

# **London Borough of Harrow Pension Fund**

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



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## INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund ('the Fund') for the financial year to 31 March 2019. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Consulting Actuary on page 49/50.

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

The Fund is a shareholder of the London LGPS Collective Investment Vehicle Ltd (LCIV) (the organisation set up to run pooled LGPS investments in London in 2015) and holds £150,000 of regulatory capital in the company in the form of unlisted UK equity shares. The Pension Fund Committee has committed to investing in LCIV as soon as the required asset classes are available through LCIV sub-funds. The Pension Fund Committee has been active in the required transfer of assets under management to LCIV to gain efficiencies and fee reductions. The Pension Fund Committee has transitioned £218m pooled passive equity assets held with State Street Global Advisers into the Blackrock pooled passive equity fund in September 2018 and benefited from the fee reductions negotiated through LCIV.

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

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. Pension Board met four times and considered reports on pension administration performance and the effectiveness of internal controls and the decision-making process.

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

Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") with effect from 3 January 2018, the Pension Fund Committee elected to opt up to professional client status with all its fund managers.

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



**Dawn Calvert - CPFA**

Director of Finance

31 May 2019

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

## SCHEME MANAGEMENT AND ADVISORS

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

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
- e)

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>

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The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2018-19 all Annual Benefit Statements were issued on time , The General Minimum Pension (GMP) data matching exercise was completed on time and scheme records matched those held by HMRC. No material issues were raised by the National Fraud Initiative exercise in March 2019, all reflecting the quality of scheme member data.

## Performance Monitoring 2018/19

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

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

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

The costs of running the Pension Fund are shown below

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



# INVESTMENT POLICY AND PERFORMANCE

## Investment Market Commentary (provided by Aon, May 19)

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

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

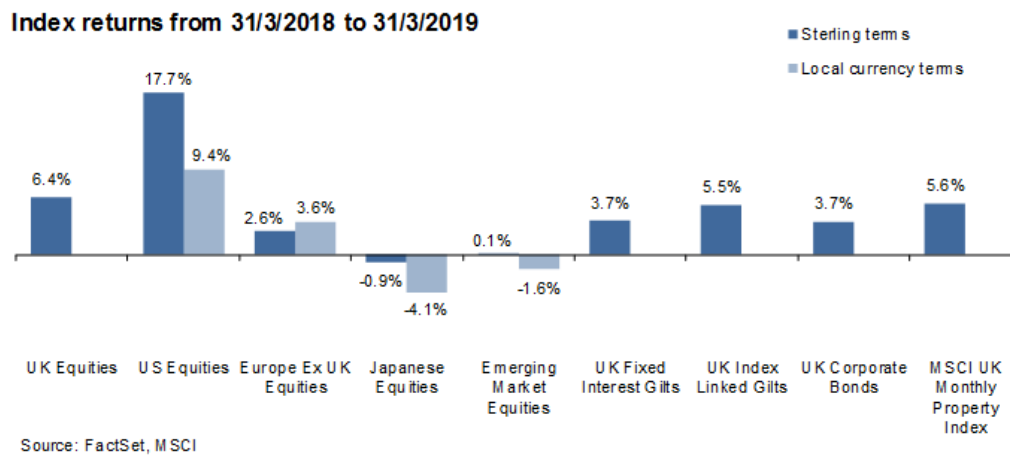
Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) and increased geopolitical tensions drove up Brent oil prices over much of the first half of the year, peaking at \$86/bbl in October. Fears of a slowdown in global growth, coupled with high US inventories and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

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

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

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

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



## Investment Policy

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

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

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

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

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

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

The Fund's Investment Strategy Statement states that the Fund will invest its assets through the London CIV as and when suitable pooled investments become available in accordance with the Local Government Investment Regulations 2016. Following the transition of the passive equity mandate to Blackrock, Harrow had 38% of fund assets managed through the London CIV and its preferred providers. The combined impact of the 11% commitments to LCIV Multi Asset Credit and to the LCIV infrastructure will increase the committed strategic allocation through the London CIV to 55% of fund assets.

The cumulative cost of pooling for the Pension Fund to 31 March 2019 is £0.249m paid to the London CIV for annual service charges and development funding

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

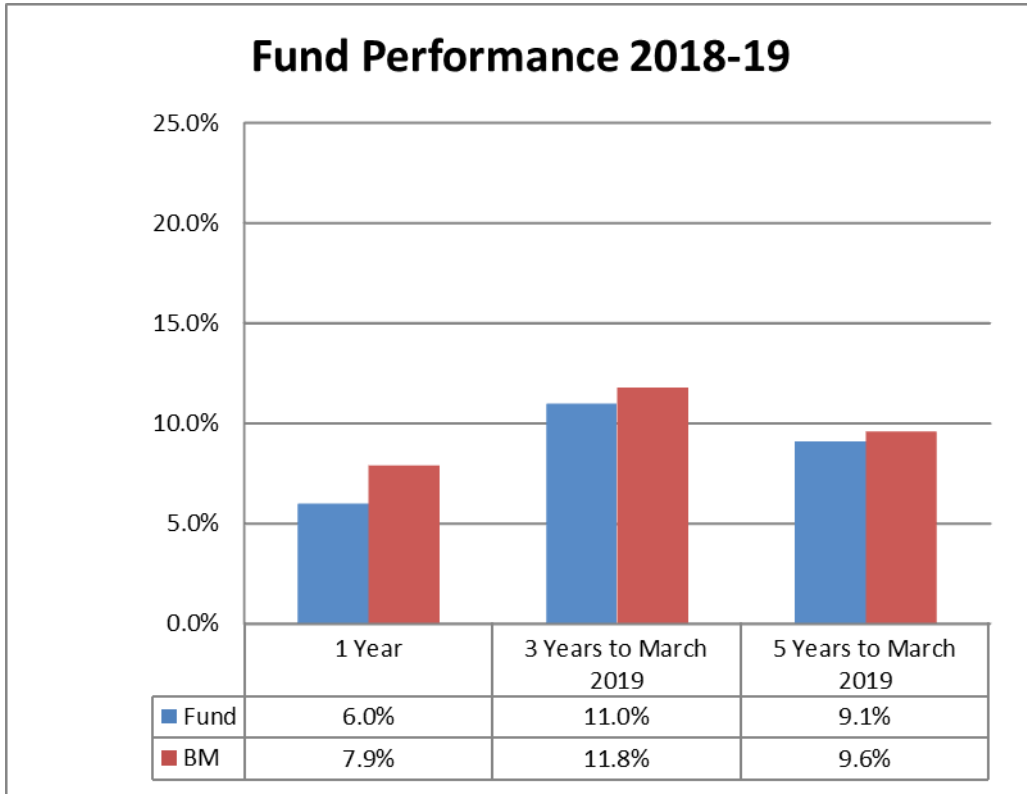
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	26	24
Developed world equities-active	20	18
Emerging markets equities-active	9	8
Fixed interest securities	10	10
Index-linked securities	3	3
Private equity	2	2
Cash	0	0
Forward currency contracts	0	0
Diversified growth funds	22	17.5
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 clear performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

## Fund performance

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

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



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

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

# STATEMENTS AND PUBLICATIONS

## Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 7 March 2018 and can be found as Appendix 1.

<https://www.harrowpensionfund.org/media/4434/governance-compliance-statement-march-2018.pdf>

## Communications Policy Statement

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 7 March 2018 and can be found as Appendix 2.

<https://www.harrowpensionfund.org/media/4435/communication-policy-march-2018.pdf>

## Funding Strategy Statement

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

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

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement as amended by the Pension Fund Committee on 12 March 2019 can be found as Appendix 3.

<https://www.harrowpensionfund.org/media/4635/appendix-3-funding-strategy-statement-march-2019.pdf>

## Investment Strategy Statement

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

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

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

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

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

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

### **Local Government Pension Scheme Guide**

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

## **RISK MANAGEMENT**

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

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

### **Governance and Regulatory Risk**

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

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

### **Sponsor Risk**

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are required from some of the Admitted employers.

### **Investment Risk**

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

#### Pricing Risk

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments increased by 6.0% in 2018-19 and increased by 5.3% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

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

### 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 9% of Harrow's Fund 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. Recent changes to the benefits structure have reduced some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

### **Operational Risk**

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

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

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

## INTERNAL CONTROLS

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

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

The results of the latest reviews are summarised below.

<b>Fund Manager</b>	<b>Type of report</b>	<b>Assurance obtained</b>	<b>Reporting Accountant</b>
Blackrock Inv Man UK Ltd	ISAE 3402	Reasonable assurance	Deloitte & Touche LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte & Touche LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Aberdeen Std (GARS)	ISAE 3402/AAF 01/06	Reasonable assurance	KPMG LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402 / AT-C 320	Reasonable assurance	PWC LLP



## CONTACTS

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

# STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

## The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the Financial Statements.

## The Director of Finance's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2019 and its income and expenditure for the year then ended.



**Dawn Calvert – CPFA**  
Director of Finance  
31 May 2019

# Harrow Pension Fund Account as at 31 March 2019

2017/18	Notes	2018/19
£'000		£'000
<b>Dealings with members, employers and others directly involved in the fund</b>		
(30,883)	7	(31,757)
(8,003)	8	(3,247)
(80)		(44)
<b>(38,966)</b>		<b>(35,048)</b>
33,274	9	33,527
34,763	10	3,097
0		0
<b>68,037</b>		<b>36,624</b>
<b>29,071</b>		<b>1,576</b>
5,525	11	5,731
<b>34,596</b>		<b>7,307</b>
<b>Return on investments</b>		
(11,327)	12	(8,907)
(32,824)	14A	(33,601)
<b>(44,151)</b>		<b>(42,508)</b>
(9,555)		(35,201)
(806,576)		(816,131)
<b>(816,131)</b>		<b>(851,332)</b>

# Net Assets Statement as at 31 March 2019

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

# Notes to the Harrow Pension Fund

## Accounts for the year ended

### 31 March 2019

#### NOTE 1: DESCRIPTION OF FUND

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

##### a) **General**

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

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

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

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

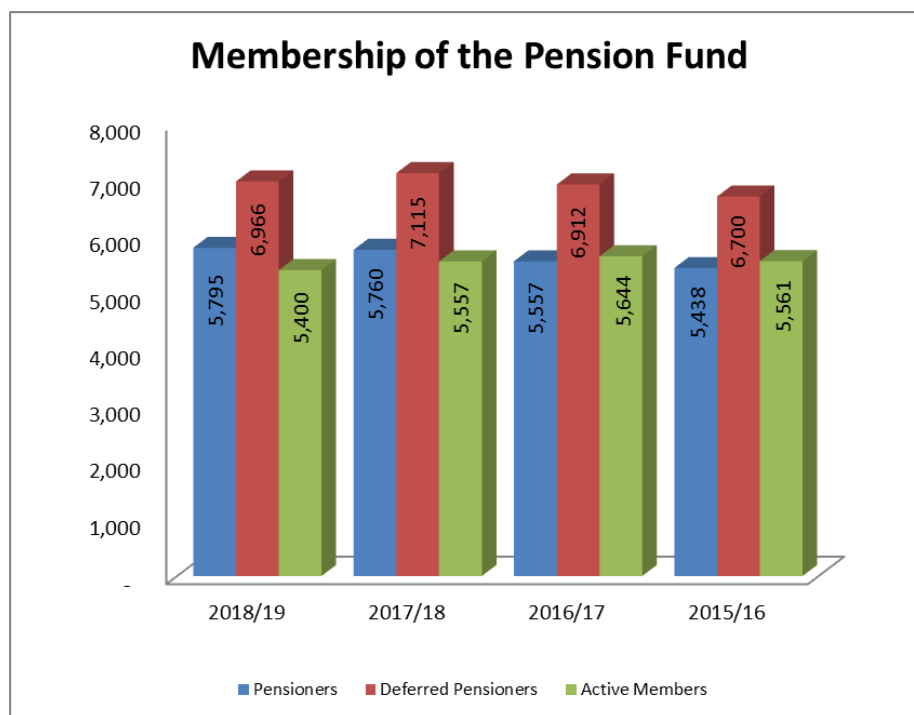
##### b) **Membership**

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

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff are automatically entitled to be members of the Fund.
- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

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



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

	<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 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 2018/19 financial year and its position as at 31 March 2019. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

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

## **NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund account – Revenue Recognition**

#### **a) Contributions income**

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

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

#### **b) Transfers to and from other schemes**

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

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

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

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

#### **c) Investment income**

- i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.



## **Fund account – Expense items**

### **a) Benefits payable**

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

### **b) Taxation**

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

### **c) Management expenses**

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

#### Administrative expenses

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

#### Oversight and governance costs

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

#### Investment management expenses

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

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

Where an investment manager's fee invoice or fee information has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2018/19.

## **Net Assets Statement**

### **a) Financial assets**

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

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification

guidelines recommended in 'Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)'

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

#### **b) Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (see note 15)

#### **c) Cash and cash equivalents**

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

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

#### **d) Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

#### **e) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

#### **f) Additional Voluntary Contributions**

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

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

## **Accounting Standards Issued but not yet fully adopted**

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

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

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

## **NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Pension Fund liability**

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

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

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

### **Unquoted private equity investments**

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

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

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

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<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 £130m</li> <li>• a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £15m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £107m</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 £11.5m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

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

## NOTE 7: CONTRIBUTIONS RECEIVABLE

### By category

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

### By type of employer

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

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

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

## NOTE 9: BENEFITS PAYABLE

### By category

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

## By type of employer

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

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

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

## NOTE 11: MANAGEMENT EXPENSES

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

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

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

## NOTE 12: INVESTMENT INCOME

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

## NOTE 13: EXTERNAL AUDIT COSTS

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

## NOTE 14: INVESTMENTS

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

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

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
<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>

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



## NOTE 14B: ANALYSIS OF INVESTMENTS

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

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

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

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

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

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

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

Value of Stock on Loan @ 31 March 2019 £40.3m (13.3%) compared to £17.30m (8.8%) @ 31 March 2018.

## NOTE 15: ANALYSIS OF DERIVATIVES

### Objectives and policies for holding derivatives

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

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

### Open forward currency contracts

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

Up to one month	EUR	12,808	GBP	(10,960)	82	
Up to one month	USD	67,658	GBP	(51,455)	472	
One to six months	AUD	342	GBP	(190)		(3)
One to six months	CAD	161	GBP	(95)		(2)
One to six months	EUR	1,826	GBP	(1,650)		(73)
One to six months	GBP	3,733	CAD	(6,597)		(49)
One to six months	GBP	4,017	HKD	(41,526)		(36)
One to six months	GBP	4,039	CHF	(5,254)		(29)
One to six months	GBP	2,066	AUD	(3,843)		(24)
One to six months	GBP	754	SEK	(9,203)		(10)
One to six months	GBP	419	SGD	(749)		(4)
One to six months	GBP	211	NOK	(2,408)		(3)
One to six months	GBP	70	NZD	(135)		(1)
One to six months	GBP	7,598	USD	(9,971)		(55)
One to six months	GBP	466	JPY	(68,700)		(11)
One to six months	HKD	14,322	GBP	(1,444)		(43)
One to six months	JPY	393,800	GBP	(2,887)		(152)
One to six months	NOK	344	GBP	(31)		(1)
One to six months	NZD	9	GBP	(5)		(0)
One to six months	SEK	710	GBP	(63)		(4)
One to six months	SGD	50	GBP	(29)		(1)
One to six months	USD	17,864	GBP	(14,047)		(367)
Over six months	GBP	11,030	EUR	(12,808)		(84)
Over six months	GBP	14,394	JPY	(2,096,000)		(183)
Over six months	GBP	101,343	USD	(134,277)		(1,265)
<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>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31 March 2018</b>					<b>7,310</b>	<b>(1,445)</b>
<b>Net forward currency contracts at 31 March 2018</b>						<b>5,865</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 investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <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 2019 using data provided by PIRC.

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

## NOTE 16A: FAIR VALUE HIERARCHY

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

### Level 1

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

### Level 2

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

### Level 3

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	769,564	3,156	79,693	852,413
Financial liabilities at fair value through profit and loss	0	(2,400)	0	(2,400)
<b>Net Investment asset</b>	<b>769,564</b>	<b>756</b>	<b>79,693</b>	<b>850,013</b>

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

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

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

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

None

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

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

## NOTE 17: FINANCIAL INSTRUMENTS

### NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 March 2018			31 March 2019			
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	
£'000	£'000	£'000	£'000	£'000	£'000	
			<b>Financial assets</b>			
430,168	0	0	Pooled equities investments	467,263	0	0
102,445	0	0	Pooled bonds investments	108,159	0	0
189,579	0	0	Pooled alternative investments	191,029	0	0
67,656	0	0	Pooled property investments	68,171	0	0
150	0	0	Equity in London CIV	150	0	0
13,844	0	0	Private equity	11,522	0	0
7,310	0	0	Derivative contracts	3,156	0	0
0	6,389	0	Cash	0	4,103	0
0	310	0	Debtors	0	589	0
<b>811,152</b>	<b>6,699</b>	<b>0</b>		<b>849,450</b>	<b>4,692</b>	<b>0</b>
			<b>Financial liabilities</b>			
(1,445)	0	0	Derivative contracts	(2,400)	0	0
0	0	(275)	Creditors	0	0	(410)
<b>(1,445)</b>	<b>0</b>	<b>(275)</b>		<b>(2,400)</b>	<b>0</b>	<b>(410)</b>
<b>809,707</b>	<b>6,699</b>	<b>(275)</b>		<b>847,050</b>	<b>4,692</b>	<b>(410)</b>
<hr/>			<hr/>			
<b>816,131</b>			<b>Grand Total</b>	<b>851,332</b>		
<hr/>			<hr/>			



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

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

Assets type	Potential market movements (+/-) %
Total equities	9.20
Fixed interest & index linked securities	7.30
Alternative investments	3.30
Pooled property investments	1.90
Private Equity	10.00

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

Asset type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<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>
Asset type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Investment portfolio assets:</b>				
Total equities	444,162	10.42	490,442	397,882
Fixed interest & index linked securities	102,445	8.26	110,909	93,981
Alternative investments	189,579	5.56	200,112	179,046
Pooled property investments	67,656	2.14	69,102	66,210
Derivative contracts: net forward currency	5,865	0.00	5,865	5,865
<b>Total</b>	<b>809,707</b>		<b>876,430</b>	<b>742,984</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 2019 and 31 March 2018 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
<b>Total change in assets available</b>	<b>89,193</b>	<b>861</b>	<b>90,054</b>	<b>88,332</b>

Assets exposed to interest rate risk	Carrying amount as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	4,696	0	4,696	4,696
Fixed interest securities	81,651	817	82,468	80,834
<b>Total change in assets available</b>	<b>86,347</b>	<b>817</b>	<b>87,164</b>	<b>85,530</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 8.8%

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

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

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

## Credit risk

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

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

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

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

The Fund's cash holding at 31 March 2019 was £3.1m (31 March 2018: £4.7m). This was held with the following institutions.

Summary	Balances at 31 March 2018	Balances at 31 March 2019
	£'000	£'000
<b>Bank accounts</b>		
Royal Bank of Scotland	3,205	3,068
JP Morgan	1,438	1
BlackRock	53	44
	<b>4,696</b>	<b>3,113</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 2019 the value of illiquid assets was £79.7m. This represented 9% of the total Fund assets (31 March 2018: £81.5m).

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

## Refinancing risk

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

## NOTE 19: FUNDING ARRANGEMENTS

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

The key elements of the funding policy are:

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

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

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

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

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

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

### Financial assumptions

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

## Demographic assumptions

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

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

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

## Commutation assumption

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

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

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

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

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

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

## IAS19 Assumptions used

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

## NOTE 21: CURRENT ASSETS

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

## NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

## NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£'000		£'000
(158)	Sundry creditors	(344)
0	Transfer values payable (leavers)	0
(117)	Benefits payable	(66)
<b>(275)</b>		<b>(410)</b>

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Market value 31 March 2018		Market value 31 March 2019
£'000		£'000
1,712	Prudential Assurance	2,011
666	Clerical Medical	599
234	Equitable Life Assurance Society	219
<b>2,612</b>		<b>2,829</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 above.

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

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

### Governance

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

## NOTE 25A: KEY MANAGEMENT PERSONNEL

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

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

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

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

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

## NOTE 27: CONTINGENT ASSETS

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



## Pension Fund Accounts Reporting Requirement

### Introduction

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

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

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

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

### Present value of promised retirement benefits

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

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

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

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

### Assumptions

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

**Financial assumptions**

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

**Longevity assumptions**

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

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

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

**Commutation assumptions**

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

**Sensitivity Analysis**

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

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

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

**Professional notes**

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

Prepared by:-



Laura McInroy FFA

25 April 2019

For and on behalf of Hymans Robertson LLP

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April 2019