# London Borough of Harrow Pension Fund

## Annual Report and Financial Statements for the year ended 31 March 2017

Harrow COUNCIL LONDON

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**Appendices**

# 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 2017. 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 48.

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.

During 2016-17, all the major asset classes, particularly global equities, performed well and the Fund's overall investment return was 22.4%

The net assets of the Fund as at 31 March 2017 were £806.6m compared to £661.0m as at 31 March 2016. The Fund is ranked in the top quarter of the local authority annual league table of investment returns for the year.

**Dawn Calvert - CPFA**
Director of Finance
XX June 2017

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

## SCHEME MANAGEMENT AND ADVISORS

| | |
|---|---|
| Administering Authority | London Borough of Harrow |
| Pension Fund Committee | Councillor Nitin Parekh (Chair)<br>Councillor Bharat Thakker (Vice Chair)<br>Councillor Josephine Dooley<br>Councillor Norman Stevenson |
| Independent Advisers | Colin Robertson<br>Richard Romain |
| Co-optee | Howard Bluston |
| Trade Union Observers | John Royle - UNISON<br>Pamela Belgrave - GMB |
| Officer | Dawn Calvert, Director of Finance |
| Actuary | Hymans Robertson LLP |
| Investment Consultant | Aon Hewitt Limited |
| Investment Managers | Aviva Investors Global Services Limited<br>BlackRock Investment Management (UK) Limited<br>GMO LLC<br>Insight Investment<br>Longview Partners<br>Oldfield Partners<br>Pantheon Ventures<br>Record Currency Management Limited<br>Standard Life Investments<br>State Street Global Advisors Limited |
| AVC Providers | Clerical Medical<br>Equitable Life Assurance Society<br>Prudential Assurance |
| Custodian | JP Morgan |
| Auditor | KPMG LLP |
| Performance Measurement | Pensions and Investment Research Consultants |
| Bankers | The Royal Bank of Scotland |

# GOVERNANCE ARRANGEMENTS

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

The Pension Fund Committee has the following terms of reference:

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

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

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

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

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

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

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

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

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

The Local Pension Board assists the Council and the Pension Fund Committee in the administration of the 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

# INVESTMENT POLICY AND PERFORMANCE

## Investment Market Commentary (provided by Aon Hewitt Limited, April 2017)

Global equities rebounded strongly following a tumultuous start to 2016, with the MSCI AC World Index returning 17.0% over 12 months in local currency terms. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump's win in the US presidential election further boosted optimism in the US economy towards the end of the year. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in Q1 2017.

As widely expected after Trump's win, the US Federal Reserve raised the target federal funds rate by 25bps to 0.50-0.75% in December. A further 25bps hike to 0.75-1.00% was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank and the Bank of Japan all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing.

Commodity prices recovered from 2016 lows over the period. The price of Brent crude oil moved higher as global growth prospects improved and gathered further pace upon OPEC's decision to cut production late in 2016. However, the swift increase in supply from US shale oil producers in response to the higher oil price drove US inventories higher which kept a cap on oil prices. Other commodities also rallied over the period as supply/demand conditions improved.

UK gilt yields fell dramatically up until the summer of 2016, with an acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets.

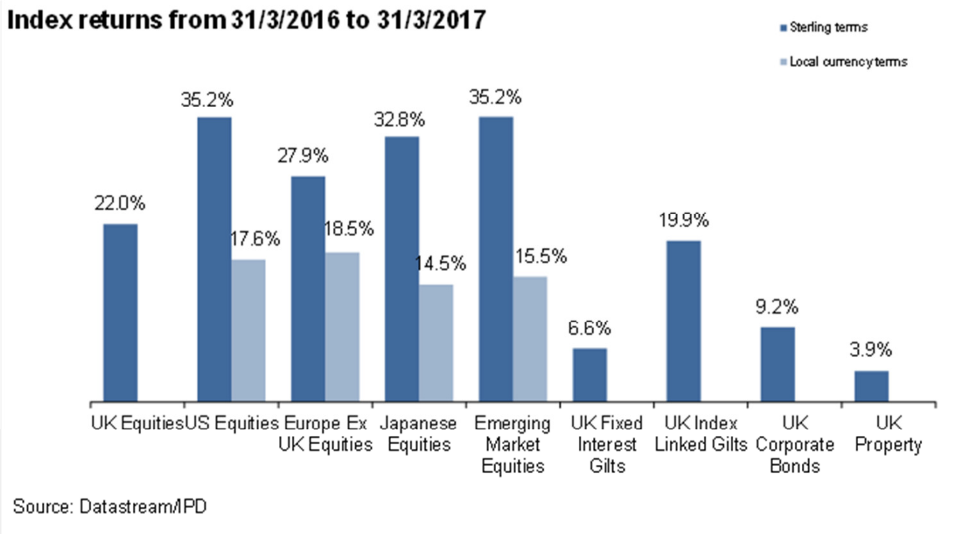
Sterling depreciated sharply on the back of the EU referendum result and renewed monetary easing. Consequently, the MSCI All Country World index returned a huge 32.2% in sterling terms. The US dollar, on the other hand, appreciated on a trade-weighted basis.

UK investment grade corporate bond spreads narrowed by 34bps to end the first quarter of 2017 at 128bps following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.

UK property returns remained positive over the period despite concerns over the impact of Brexit on the commercial real estate market. Capital values have recovered but remain below pre-Brexit levels. The IPD Monthly Index returned 3.9% over the 12 month period to March 2017.

UK equities rose, posting a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks.

US equities outperformed other regions in sterling terms (35.2%). Macroeconomic data was positive especially in the second half of 2016, whilst prospects of fiscal spending under the new US administration bolstered the equity market. A strong earnings season in early 2017, especially for financials, was also supportive. Unhedged returns were boosted by US dollar strength as US monetary policy tightened.




## 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 (ie 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.

In the light of the 2016 actuarial valuation and the review of the Funding Strategy Statement the Investment Strategy will be reviewed in detail during 2017-18.

The following table compares the actual asset allocation as at 31 March 2017 to the agreed allocation

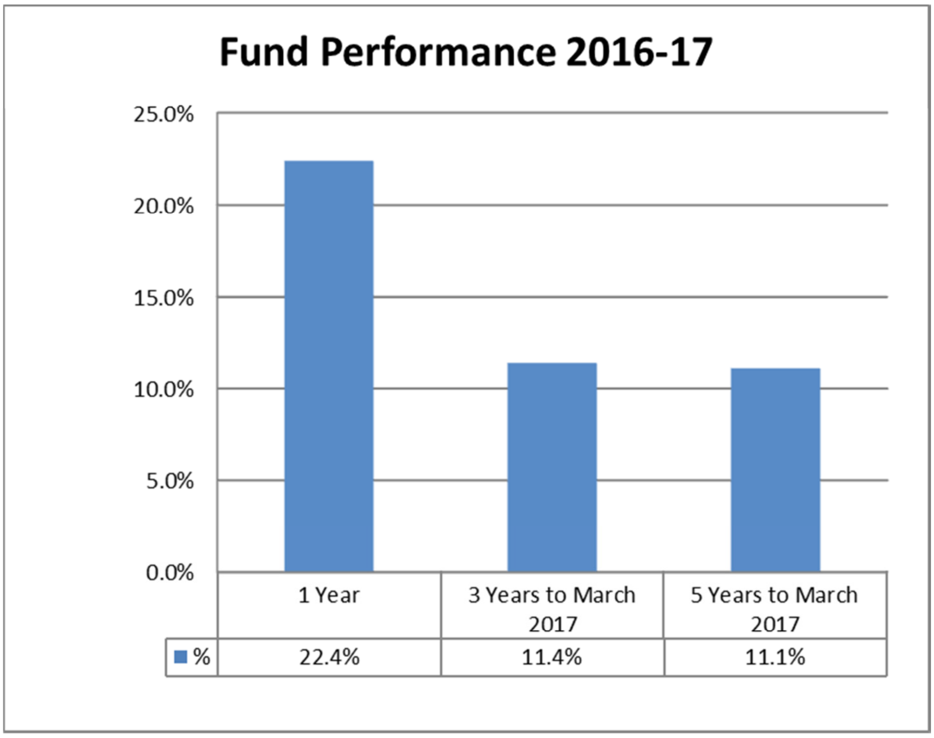
| Investment assets | Actual Percentage of Fund | Agreed Allocation |
|---|---|---|
| | % | % |
| Global equities-passive | 33 | 31 |
| Developed world equities-active | 21 | 21 |
| Emerging markets equities-active | 12 | 10 |
| Fixed interest securities | 10 | 10 |
| Index-linked securities | 3 | 3 |
| Private equity | 2 | 5 |
| Cash | 4 | 0 |
| Forward currency contracts | 0 | 0 |
| Diversified growth funds | 7 | 10 |
| Pooled property | 8 | 10 |
| **Total** | **100** | **100** |

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

## Fund performance

The Fund previously used State Street Global Services as its independent investment performance measurement consultant. However, State Street ceased to provide this service after 31 March 2016 and during 2016/17 the Fund has contracted with Pensions and Investment Research Consultants (PIRC) to provide a similar service and this is currently being developed.

Investment returns over 1, 3, and 5 years are shown below.




The Fund's return of 22.4% during 2016-17 was due to positive returns from all it's investments and in particular to outstanding performance from the global equities and UK bonds mandates.

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.

The fund has been in the top third of the 61 funds included in the PIRC benchmark for 1, 3 and 5 years performance.

# 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 2017 and can be found as Appendix 1.

**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 2017 and can be found as Appendix 2.

**Local Government Pension Scheme Guide**

A brief guide to the Local Government Pension Scheme can be found as Appendix 3

**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 agreed by the Pension Fund Committee on 7 March 2017 can be found as Appendix 4.

**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 agreed by the Pension Fund Committee on 7 March 2017 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 Adviser and 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 re quired from some of the Admitted employers.

**Investment Risk**

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

<u>Pricing Risk</u>
The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments increased by 22% in 2016-17 compared to decreasing by 3% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

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

Liquidity Risk

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 10% of Harrow's Fund is 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. Recent changes to the benefits structure have reduced some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

**Operational Risk**

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

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

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

# CONTACTS

| | |
|---|---|
| Registered Address | Pensions Team<br>London Borough of Harrow<br>3rd Floor South Wing,<br>Civic Centre,<br>Harrow,<br>HA1 2XF |
| Administration Enquiries | Email address: Pension@harrow.gov.uk<br>Telephone Number: 020 8416 8087<br>Website: www.harrowpensionfund.org |
| Complaints and Advice | The Pensions Advisory Service<br>11 Belgrave Road<br>London<br>SW1V 1RB<br><br>Telephone Number: 0300 123 1047<br>Website: www.pensionsadvisoryservice.org.uk<br><br>The Pensions Regulator<br>Napier House<br>Trafalgar Place<br>Brighton<br>BN1 4DW<br><br>Telephone Number: 0345 6000707<br>Website: www.thepensionsregulator.gov.uk<br><br>The Pensions Ombudsman<br>11 Belgrave Road<br>London<br>SW1V 1RB<br><br>Telephone Number: 0207 630 2200<br>Fax Number: 0207 821 0065<br><br>Email: enquiries@pensions-ombudsman.org.uk<br>Website: www.pensions-ombudsman.org.uk |
| Tracing Service | The Pension Tracing Service<br>Tyneview Park<br>Whitley Road<br>Newcastle Upon Tyne<br>NE98 1BA<br><br>Telephone Number: 0800 122 3170<br>Website: www.gov.uk/find-lost-pension |

# STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

**The Council's Responsibilities**

The Council is required:

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

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

- To approve the Financial Statements.

**The Director of Finance's Responsibilities**

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

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

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date; and

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

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2017 and its income and expenditure for the year then ended.

**Dawn Calvert – CPFA**
Director of Finance
XX June 2017

# Harrow Pension Fund Account for the year ended 31 March 2017

| 2015/16 £'000 | | Notes | 2016/17 £'000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund** | | |
| (28,333) | Contributions | 7 | (29,938) |
| (5,839) | Transfers in from other pension funds | 8 | (2,659) |
| (261) | Other income | | 0 |
| **(34,433)** | | | **(32,597)** |
| | | | |
| 31,265 | Benefits | 9 | 31,789 |
| 3,239 | Payments to and on account of leavers | 10 | 1,832 |
| 0 | Other Expenditure | | 18 |
| **34,504** | | | **33,639** |
| | | | |
| **71** | **Net (additions)/withdrawals from dealings with members** | | **1,042** |
| | | | |
| 4,630 | Management expenses | 11 | 5,228 |
| | | | |
| | **Return on investments** | | |
| (10,425) | Investment income | 12 | (10,250) |
| 19,568 | (Profit)/losses on disposal of investments and changes in the market value of investments | 14A | (141,595) |
| **9,143** | Net return on investments | | **(151,845)** |
| | | | |
| 13,844 | Net (increase)/decrease in the net assets available for benefits during the year | | (145,575) |
| (674,845) | Opening net assets of the scheme | | (661,001) |
| **(661,001)** | Closing net assets of the scheme | | **(806,576)** |

# Net Assets Statement as at 31 March 2017

| 31 March 2016 £'000 | | Notes | 31 March 2017 £'000 |
|---|---|---|---|
| | **Investment assets** | | |
| 654,554 | Investments | 14 | 774,817 |
| 878 | Derivative contracts | 14 | 2,015 |
| 44 | Cash with investment managers | 14 | 52 |
| **655,476** | | | **776,884** |
| 11,485 | Cash deposits | 14 | 30,914 |
| **666,961** | | | **807,798** |
| | **Investment liabilities** | | |
| (7,266) | Derivative contracts | 14 | (2,256) |
| **659,695** | | | **805,542** |
| 2,069 | Current assets | 21 | 1,374 |
| (763) | Current liabilities | 22 | (340) |
| **661,001** | **Net assets of fund available to fund benefits at the period end** | | **806,576** |

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.

**Dawn Calvert – CPFA**
Director of Finance
XX June 2017

# Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2017

## NOTE 1: DESCRIPTION OF FUND

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

### a) General

The Scheme is governed by the Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

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

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

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

### b) Membership

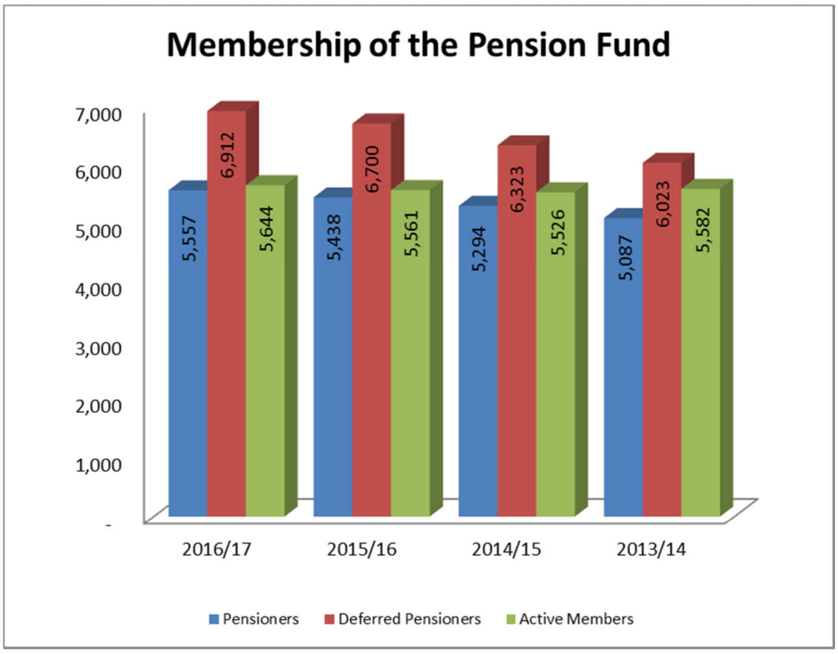
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

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

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

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




| Employer | Status | Pensioners | Deferred | Actives | Total | % |
|---|---|---|---|---|---|---|
| Harrow Council | Scheduled Body | 5,179 | 5,749 | 4,109 | 15,037 | 83.01 |
| Harrow College | Scheduled Body | 148 | 274 | 147 | 569 | 3.14 |
| St Dominic's College | Scheduled Body | 35 | 30 | 57 | 122 | 0.67 |
| Stanmore College | Scheduled Body | 72 | 150 | 69 | 291 | 1.60 |
| Alexandra School | Scheduled Body | 1 | 8 | 22 | 31 | 0.17 |
| Avanti House Free School | Scheduled Body | 0 | 5 | 45 | 50 | 0.28 |
| Avanti School Trust | Scheduled Body | 0 | 0 | 5 | 5 | 0.03 |
| Aylward Primary School | Scheduled Body | 0 | 11 | 76 | 87 | 0.48 |
| Bentley Wood School | Scheduled Body | 7 | 65 | 65 | 137 | 0.76 |
| Canons High School | Scheduled Body | 7 | 48 | 99 | 154 | 0.85 |
| Harrow High School | Scheduled Body | 7 | 48 | 60 | 115 | 0.63 |
| Hatch End School | Scheduled Body | 15 | 132 | 76 | 223 | 1.23 |
| Heathland and Whitefriars School | Scheduled Body | 4 | 25 | 181 | 210 | 1.16 |
| Krishna Avanti Primary School | Scheduled Body | 0 | 10 | 18 | 28 | 0.15 |
| Nower Hill High School | Scheduled Body | 11 | 116 | 128 | 255 | 1.41 |
| Park High School | Scheduled Body | 4 | 55 | 96 | 155 | 0.86 |
| Pinner High School | Scheduled Body | 0 | 0 | 23 | 23 | 0.13 |
| Rooks Heath College | Scheduled Body | 9 | 53 | 114 | 176 | 0.97 |
| St Bernadette's School | Scheduled Body | 0 | 0 | 30 | 30 | 0.17 |
| St Jerome School | Scheduled Body | 0 | 0 | 8 | 8 | 0.04 |
| Salvatorian College | Scheduled Body | 6 | 47 | 40 | 93 | 0.51 |
| The Jubilee Academy | Scheduled Body | 0 | 10 | 17 | 27 | 0.15 |
| NLCS | Community Admission Body | 30 | 39 | 70 | 139 | 0.77 |
| Birkin | Transferee Admission Body | 0 | 2 | 7 | 9 | 0.05 |
| Carillion Services | Transferee Admission Body | 19 | 27 | 45 | 91 | 0.50 |
| Chartwells | Transferee Admission Body | 1 | 4 | 14 | 19 | 0.10 |
| Engie (Cofely) | Transferee Admission Body | 0 | 1 | 2 | 3 | 0.02 |
| Govindas | Transferee Admission Body | 0 | 0 | 5 | 5 | 0.03 |
| Granary Kids | Transferee Admission Body | 1 | 2 | 0 | 3 | 0.02 |
| Linbrook Services | Transferee Admission Body | 0 | 1 | 4 | 5 | 0.03 |
| Sopria Steria | Transferee Admission Body | 1 | 0 | 9 | 10 | 0.06 |
| Taylor Shaw | Transferee Admission Body | 0 | 0 | 3 | 3 | 0.02 |
| | **Total** | 5,557 | 6,912 | 5,644 | 18,113 | 100 |

### c) Funding

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

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

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2016 and showed that the Fund was 74% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

### d) Benefits

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

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

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

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 3.

# NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position as at 31 March 2017. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' 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 as 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 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 2016/17.

## 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)'*

### 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 2016-17 Code of Practice. They are not therefore fully implemented in the Statement of Accounts:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of investment concentration

Neither of these changes are expected to have a material impact on the Pension Fund Accounts.

# NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

**Pension Fund liability**

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

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

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

**Unquoted private equity investments**

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

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

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

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
| --- | --- | --- |
| **Actuarial present value of promised retirement benefits (Note 20)** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance:<br>• a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £110m<br>• a 2% increase in assumed earnings inflation would increase the value of liabilities by approximately £19m<br>• a 0.5% increase in Pension benefits would increase the liability by approximately £89m |
| **Private equity (Note 16C)** | Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* .These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | Private equity investments are valued at £19.3m 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.

The Fund is not aware of any such events.

## NOTE 7: CONTRIBUTIONS RECEIVABLE

### By category

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| **(6,599)** | **Employees' contributions** | **(6,960)** |
| | **Employers' contributions:** | |
| (16,763) | Normal contributions | (18,041) |
| (4,549) | Deficit recovery contributions | (4,614) |
| (422) | Pension strain contributions | (323) |
| **(21,734)** | **Total employers' contributions** | **(22,978)** |
| **(28,333)** | | **(29,938)** |

### By authority

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| (21,504) | Administering Authority | (22,957) |
| (5,667) | Scheduled bodies | (5,975) |
| (519) | Community admission body | (588) |
| (643) | Transferee admission bodies | (418) |
| **(28,333)** | | **(29,938)** |

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| (3,304) | Group transfers | 0 |
| (2,535) | Individual transfers | (2,659) |
| **(5,839)** | | **(2,659)** |

## NOTE 9: BENEFITS PAYABLE

### By category

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 26,454 | Pensions | 27,044 |
| 4,074 | Commutation and lump sum retirement benefits | 4,074 |
| 737 | Lump sum death benefits | 671 |
| **31,265** | | **31,789** |

### By authority

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 29,070 | Administering Authority | 29,592 |
| 1,508 | Scheduled bodies | 1,721 |
| 290 | Community admission body | 180 |
| 397 | Transferee admission bodies | 296 |
| **31,265** | | **31,789** |

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

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 60 | Refunds to members leaving service | 80 |
| 3,179 | Individual transfers | 1,752 |
| **3,239** | | **1,832** |

## NOTE 11: MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 642 | Administrative costs | 646 |
| 3,452 | Investment management expenses | 3,996 |
| 536 | Oversight and governance costs | 586 |
| **4,630** | | **5,228** |

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 3,427 | Management fees | 3,798 |
| 0 | Performance related fees | 0 |
| 25 | Custody fees | 72 |
| 0 | Transaction costs | 126 |
| **3,452** | | **3,996** |

## NOTE 12: INVESTMENT INCOME

| 2015/16 | | 2016/17 |
|---|---|---|
| £'000 | | £'000 |
| (6,030) | Private equity investments | (5,177) |
| (1,708) | Pooled property investments | (1,971) |
| (2,687) | Pooled investments - units trusts and other managed funds | (3,102) |
| **(10,425)** | | **(10,250)** |

## NOTE 13: EXTERNAL AUDIT COSTS

| 2015/16 | | 2016/17 |
|---|---|---|
| £'000 | | £'000 |
| (21) | Payable in respect of external audit | (21) |
| **(21)** | | **(21)** |

## NOTE 14: INVESTMENTS

| Market value 31 March 2016 | | Market value 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| | **Investment assets** | |
| 437,087 | Pooled equities investments | 531,614 |
| 86,978 | Pooled bonds investments | 100,883 |
| 56,287 | Pooled alternative investments | 58,420 |
| 53,481 | Pooled property investments | 64,409 |
| 150 | Equity in London CIV | 150 |
| 20,571 | Private equity | 19,341 |
| 878 | Derivative contracts: forward currency | 2,015 |
| 44 | Cash with investment managers | 52 |
| **655,476** | | **776,884** |
| 11,485 | Cash deposits | 30,914 |
| **666,961** | **Total investment assets** | **807,798** |
| | **Investment liabilities** | |
| (7,266) | Derivative contracts: forward currency | (2,256) |
| **(7,266)** | **Total investment liabilities** | **(2,256)** |
| **659,695** | **Net investment assets** | **805,542** |

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

| | Market value 31 March 2016 | 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 2017 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Investment assets** | | | | | |
| Pooled equities investments | 437,087 | 0 | (46,492) | 141,019 | **531,614** |
| Pooled bonds investments | 86,978 | 4,208 | (1,134) | 10,831 | **100,883** |
| Pooled alternative investments | 56,287 | 0 | (414) | 2,547 | **58,420** |
| Pooled property investments | 53,481 | 10,000 | (378) | 1,306 | **64,409** |
| Equity in London CIV | 150 | 0 | | 0 | **150** |
| Private equity | 20,571 | 0 | (350) | (880) | **19,341** |
| Derivative contracts: forward currency | (6,388) | 19,375 | | (13,228) | **(241)** |
| | **648,166** | **33,583** | **(48,768)** | **141,595** | **774,576** |
| Cash with investment managers | **44** | | | | **52** |
| Cash deposits | **11,485** | | | | **30,914** |
| | **11,529** | | | | **30,966** |
| **Net investment assets** | **659,695** | | | | **805,542** |

| | Market value 31 March 2015 | 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 2016 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Investment assets** | | | | | |
| Pooled equities investments | 449,979 | 0 | (1,742) | (11,150) | **437,087** |
| Pooled bonds investments | 86,377 | 4,162 | (653) | (2,908) | **86,978** |
| Pooled alternative investments | 59,535 | 0 | (365) | (2,883) | **56,287** |
| Pooled property investments | 50,562 | 0 | (474) | 3,393 | **53,481** |
| Equity in London CIV | 0 | 150 | 0 | 0 | **150** |
| Private equity | 22,954 | 0 | (564) | (1,819) | **20,571** |
| Derivative contracts: forward currency | (2,649) | 3,867 | (3,405) | (4,201) | **(6,388)** |
| Cash re transition | 268 | 0 | (268) | 0 | **0** |
| | **667,026** | **8,179** | **(7,471)** | **(19,568)** | **648,166** |
| Cash with investment managers | **869** | | | | **44** |
| Cash deposits | **5,793** | | | | **11,485** |
| | **6,662** | | | | **11,529** |
| **Net investment assets** | **673,688** | | | | **659,695** |

## NOTE 14B: ANALYSIS OF INVESTMENTS

| 31 March 2016 £'000 | | | 31 March 2017 £'000 |
|---|---|---|---|
| | **Pooled Funds** | | |
| | **UK** | | |
| 69,401 | Fixed Interest Securities | Corporate | 80,804 |
| 17,577 | Index Linked Securities | Public Sector | 20,079 |
| 53,481 | Managed Funds - Property | Unit Trusts | 64,409 |
| **140,459** | | | **165,292** |
| | **Global** | | |
| 219,424 | Managed Funds - Equities | Unitised Insurance Policy | 267,790 |
| 217,663 | Managed Funds - Equities | Other | 263,824 |
| **437,087** | | | **531,614** |
| 29,216 | Managed Funds - Alternatives | Unit Trusts | 29,324 |
| 27,071 | Managed Funds - Alternatives | Other | 29,096 |
| **56,287** | | | **58,420** |
| 20,571 | Managed Funds - Private Equity | Other | 19,341 |
| | **Other Funds** | | |
| 878 | Derivatives | | 2,015 |
| 150 | Equity in London CIV | | 150 |
| 44 | Cash with investment managers | | 52 |
| 11,485 | Cash Deposits | | 30,914 |
| **666,961** | **Total Investment Assets** | | **807,798** |
| | **Investment Liabilities** | | |
| (7,266) | Derivatives | | (2,256) |
| **(7,266)** | **Total Investment Liabilities** | | **(2,256)** |
| **659,695** | **Net Investment Assets** | | **805,542** |

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

| Market value 31 March 2016 | Percentage of Fund | Manager | Investment assets | Market value 31 March 2017 | Percentage of Fund |
|---|---|---|---|---|---|
| £'000 | % | | | £'000 | % |
| 53,481 | 8 | Aviva | Pooled property | 64,409 | 8 |
| 44 | 0 | BlackRock | Cash with investment managers | 52 | 0 |
| 69,401 | 11 | BlackRock | Fixed interest securities | 80,804 | 10 |
| 17,577 | 3 | BlackRock | Index-linked securities | 20,079 | 3 |
| 11,485 | 2 | Cash Deposits | | 30,901 | 4 |
| 71,463 | 11 | GMO | Emerging markets equities-active | 94,156 | 12 |
| 27,071 | 4 | Insight | Diversified growth fund | 29,096 | 3 |
| 0 | 0 | JP Morgan | Cash with investment managers | 13 | 0 |
| 150 | 0 | London CIV | UK equities-passive | 150 | 0 |
| 75,499 | 11 | Longview | Developed world equities-active | 86,213 | 11 |
| 70,701 | 11 | Oldfields | Developed world equities-active | 83,455 | 10 |
| 20,571 | 3 | Pantheon | Private equity | 19,341 | 2 |
| (6,388) | (1) | Record | Forward currency contracts | (241) | 0 |
| 29,216 | 4 | Standard Life | Diversified growth fund | 29,324 | 4 |
| 219,424 | 33 | State Street | Global equities-passive | 267,790 | 33 |
| **659,695** | **100** | | | **805,542** | **100** |

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

| Market value 31 March 2016 | % of total fund | Investment assets | Market value 31 March 2017 | % of total fund |
|---|---|---|---|---|
| £'000 | | | £'000 | |
| 219,424 | 33 | SSGA MPF All World Equity Index Sub-Fund | 267,790 | 33 |
| 71,463 | 11 | GMO Emerging Domestic Opportunities Equity Fund | 94,156 | 12 |
| 75,499 | 11 | Longview Partners - Global Pooled Equities FD K Class | 86,213 | 11 |
| 70,701 | 11 | Overstone Global Equity CCF (USD Class A1 Units) | 83,455 | 10 |
| 69,401 | 11 | BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class | 80,804 | 10 |
| 53,481 | 8 | Aviva Investors UK Real Estate Fund of Funds | 64,409 | 8 |
| **559,969** | **85** | **Total over 5% holdings** | **676,827** | **84** |

## 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 State Street Global Advisors' mandate.

The State Street 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 State Street Bank & Trust Company pursuant to its Securities Lending Authorisation Agreement.

## NOTE 15: ANALYSIS OF DERIVATIVES

### Objectives and policies for holding derivatives

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

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

## Open forward currency contracts

| Settlement | Currency bought | Local value | Currency sold | Local value | Asset value | liability value |
|---|---|---|---|---|---|---|
| | | 000 | | 000 | £'000 | £'000 |
| Up to one month | AUD | 5,462 | GBP | (3,370) | | (36) |
| Up to one month | CAD | 9,506 | GBP | (5,740) | | (38) |
| Up to one month | CHF | 5,204 | GBP | (4,199) | | (38) |
| Up to one month | EUR | 8,353 | GBP | (7,235) | | (88) |
| Up to one month | GBP | 3,305 | AUD | (5,646) | | (140) |
| Up to one month | GBP | 2,218 | JPY | (317,300) | | (61) |
| Up to one month | GBP | 1,171 | SEK | (13,093) | | (3) |
| Up to one month | GBP | 594 | SGD | (1,059) | | (12) |
| Up to one month | GBP | 23,741 | USD | (31,023) | | (1,071) |
| Up to one month | HKD | 43,584 | GBP | (4,509) | | (24) |
| Up to one month | JPY | 1,877,000 | GBP | (13,716) | | (240) |
| Up to one month | NOK | 2,648 | GBP | (250) | | (3) |
| Up to one month | NZD | 190 | GBP | (107) | | (1) |
| Up to one month | SEK | 13,093 | GBP | (1,184) | | (11) |
| Up to one month | SGD | 950 | GBP | (548) | | (5) |
| Up to one month | USD | 36,307 | GBP | (29,252) | | (212) |
| One to six months | GBP | 11,985 | JPY | (1,704,100) | | (268) |
| One to six months | USD | 1,595 | GBP | (1,278) | | (5) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Up to one month | AUD | 184 | GBP | (112) | 0 | |
| Up to one month | GBP | 5,734 | CAD | (9,506) | 32 | |
| Up to one month | GBP | 4,161 | CHF | (5,204) | 1 | |
| Up to one month | GBP | 7,242 | EUR | (8,353) | 95 | |
| Up to one month | GBP | 4,574 | HKD | (43,584) | 89 | |
| Up to one month | GBP | 11,880 | JPY | (1,559,700) | 681 | |
| Up to one month | GBP | 248 | NOK | (2,648) | 2 | |
| Up to one month | GBP | 110 | NZD | (190) | 4 | |
| Up to one month | GBP | 4,296 | USD | (5,284) | 70 | |
| Up to one month | SGD | 109 | GBP | (61) | 1 | |
| One to six months | GBP | 3,356 | AUD | (5,462) | 36 | |
| One to six months | GBP | 5,735 | CAD | (9,506) | 38 | |
| One to six months | GBP | 3,697 | CHF | (4,562) | 38 | |
| One to six months | GBP | 6,873 | EUR | (8,013) | 2 | |
| One to six months | GBP | 4,508 | HKD | (43,584) | 23 | |
| One to six months | GBP | 250 | NOK | (2,648) | 3 | |
| One to six months | GBP | 107 | NZD | (190) | 1 | |
| One to six months | GBP | 1,187 | SEK | (13,093) | 11 | |
| One to six months | GBP | 548 | SGD | (950) | 4 | |
| One to six months | GBP | 29,476 | USD | (36,307) | 499 | |
| Over six months | GBP | 6,957 | EUR | (8,013) | 70 | |
| Over six months | GBP | 12,389 | JPY | (1,704,100) | 113 | |
| Over six months | GBP | 27,837 | USD | (34,712) | 202 | |
| **Open forward currency contracts at 31 March 2017** | | | | | **2,015** | **(2,256)** |
| **Net forward currency contracts at 31 March 2017** | | | | | | **(241)** |
| **Prior year comparative** | | | | | | |
| **Open forward currency contracts at 31 March 2016** | | | | | **878** | **(7,266)** |
| **Net forward currency contracts at 31 March 2016** | | | | | | **(6,388)** |

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

| Description of Asset | Valuation Hierarchy | Basis of Valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Market quoted investments including pooled funds for global equities and diversified growth funds | Level 1 | Published market price or other value ruling on the final day of the accounting period | Not required | Not required |
| Pooled investments - property funds | Level 1 | Closing bid price where bid and offer prices are published | Not required | Not required |
| Forward foreign exchange derivatives | Level 2 | Market forward exchange rates at the year end. | Exchange rate risk | Not required |
| Unquoted equity | Level 3 | Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation (2012)* | EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium | Valuations could be affected by material events occuring 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 |

## 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.

## 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 2017

| | Assessed valuation range (+/-) | Valuation at 31 March 2017 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | | £000 | £000 | £000 |
| Private Equity | 10% | 19,341 | 21,275 | 17,407 |

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 2017** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| Financial assets at fair value through profit and loss | 755,476 | 2,015 | 19,341 | **776,832** |
| Financial liabilities at fair value through profit and loss | 0 | (2,256) | 0 | **(2,256)** |
| **Net Investment asset** | **755,476** | **(241)** | **19,341** | **774,576** |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2016** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| Financial assets at fair value through profit and loss | 633,983 | 878 | 20,571 | **655,432** |
| Financial liabilities at fair value through profit and loss | 0 | (7,266) | 0 | **(7,266)** |
| **Net Investment asset** | **633,983** | **(6,388)** | **20,571** | **648,166** |

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

There have been no transfers during 2016/17

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

| Period 2016/17 | Market Value 1 April 2016 | 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 2017 |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Private Equity | 20,571 | 0 | 0 | 0 | (350) | (880) | 0 | **19,341** |

# 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 2016 | | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | **Financial assets** | | | |
| 437,087 | 0 | 0 | Pooled equities investments | 531,614 | 0 | 0 |
| 86,978 | 0 | 0 | Poooled bonds investments | 100,883 | 0 | 0 |
| 56,287 | 0 | 0 | Pooled alternative investments | 58,420 | 0 | 0 |
| 53,481 | 0 | 0 | Pooled property investments | 64,409 | 0 | 0 |
| 150 | 0 | 0 | Equity in London CIV | 150 | 0 | 0 |
| 20,571 | 0 | 0 | Private equity | 19,341 | 0 | 0 |
| 878 | 0 | 0 | Derivative contracts | 2,015 | 0 | 0 |
| 0 | 13,281 | 0 | Cash | 0 | 32,028 | 0 |
| 0 | 317 | 0 | Debtors | 0 | 312 | 0 |
| **655,432** | **13,598** | **0** | | **776,832** | **32,340** | **0** |
| | | | **Financial liabilities** | | | |
| (7,266) | 0 | 0 | Derivative contracts | (2,256) | 0 | 0 |
| 0 | 0 | (763) | Creditors | 0 | 0 | (340) |
| **(7,266)** | **0** | **(763)** | | **(2,256)** | **0** | **(340)** |
| **648,166** | **13,598** | **(763)** | | **774,576** | **32,340** | **(340)** |
| | **661,001** | | **Grand Total** | | **806,576** | |

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

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| | **Financial assets** | |
| (15,367) | Fair value through profit and loss | 154,823 |
| 0 | Loans and receivables | 0 |
| | **Financial liabilities** | |
| (4,201) | Fair value through profit and loss | (13,228) |
| 0 | Financial Liabilities at amortised cost | 0 |
| **(19,568)** | **Total** | **141,595** |

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

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

### Risk and risk management

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

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

#### Market risk

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

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

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

*Price risk*

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

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

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

| Assets type | Potential market movements (+/-) |
|---|---|
| Total equities | 10.00% |
| Fixed interest & index linked securities | 9.50% |
| Alternative investments | 6.30% |
| Pooled property investments | 2.80% |
| Cash and equivalents | 0.00% |

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

| Asset type | Value as at 31 March 2017 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | % | £'000 | £'000 |
| **Investment portfolio assets:** | | | | |
| Total equities | 551,105 | 10.00 | 606,216 | 495,995 |
| Fixed interest & index linked securities | 100,883 | 9.50 | 110,467 | 91,299 |
| Alternative investments | 58,420 | 6.30 | 62,100 | 54,740 |
| Pooled property investments | 64,409 | 2.80 | 66,212 | 62,606 |
| Derivative contracts: net forward currency | (241) | 0.00 | (241) | (241) |
| **Total** | **774,576** | | **844,754** | **704,399** |

| Asset type | Value as at 31 March 2016 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | % | £'000 | £'000 |
| **Investment portfolio assets:** | | | | |
| Total equities | 457,808 | 10.07 | 503,909 | 411,707 |
| Fixed interest & index linked securities | 86,978 | 9.07 | 94,867 | 79,089 |
| Alternative investments | 56,287 | 7.36 | 60,430 | 52,144 |
| Pooled property investments | 53,481 | 2.37 | 54,748 | 52,214 |
| Derivative contracts: net forward currency | (6,388) | 0.00 | (6,388) | (6,388) |
| **Total** | **648,166** | | **707,566** | **588,766** |

*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 2017 and 31 March 2016 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 2017 | Potential movement on 1% change in interest rates | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | | £'000 | £'000 |
| Cash and cash equivalents | 30,966 | 0 | 30,966 | 30,966 |
| Fixed interest securities | 80,804 | 808 | 81,612 | 79,996 |
| **Total change in assets available** | **111,770** | **808** | **112,578** | **110,962** |

| Assets exposed to interest rate risk | Carrying amount as at 31 March 2016 | Potential movement on 1% change in interest rates | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | | £'000 | £'000 |
| Cash and cash equivalents | 11,529 | 0 | 11,529 | 11,529 |
| Fixed interest securities | 69,401 | 694 | 70,095 | 68,707 |
| **Total change in assets available** | **80,930** | **694** | **81,624** | **80,236** |

This analysis demonstrates that changes in interest rates do not impact on the value of cash & 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 5.56%

A 5.56% 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 2017 | Change to net assets | |
|---|---|---|---|
| | £'000 | +5.56% £'000 | -5.56% £'000 |
| Overseas Equities | 480,403 | 507,113 | 453,693 |

| Currency Exposure - asset type | Asset Value as at 31 March 2016 | Change to net assets | |
|---|---|---|---|
| | £'000 | +3.77% £'000 | -3.77% £'000 |
| Overseas Equities | 390,763 | 405,495 | 376,031 |

**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 2017 was £31.0m (31 March 2016: £11.5m). This was held with the following institutions.

| Summary | Balances at 31 March 2017 | Balances at 31 March 2016 |
|---|---|---|
| | £'000 | £'000 |
| **Bank accounts** | | |
| Royal Bank of Scotland | 30,901 | 10,048 |
| JP Morgan | 13 | 1,437 |
| BlackRock | 52 | 44 |
| | **30,966** | **11,529** |

**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 2017 the value of illiquid assets was £83.7m, which represented 10% of the total Fund assets (31 March 2016: £74.1m, which represented 11% of the total Fund assets).

All financial liabilities at 31 March 2017 are due within one year.

**Refinancing risk**

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

## NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

At the 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

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

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

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

## Financial assumptions

| Other financial assumptions | 2016 % | 2013 % |
|---|---|---|
| Price inflation (CPI) | 2.2 | 2.5 |
| Salary increases | 2.4 | 3.8 |
| Pension increases | 2.2 | 2.5 |
| Gilt based discount rate | 2.2 | 3.0 |
| Funded basis discount rate | 3.8 | 4.6 |

## Demographic assumptions

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

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

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

## Commutation assumption

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

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £m | | £m |
| (933) | Present value of promised retirement benefits | (1,102) |
| 594 | Fair value of scheme assets | 733 |
| **(339)** | **Net Liability** | **(369)** |

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

## IAS19 Assumptions used

| | 2016/17 | 2015/16 |
|---|---|---|
| | % pa | % pa |
| Inflation/pensions increase rate assumption | 2.4 | 2.2 |
| Salary increase rate | 2.7 | 3.7 |
| Discount rate | 2.5 | 3.5 |

## NOTE 21: CURRENT ASSETS

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| | **Debtors:** | |
| 297 | Contributions due - employers | 142 |
| 20 | Sundry debtors | 170 |
| 1,752 | Cash owed to Fund | 1,062 |
| **2,069** | | **1,374** |

## Analysis of debtors

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| 0 | Central Government bodies | 12 |
| 1,752 | Other local authorities | 1,062 |
| 4 | NHS bodies | 4 |
| 297 | Scheduled/Admitted bodies | 142 |
| 16 | Other entities and individuals | 154 |
| **2,069** | | **1,374** |

## NOTE 22: CURRENT LIABILITIES

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| (167) | Sundry creditors | (202) |
| (430) | Transfer values payable (leavers) | 0 |
| (166) | Benefits payable | (138) |
| **(763)** | | **(340)** |

## Analysis of creditors

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| (15) | Central government bodies | (7) |
| (431) | Other local authorities | 0 |
| (317) | Other entities and individuals | (333) |
| **(763)** | | **(340)** |

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.43m were paid directly to the providers during the year (2015/16: £0.31m)

| Market value 31 March 2016 | | Market value 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| 1,233 | Prudential Assurance | 1,382 |
| 741 | Clerical Medical | 667 |
| 237 | Equitable Life Assurance Society | 239 |
| **2,211** | | **2,288** |

## NOTE 24: AGENCY SERVICES

There were no payments of this type

# NOTE 25: RELATED PARTY TRANSACTIONS

## Harrow Council

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

The Pension Fund has operated a separate bank account since April 2011. However to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account and these transaction are settled on a monthly basis.

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| (16,351) | Employer's Pension Contributions to the Fund | (17,514) |
| 853 | Administration expenses paid to the Council | 826 |
| 1,752 | Cash held by the Council | 1,062 |

## 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 is the Councils' Director of Finance (S151 Officer). During 2015-16 the Director of Human resources also fell into this category. Total remuneration payable from the Pension Fund to these key management personnel is set out below:

| 31 March 2016 | | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| 43 | Short-term benefits | 35 |
| 0 | Termination benefits | 21 |

# NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2017 totalled £3.0m (31 March 2016: £2.9m).

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

# NOTE 27: CONTINGENT ASSETS

Two admitted body employers in the Fund hold insurance bonds or guarantees to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

# Pension Fund Accounts Reporting Requirement

## Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund").

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

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

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

## Present value of promised retirement benefits

| Year ended | 31 March 2017 | 31 March 2016 |
|---|---|---|
| Active members (£m) | 440 | 496 |
| Deferred members (£m) | 250 | 169 |
| Pensioners (£m) | 497 | 351 |
| **Total (£m)** | **1,187** | **1,016** |

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £171m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £13m.

## Financial assumptions

| Year ended (% p.a.) | 31 March 2017 | 31 March 2016 |
|---|---|---|
| Pension Increase Rate | 2.4% | 2.2% |
| Salary Increase Rate | 2.7% | 3.7% |
| Discount Rate | 2.6% | 3.5% |

## Longevity assumptions

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

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

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

## Commutation assumptions

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

## Sensitivity Analysis

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

| Sensitivity to the assumptions for the year ended 31 March 2017 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|---|---|---|
| 0.5% p.a. increase in the Pension Increase Rate | 8% | 89 |
| 0.5% p.a. increase in the Salary Increase Rate | 2% | 19 |
| 0.5% p.a. decrease in the Real Discount Rate | 9% | 110 |

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

## Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

GE Sefton

Gemma Sefton FFA

25 April 2017

For and on behalf of Hymans Robertson LLP