	6,900	GBP	(53)		(1)
Over six months	USD	4,043	GBP	(3,271)		(10)
<b>Open forward currency contracts at 31 March 2020</b>					<b>1,092</b>	<b>(5,852)</b>
<b>Net forward currency contracts at 31 March 2020</b>						<b>(4,760)</b>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31 March 2019</b>					<b>3,156</b>	<b>(2,400)</b>
<b>Net forward currency contracts at 31 March 2019</b>						<b>756</b>

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investment - Multi asset credit	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required	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
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation (2012)</i>	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 2020 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	9.10%	8,025	8,755	7,295
Pooled investments - property funds	1.90%	64,140	65,359	62,921
		72,165	74,114	70,216

## 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 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	596,124	81,908	72,165	750,197
Financial liabilities at fair value through profit and loss	0	(5,852)	0	(5,852)
<b>Net Investment asset</b>	<b>596,124</b>	<b>76,056</b>	<b>72,165</b>	<b>744,345</b>

	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)
<b>Net Investment asset</b>	<b>766,451</b>	<b>756</b>	<b>79,693</b>	<b>846,900</b>

The following assets have been carried at cost

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment in London CIV			150	150
LCIV Infrastructure			700	700

## NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

Period 2019/20	Market Value 31 March 2019	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 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	11,522	0	0	0	(249)	0	(3,248)	8,025
Pooled - property	68,171	0	0	0	(426)	(3,605)	0	64,140
	79,693	0	0	0	(675)	(3,605)	(3,248)	72,165

## 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 2019			31 March 2020		
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
<b>Financial assets</b>					
467,263	0	0			
108,159	0	0	394,247	0	0
191,029	0	0	111,463	0	0
0	0	0			
68,171	0	0	171,230	0	0
150	0	0	700	0	0
11,522	0	0			
3,156	0	0	64,140	0	0
0	4,103	0	150	0	0
0	589	0	8,025	0	0
<b>849,450</b>	<b>4,692</b>	<b>0</b>	1,092	0	0
			0	32,083	0
			0	716	0
			<b>751,047</b>	<b>32,799</b>	<b>0</b>
<b>Financial liabilities</b>					
(2,400)	0	0	(5,852)	0	0
0	0	(410)	0	0	(236)
<b>(2,400)</b>	<b>0</b>	<b>(410)</b>	<b>(5,852)</b>	<b>0</b>	<b>(236)</b>
<b>847,050</b>	<b>4,692</b>	<b>(410)</b>	<b>745,195</b>	<b>32,799</b>	<b>(236)</b>
<b>851,332</b>			<b>777,758</b>		
<b>Grand Total</b>					

### NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019	31 March 2020
£'000	£'000
<b>Financial assets</b>	
43,870	(64,435)
0	0
<b>Financial liabilities</b>	
(10,269)	(10,083)
0	0
<b>33,601</b>	<b>(74,518)</b>
<b>Total</b>	

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.

<b>Assets type</b>	<b>Potential market movements (+/-) %</b>
Total equities	12.00
Fixed interest & index linked securities	6.90
Alternative investments	6.30
Pooled property investments	1.90
Private Equity	9.10

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 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Total equities (inc Hedging)	389,487	12.00	436,225	342,749
Fixed interest & index linked securities	111,463	6.90	119,154	103,772
Alternative investments	171,230	6.30	182,017	160,443
Pooled property investments	64,140	1.90	65,359	62,921
Private Equity	8,025	9.10	8,755	7,295
Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
<b>Total</b>	<b>745,195</b>		<b>812,361</b>	<b>678,030</b>

Asset type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
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
<b>Total</b>	<b>847,050</b>		<b>906,755</b>	<b>787,345</b>

### Interest rate risk

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

The 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 2020 and 31 March 2019 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 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,794	0	30,794	30,794
Fixed interest securities	87,635	876	88,511	86,759
<b>Total change in assets available</b>	<b>118,429</b>	<b>876</b>	<b>119,305</b>	<b>117,553</b>



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
<b>Total change in assets available</b>	<b>89,193</b>	<b>861</b>	<b>90,054</b>	<b>88,332</b>

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

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

### Currency risk

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

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.4%

A 7.4% 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 2020	Change to net assets	
	£'000	+7.4% £'000	-7.4% £'000
Overseas Pooled Equities	367,462	394,655	340,270

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

### 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 2020 was £30.8m (31 March 2018: £3.1m). This was held with the following institutions.

<b>Summary</b>	<b>Balances at 31 March 2019</b>	<b>Balances at 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Bank accounts</b>		
Royal Bank of Scotland	3,068	2,641
JP Morgan	1	3,025
BlackRock	44	25,128
	<b>3,113</b>	<b>30,794</b>

### **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 2020 the value of illiquid assets was £72.9m. This represented 9% of the total Fund assets (31 March 2019: £79.7m).

All financial liabilities at 31 March 2020 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 2019. The next valuation takes place as at 31 March 2022.

The key elements of the funding policy are:

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

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

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (74% at the March 2016 valuation). This corresponded to a deficit of £52m (2016 valuation: £228m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2023.

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

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

### Financial assumptions

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

### Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. for women and men.

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

	<b>Male</b>	<b>Female</b>
Current pensioners	22.0 years	24.3 years
Future pensioners (assumed to be aged 45)	23.1 years	26.3 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.

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£m</b>		<b>£m</b>
<b>(1,213)</b>	Present value of promised retirement benefits	<b>(1,104)</b>
807	Fair value of scheme assets	697
<b>(406)</b>	<b>Net Liability</b>	<b>(407)</b>

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## IAS19 Assumptions used

	<b>2018/19</b>	<b>2019/20</b>
	<b>% pa</b>	<b>% pa</b>
Inflation/pensions increase rate assumption	2.5	1.9
Salary increase rate	2.8	2.6
Discount rate	2.4	2.3

## NOTE 21: CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
<b>Debtors:</b>		
526	Contributions due - employers	661
63	Sundry debtors	55
990	Cash owed to Fund	1,289
<b>1,579</b>		<b>2,005</b>

### Analysis of Debtors:

31 March 2019		31 March 2020
£'000		£'000
0	Central Government bodies	0
990	Other local authorities	1,289
4	NHS bodies	4
526	Scheduled/Admitted bodies	661
59	Other entities and individuals	51
<b>1,579</b>		<b>2,005</b>

## NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

## NOTE 22: CURRENT LIABILITIES

31 March 2019		31 March 2020
£'000		£'000
(344)	Sundry creditors	(156)
(66)	Benefits payable	(80)
<b>(410)</b>		<b>(236)</b>

### Analysis of Creditors:

31 March 2019		31 March 2020
£'000		£'000
(5)	Central government bodies	(4)
(10)	Scheduled/Admitted bodies	0
(395)	Other entities and individuals	(232)
<b>(410)</b>		<b>(236)</b>

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.50m were paid directly to the providers during the year (2018/19: £0.51m)

Market value 31 March 2019		Market value 31 March 2020
£'000		£'000
2,011	Prudential Assurance	2,268
599	Clerical Medical	553
219	Equitable Life Assurance Society	224
<b>2,829</b>		<b>3,045</b>

## NOTE 24: AGENCY SERVICES

There were no payments of this type

## NOTE 25: RELATED PARTY TRANSACTIONS

### Harrow Council

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

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

31 March 2019		31 March 2020
£'000		£'000
(19,770)	Employer's Pension Contributions to the Fund	(20,634)
846	Administration expenses paid to the Council	906
990	Cash held by the Council	1,289

## 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 2019		31 March 2020	
£'000		£'000	
86	Short-term benefits	91	
0	Termination benefits	0	

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2020 totalled £65.8m (31 March 2019: £2.7m).

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

## NOTE 27: CONTINGENT ASSETS

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

## London Borough of Harrow Pension Fund ("the Fund") Actuarial Statement for 2019/20

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

### Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

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

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

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

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

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### Method

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



### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

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

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

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

\*Aged 45 at the 2019 Valuation.

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

### Experience over the period since 31 March 2019

Markets were disrupted by COVID-19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



Laura McInroy FFA

5 May 2020

For and on behalf of Hymans Robertson LLP

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# Audit Strategy Memorandum

London Borough of Harrow

Pension Fund

Year ending 31 March 2020





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
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7. Materiality and misstatements

Appendix A – Key communication points

This document is to be regarded as confidential to London Borough of Harrow Pension Fund. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Governance, Audit, Risk Management and Standards Committee  
London Borough of Harrow  
Civic Centre  
Station Road  
Harrow  
HA1 2XY

21 January 2020

Dear Members,

**Audit Strategy Memorandum – Year ending 31 March 2020**

We are pleased to present our Audit Strategy Memorandum for the London Borough of Harrow Pension Fund for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Harrow Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07387 242052.

Yours faithfully,



Lucy Nutley  
Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed to perform the external audit of Harrow Pension Fund (the Fund) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

## Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Fund for the year.

### Consistency report

We are required to form and express an opinion on the consistency of the financial statements within the Fund's annual report and the Fund's financial statements included in the Statement of Accounts of the London Borough of Harrow.

### Electors' rights

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 London Borough of Harrow and consider any objection made to the accounts. This would include an objection made to the accounts of the Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Fund is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit, Risk Management and Standards Committee (GARMS) as those charged with governance.



## 2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley, Engagement Lead**
- Lucy.Nutley@mazars.co.uk
- 07387 242052



- **Gary McLeod, Senior Manager**
- Gary.McLeod@mazars.co.uk
- 07823 521346



- **Dylon Johannes, Assistant Manager**
- Dylon.Johannes@mazars.co.uk
- 07823 521315



# 3. AUDIT SCOPE, APPROACH AND TIMELINE

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

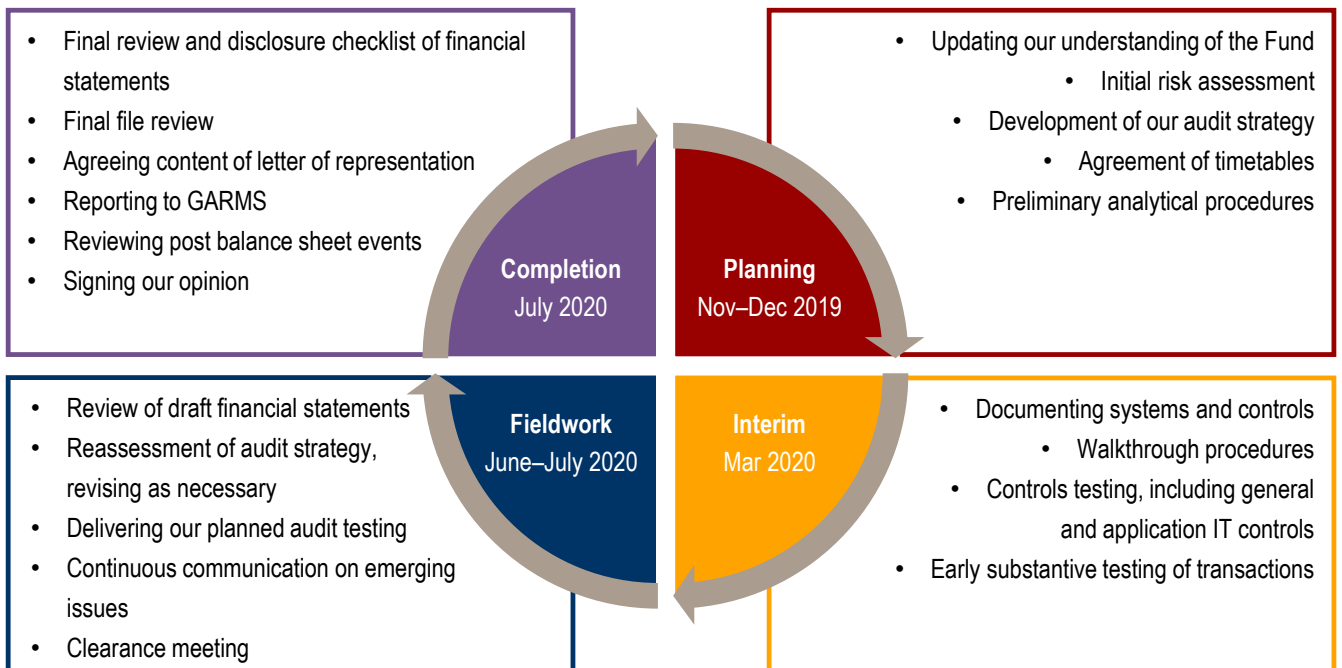
## Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram below outlines the procedures we perform at the different stages of the audit.





### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

#### Management's and our experts

Management makes use of experts in specific areas when preparing the Fund's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Hymans Robertson	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.

#### Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information they provide to the London Borough of Harrow Pension Fund.
Investment valuations and income and all related disclosures	Fund managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.
Investment valuations and income and all related disclosures	Custodians	Obtain direct confirmations from the custodians and substantively test transactions occurring in the year and the valuations applied to investments at the year end.

## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

**Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

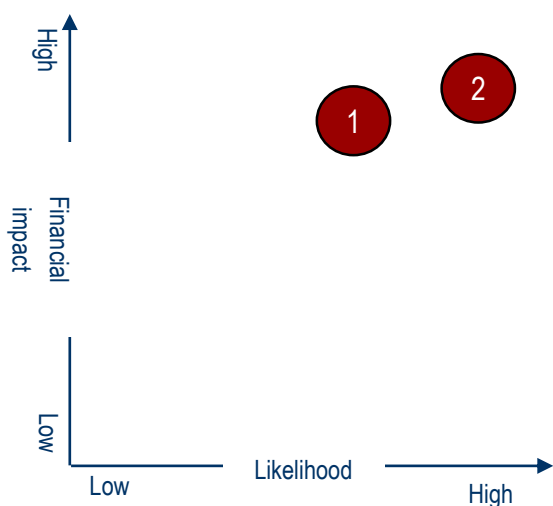
**Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

**Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

In assessing the significant risks and key judgement areas we have reviewed key documents and spoken to key members of management. At this point, we have not performed a detailed review of systems. Should further significant risks arise from this work, we will update the Committee accordingly.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Valuation of unquoted investments

## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to GARMS.

### Significant risks

	Description of risk	Planned response
1	<p><b>Management override of controls</b></p> <p>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 presumed risk of material misstatement due to fraud on all audits.</p>	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> <li>• accounting estimates included in the financial statements for evidence of management bias;</li> <li>• any significant transactions outside the normal course of business; and</li> <li>• journals and other adjustments recorded in the general ledger in preparing the financial statements.</li> </ul>
2	<p><b>Valuation of unquoted investments</b></p> <p>As at 31 March 2019, the Pension Fund held investments which were not quoted on an active market with a fair value of £79.7million, accounting for 9.4% of the Fund's net investment assets.</p> <p>Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund manager reports to the custodian's report;</li> <li>• agree the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuation to audited accounts or other independent supporting documentation, where available; and</li> <li>• where audited accounts are available, check that they are supported by a clear opinion.</li> </ul>

### Revenue recognition

We have considered the presumed risk in relation to revenue recognition, and have assessed that due to the low inherent risk associated with revenue in the pension fund, we can rebut the presumed risk.



## 5. FEES FOR AUDIT AND OTHER SERVICES

### Fees for work as the Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Service	2018/19 fee (actual)	2019/20 fee (expected)
Code audit work	£16,170	£16,170

### Fees for non-PSAA work

We confirm that we have not been separately engaged by the Fund to carry out additional work for the London Borough of Harrow Pension Fund. Further information about our responsibilities in relation to independence is provided in section 6.

## 6. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



## 7. MATERIALITY AND MISSTATEMENTS

### Summary of initial materiality thresholds

Threshold	Initial threshold (£000)
Overall materiality	12,750
Performance materiality	8,925
Specific materiality – Fund Account	3,700
Trivial threshold for errors to be reported to GARMS	382

### Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to GARMS.

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.5% of Net Assets. This is a change to the benchmark used in 2018/19 which was 1.0% of Net Assets, reflecting our first year of appointment.



## 7. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that net assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.5% of Net Assets. This is a change to the benchmark used in 2018/19 which was 1.0% of Net Assets, reflecting our first year of appointment.

Based on the 2018/19 financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be in the region of £12.750 million (£8.200 million in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

### Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

### Specific materiality

If, in specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular transactions, account balances or disclosures. We have therefore assessed a specific materiality for the following transactions, account balances or disclosures:

- Contributions receivable
- Benefits payable

Specific materiality has been assessed as the higher of 10% of contributions receivable or benefits payable. Based on the 2018/19 financial statements we anticipate a specific materiality of £3.700 million. We will continue to monitor materiality through the audit to ensure it is set at an appropriate level.

### Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to those charged with governance that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £382,000 based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Lucy Nutley.

### Reporting to the GARMS

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to GARMS:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓





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## **REPORT FOR: PENSION BOARD**

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<b>Date of Meeting:</b>	17 September 2020
<b>Subject:</b>	Pensions Administration Performance Monitoring to 30 June 2020.
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1: Pension Administration Performance Monitoring to 30 June 2020.

### **Section 1 – Summary and Recommendations**

This report summarises the performance of the Pensions Administration team for the quarter ended 30 June 2020.

**Recommendations:**

The Pension Board is requested to note the report.

### **Section 2 – Report**

1. Monitoring of the service performance of the Fund is a key responsibility of the Pension Board. The Board has been monitoring comparative pensions administration indicators since June 2017. This report provides information on performance to 30 June 2020.
2. The Pensions administration performance statistics measured against the national benchmarks for the Quarter to 30 June 2020 are set out in Appendix 1. The Board is invited to comment on this performance.

3. Table 1 below sets out the membership of the Pension Fund in the current year to 30 June 2020, with previous years to 31 March as a comparator. The percentage of active members in the fund is one indicator of the maturity of the fund.

	31 March 2018	31 March 2019	31 March 2020	30 June 2020
Pensioners	5,760	5,795	6,004	6,107
Deferred	7,115	6,966	7,037	7,005
Active Members	5,557	5,400	5,410	5,394
% Active Members	30.1%	29.7%	29.3%	29.1%
Total	18,432	18,161	18,451	18,506

### **Requirement to Report Breaches of Law**

4. Pension Board reviewed the breaches in law policy and breaches reporting procedure at its meeting on 20<sup>th</sup> September 2018.
5. There have been no known breaches of law in 2019-20 or in the current financial year to date.

### **Internal Disputes Cases and Complaints**

6. No internal disputes have been raised in the current financial year.

### **Issue of Annual Benefit Statements**

7. All benefit statements were published and distributed in August and before the 31 August 2020 deadline.

### **Payment of Employer Contributions**

8. Employer contributions are required to be paid in arrears by the 19<sup>th</sup> of each month. All employer contributions have been paid on time in the year to date. Employers are contacted if payment has not been received by the due date.

### **Legal Implications**

9. None

### **Financial Implications**

10. Whilst this report discusses matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

## Risk Management Implications

11. Relevant risks are included in the Pension Fund risk register

## Equalities implications / Public Sector Equality Duty

12. Was an Equality Impact Assessment carried out? No.  
There are no direct equalities implications arising from this report.

## Council Priorities

13. Investment performance has a direct impact on the financial health of the Pension Fund. This directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

## Section 3 - Statutory Officer Clearance

Name: Jeremy Randall	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 2/9/2020		

Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 3/9/2020		

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Corporate Director of Resources
Date: 2/9/2020		

<b>Ward Councillors notified:</b>	<b>NO</b>
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## **Section 4 - Contact Details and Background Papers**

**Contact:** Jeremy Randall – Interim Pensions Consultant  
Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None

## Performance Monitoring 01/04/2020-30/06/2020

SERVICE	Harrow Performance Target %	Harrow Actual Performance %	National Benchmarking Target	National Actual Performance %
<b>PENSION</b>				
Issue letter notifying of dependent's benefit in 5 days	95	66.67	5 days	100
Calculation and notification of ill health estimate within 7 days	100	100	10 days	100
Calculation and notification of retirement benefits estimate in 7 days	100	90.63	10 days	100
Issue letter to new pension provider detailing transfer-out quote in 9 days	97	76.60	10 days	100
Calculation and notification of deferred benefits in 8 days	99	86.57	10 days	100
Calculation and notification of retirement benefits in 3 days	95	95.45	5 days	93.62
Process refund and issue payment within 5 days	98	83.33	5 days	100
Calculation and notification of ill health benefits within 3 days	100	37.50	5 days	87
Issue statutory notification on receipt of transfer funds in 8 days	95	96.97	10 days	100

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## **REPORT FOR: PENSION BOARD**

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<b>Date of Meeting:</b>	17 September 2020
<b>Subject:</b>	Recruitment to Pension Board Vacancies
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	None

### **Section 1 – Summary and Recommendations**

This report updates the Board on the approach being taken to fill the two vacant positions on the Board.

**Recommendations:**

The Board is requested to note the report.

### **Section 2 – Report**

1. The Pension Board's terms of reference set out its role, responsibilities, and the membership of the Board. The Board is constituted to have five members, drawn from various groups of people, as follows:
  - 2 Employer representatives – one each from
    - The Administering Authority (Harrow Council - currently represented by Councillor Lee),
    - other scheduled and admitted bodies (ie other employers who are participants in the Fund in accordance with the LGPS Regulations)
  - 2 Scheme Member representatives – one each from
    - active members

- pensioners (Mr Balabanoff currently represents this group)
- 1 Independent member (currently Mr Harbord)

Elected Members and officers involved in the management and administration of the Fund are not permitted to become Board members.

2. There have been vacancies for an “active” scheme member representative since March 2019, and for a representative of an employer other than Harrow Council since June 2018 (in each case the date quoted is that last meeting at which there was not a vacancy).
3. Whilst the Board has continued to be correctly constituted, and if all three of its current members are in attendance, the meetings are quorate, clearly this position is far from ideal, and needs to be rectified.
4. As indicated in paragraph 1 above, the vacancies can only be filled by people who meet the particular criteria. With that in mind the following steps have been taken in respect of each of the vacancies.
5. Employer Representative for Admitted and Scheduled Bodies – a letter has been sent to each of the scheme employers setting out details of the role, the Board’s responsibilities and reminding them of the importance of representation from their group on the Board. Most of these employers are academic institutions, this was timed to arrive at the beginning of the academic year.
6. Scheme members – Corporate Leadership group members have been asked to consider whether nominating a member of staff from within their teams to this role, and emails have been sent to representative of the two trade unions (Unison and GMB). In addition, the communication to employers detailed in 5 above asked them to draw the scheme member vacancy to the attention of employees who are scheme members.
7. At the time of drafting this report, the above communications had only just been sent out, hence no responses had been received. Officers will provide an update on progress at the meeting.
8. Assuming one or more nominations are received, these will be considered and if one or both appointments can be made, an appropriate recommendation made to the next available Council meeting.

## **Legal Implications**

9. None

## **Financial Implications**



10. Whilst this report discusses matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

### **Risk Management Implications**

11. Relevant risks are included in the Pension Fund risk register

### **Equalities implications / Public Sector Equality Duty**

12. Was an Equality Impact Assessment carried out? No.  
There are no direct equalities implications arising from this report.

### **Council Priorities**

13. Investment performance has a direct impact on the financial health of the Pension Fund. This directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

## **Section 3 - Statutory Officer Clearance**

Name: Jeremy Randall	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 1/9/2020		

Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 3/9/2020		

Name: Dawn Calvert	<input checked="" type="checkbox"/>	On behalf of the Corporate Director of Resources
Date: 1/9/2020		

<b>Ward Councillors notified:</b>	<b>NO</b>
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## **Section 4 - Contact Details and Background Papers**

**Contact:** Jeremy Randall – Interim Pensions Consultant  
Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None



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## **REPORT FOR: PENSION BOARD**

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<b>Date of Meeting:</b>	17 September 2020
<b>Subject:</b>	Pension Board Work Programme 2019-20 and 2020-21.
<b>Responsible Officer:</b>	Dawn Calvert – Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	None

### **Section 1 – Summary and Recommendations**

This report reviews the Pension Board's work to date and invites the Board to comment on a suggested work programme for the remainder of 2020-21.

**Recommendations:**

The Board is requested to note the report and comment on the proposed work programme.

### **Section 2 – Report**

1. The Pension Board meets quarterly. Its work in 2020 to date has been disrupted by the Covid-19 pandemic, such that this is the Board's first meeting since January 2020. In the light of this, it is sensible to review and agree a work programme for the remainder of the 2020-21 municipal year.
2. A suggested work programme for the remainder of 2020-2021, based upon the list of items considered at the Board's meeting on 8 January 2020 and on which the Board's comments are invited is as follows:

<b>Matter for Consideration</b>	<b>Board Meeting</b>
Pensions Administration – Performance monitoring	Quarterly report to Pension Board
Pension Fund Dashboard including Long term cashflow and funding	Considered by Pension Fund Committee at each meeting and by Board in review of PFC minutes quarterly
Latest Pension Fund Committee Meeting Summary of Reports	Considered at each meeting of Pension Board
Annual Report and Financial Statements for year ended 31 March 2020	External Audit Report - September 26 Meeting
External Audit Plan - 2020-21 audit	March 2021 meeting.
Annual Report and Financial Statements for year ended 31 March 2021	Draft Report - June 2021 meeting External Audit Report - September 2021 Meeting
Pension Board - Draft Annual Report to Council	December 2020
Pension Fund Risk Register Review	December 2020
Review of Governance Compliance Statement	March 2021
Review of Communications Policy Statement	March 2021

### **Scheduled Pension Board Meetings 2020-21**

2 December 2020  
4 March 2021

### **(note) Pension Fund Committee meetings 2021-22 (dates to be confirmed)**

June 2021  
September 2021  
Late November or early December 2021  
March 2022

### **Legal Implications**

6. None

### **Financial Implications**

7. Whilst this report discusses matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

### **Risk Management Implications**

11. Relevant risks are included in the Pension Fund risk register

### **Equalities implications / Public Sector Equality Duty**

12. Was an Equality Impact Assessment carried out? No.  
There are no direct equalities implications arising from this report.

### **Council Priorities**

13. Investment performance has a direct impact on the financial health of the Pension Fund. This directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

### **Section 3 - Statutory Officer Clearance**

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Date: 1/9/2020		

<b>Ward Councillors notified:</b>	<b>NO</b>
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### **Section 4 - Contact Details and Background Papers**

**Contact:** Jeremy Randall – Interim Pensions Consultant  
Email: [Jeremy.randall@harrow.gov.uk](mailto:Jeremy.randall@harrow.gov.uk)

**Background Papers:** None