

London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the
year ended 31 March 2023



CONTENTS

| | |
|--|----|
| Introduction..... | 3 |
| Independent Auditor's Statement..... | 4 |
| Scheme Management and Advisers..... | 5 |
| Governance Arrangements..... | 6 |
| Pension Scheme Administration and Performance..... | 7 |
| Investment Policy and Performance..... | 9 |
| Statements and Publications..... | 14 |
| Risk Management..... | 15 |
| Contacts..... | 18 |
| Statement of Responsibilities for the Financial Statements.. | 19 |
| Harrow Pension Fund Account and Net Assets Statement... | 20 |
| Notes to Harrow Pension Fund Accounts..... | 22 |
| Pension Fund Accounts Reporting Requirement..... | 49 |

Appendices

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

INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund ('the Fund') for the financial year to 31 March 2023. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

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

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

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

During 2022-23, The Fund's Actuary, Hymans Robertson LLP, carried out the statutory Triennial Valuation of the Fund. The Pension Fund Committee monitored this process and approved a revised Funding Strategy Statement in March 2023. It also continued to review the Fund's Investment strategy. The redemption of the Emerging Market Equity Portfolio with GMO, and the investment of the proceeds in the LCIV Emerging Market Equity Fund was completed in July 2022. There were further drawdowns against the earlier commitments to invest £68m of fund assets in the LCIV Infrastructure Fund (a total of £45.7m being invested at 31 March 2023), and to invest £50m in the LCIV Renewables Infrastructure Fund (of which £17m had been invested at 31 March 2023). Finally, in March 2023 the Committee decided to redeem its investments in the LaSalle Property Fund of Funds. That redemption and subsequent investment of the proceeds is likely to take at least two years, reflecting the relative illiquidity of property investments.

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. During 2022-23, the Pension Board met four times and considered a range of reports on pension administration performance and pension fund governance arrangements and the 2022 Triennial Valuation, as well as reviewing a number of policies before these were adopted by the Committee.

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

Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") with effect from 3 January 2018, the Pension Fund Committee elected to opt up to professional client status with all its fund managers. This status has been maintained in 2022-23.

The net assets of the Fund as at 31 March 2023 were £954.8m compared to £1,018m as at 31 March 2022. The Fund's overall investment return for the year was -5.4% lagging its benchmark return of -5.0% by 0.4%.

Dawn Calvert - CPFA
Director of Finance and Assurance
30th May 2023

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

SCHEME MANAGEMENT AND ADVISORS

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

GOVERNANCE ARRANGEMENTS

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

The Pension Fund Committee has the following terms of reference:

- 1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- 2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- 3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- 4) to establish a strategy for the disposition of the pension investment portfolio;
- 5) to appoint and determine the investment managers' delegation of powers of management of the fund;
- 6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers);
- 7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Managing Director, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Managing Director in consultation with the leaders of the political groups;

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

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

<https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1297&Year=0>

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

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

The dates of the Pension Board meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

<https://moderngov.harrow.gov.uk/ieListMeetings.aspx?CId=1336&Year=0>

PENSION SCHEME ADMINISTRATION AND PERFORMANCE

Pension Section overview

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

The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2022-23 all Annual Benefit Statements were issued on time.

Performance Monitoring 2022-23

| SERVICE | National Benchmarking Target | Harrow Achievement % |
|---|-------------------------------------|-----------------------------|
| Issue letter notifying of dependent's benefit | 5 days | 56.92 |
| Calculation and notification of ill health estimate | 10 days | 100 |
| Calculation and notification of retirement benefits estimate | 10 days | 89.31 |
| Issue letter to new pension provider detailing transfer-out quote | 10 days | 76.47 |
| Calculation and notification of deferred benefits | 10 days | 84.08 |
| Calculation and notification of retirement benefits | 5 days | 75.61 |
| Process refund and issue payment | 5 days | 60.47 |
| Calculation and notification of ill health benefits | 5 days | 50 |
| Issue statutory notification on receipt of transfer funds | 10 days | 87.50 |

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law during 2022-23.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. There were two complaints referred through the internal procedure during the year – one complaint was resolved in June 2022 and the second complaint has been taken to the Ombudsman in October 2022 for the 2nd time, this is in regard to an Ill Health decision made by the Fund previous occupation health provider.

The costs of running the Pension Fund are shown below:

| Process | 2020-21 | 2021-22 | 2022-23 |
|---|----------------|----------------|----------------|
| Investment management expenses | | | |
| Total Cost (£000) | 3,840 | 3,828 | 3,166 |
| Total Membership (No.) | 18,577 | 19,003 | 19,348 |
| Sub Cost per member (£) | 207 | 201 | 164 |
| Administration costs | | | |
| Total Cost (£000) | 713 | 888 | 703 |
| Total Membership (No.) | 18,577 | 19,003 | 19,348 |
| Sub Cost per member (£) | 38 | 47 | 36 |
| Oversight & governance costs | | | |
| Total Cost (£000) | 602 | 615 | 681 |
| Total Membership (No.) | 18,577 | 19,003 | 19,348 |
| Sub Cost per member (£) | 32 | 32 | 35 |
| Total cost per member (£) | 277 | 281 | 235 |

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

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs. The significant increase in 2022-23 reflects the new contract for the Pensions Administration system and the initial licensing fee payable.

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

INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon, April 23)

General Background

Global equities generated negative returns over the last twelve months, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia's ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressures. However, equity markets recouped more than half of the losses over the last six months of the year as markets felt confident that a deep recession would be avoided, and investor concerns on tighter monetary policy abated.

Significant volatility in the gilt market occurred following the UK's 'mini-budget' in September, affecting many UK schemes using leveraged liability-driven investments (LDI). The resulting collateral calls were met by forced selling of gilts, swaps, and credit. The Bank of England (BoE) subsequently intervened to restore normal market function.

UK prime minister Liz Truss resigned after her forty-nine-day premiership and became the shortest-serving prime minister in Britain's history. Before resigning, Truss sacked chancellor Kwasi Kwarteng. Former chancellor Rishi Sunak was sworn in as the new UK prime minister.

In the US, Silicon Valley Bank (SVB) entered receivership with the Federal Deposit Insurance Corporation (FDIC) on 10 March 2023, with the regulator citing inadequate liquidity and solvency protection. SVB was the 16th largest bank in the US and represents the largest failure of a bank since the Global Financial Crisis. US Treasury Secretary Yellen approved actions that will enable the FDIC to resolve SVB in a way that fully protects all depositors. Shareholders and certain unsecured debt holders were not protected. The Fed also launched a new programme called the "Bank Term Funding Program" which will provide \$25 billion of liquidity should banks require it.

Shortly after SVB's demise, investor concerns regarding Credit Suisse accelerated amidst reports that its top shareholder had ruled out further funding. UBS later agreed to buy Credit Suisse for \$3.25bn at CHF0.76 per share on 19 March 2023, representing a significant discount to its pre-crisis share price, after Swiss regulators urgently stepped in to broker a deal. The Swiss National Bank has offered a CHF100bn liquidity line as part of the deal and the government will provide a loss guarantee of up to CHF9bn after UBS takes on the first CHF5bn of losses on certain assets. Under the deal's terms, CHF16bn of Credit Suisse's additional tier 1 capital bonds are being written off to zero.

UK prime minister Rishi Sunak and the European Commission President Ursula von der Leyen announced a new post-Brexit deal on Northern Ireland under the "Windsor Framework" on 27 February 2023. The agreement aims to ease trade barriers between Northern Ireland and the rest of the UK. The UK Parliament passed a vote on the deal on 22 March 2023 after Sunak gathered the support of some Democratic Unionist Party and Eurosceptic Tory members of parliament. The UK announced a deal to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership on 31 March 2023, becoming the first nation to join the group since its establishment in 2018. Current members of the group include Australia, Canada, Japan, and Mexico, amongst seven other countries. The UK government estimates that the agreement will increase UK GDP by only around 0.08% in the next 10 years.

Geopolitical tension remained elevated. In June 2022, the European Union (EU) agreed to implement the sixth package of sanctions on Russia. The package includes removing Sberbank, Russia's largest bank, from the SWIFT cross-border payment system and a ban on sea-borne oil purchases from Russia, which is almost two-thirds of Europe's imports from Russia. In September 2022, the Russia-Ukraine conflict escalated after Moscow announced the annexation of four regions in south-eastern Ukraine - Donetsk, Luhansk, Kherson, and Zaporizhzhia. President Vladimir Putin vowed to use "all the means" to defend the annexed territories. The European Union (EU) decided to implement a price cap on seaborne Russian oil while the US imposed sanctions on the governor of Russia's central bank. The US unveiled its plans to impose fresh sanctions on more than 200 entities throughout Europe, Asia, and the Middle East "that are supporting Russia's war effort" in February 2023. Russian President Vladimir Putin announced on 21 February 2023 that Russia would suspend its nuclear weapons treaty with the US and also unveiled its plans to deploy tactical nuclear weapons in Belarus by July in March

2023. Russia cut oil production by 500,000 barrels a day in response to a price cap imposed by Western nations. Elsewhere, the US imposed a ban on five Chinese entities from acquiring US technology and put 28 Chinese groups allegedly in breach of US sanctions on a trade blacklist. In a series of coordinated actions following a G7 meeting in February 2023, the UK also announced sanctions on selected Chinese entities, whilst the EU and Japan finalised similar trade bans. US-China trade tensions saw further escalation as Japan and the Netherlands entered into a trilateral agreement with the US that restricts exports of chip manufacturing tools to China. The agreement is designed to hinder the Chinese military's ability to develop advanced weapons.

Over the last year, the BoE raised its benchmark interest rate cumulatively by 350bps to 4.25%. The BoE noted that the need for further monetary policy tightening would depend on future evidence concerning the persistence of price pressures. Meanwhile, the BoE became the first major central bank to actively start to unwind quantitative easing as it sold £750mn of government bonds in November 2022. The US Federal Reserve (Fed) increased its benchmark interest rate by 450bps to a range of 4.75%-5%, the highest level since 2007. In Q1 2023, the Federal Open Market Committee (FOMC) dropped its previous warning that "ongoing increases" would be needed to bring soaring inflation under control, instead noting that "some additional policy firming may be appropriate". The European Central Bank (ECB) raised its deposit rates by 350bps to 3.0% over the year, its highest level in 14 years. The ECB announced plans to start shrinking the €5tn of bonds it purchased over the last eight years from March 2023.

US equities were the worst performer over the year, falling 8.5% in local currency terms. Equities sold off sharply in 2022 as elevated inflation and expectations for higher interest rates weighed on the region, leading to the underperformance of sectors such as Information Technology and Consumer Discretionary. Following SVB's collapse in March 2023, investors shrugged off short-lived concerns over the banking sector and priced in a quicker end to the sharpest tightening cycle in recent memory. For a major part of last year, the US dollar exhibited strength due to its status as a safe haven, improving returns in sterling terms.

UK equities were the best-performing equity market over the year, rising 5.6%. Performance was supported by the heavy-weighted energy sector as fears over the supply of energy grew as a result of the conflict in Ukraine. The energy sector was the best performer with a return of 22.5%. Economically sensitive sectors outperformed, with the industrials and consumer discretionary sectors returning 9.8% and 9.0% respectively.

Emerging markets (EM) were the second worst-performing market in local currency terms over the last twelve months, falling 6.2%. Increases in interest rates by major central banks and a strong dollar resulted in EM returns lagging other markets. Brazilian (-12.8%) and South Korean (-7.6%) equities underperformed while Chinese (-3.1%) and Indian (-4.2%) equities were among the best performers. Brazil experienced anti-government riots amidst softening economic data whilst Indian markets is the midst of allegations of share price manipulation and fraud at a major conglomerate in the country.

On a global sector level, Energy (11.0%) was the only sector to generate a positive return in local currency terms. Real Estate (-17.8%) was the worst-performing sector, followed by Communication Services (-14.2%) and Consumer Discretionary (-10.5%).

The UK gilt curve rose across all maturities over the year as inflationary concerns drove yields higher. In September 2022, the BoE temporarily announced an emergency £65bn bond-buying programme to stabilise the government debt market after an unexpected expansionary fiscal package was announced. The package increased investor concern over the sustainability of public finances, resulting in a considerable spike in yields. The sharpness of the sell-off was exacerbated by the forced unwinding of LDI positions, as UK pension schemes worked to provide collateral to LDI managers following sharp yield increases. However, in the fourth quarter, yields fell back across the curve following a government U-turn on fiscal policy and Liz Truss' resignation as prime minister. Later, in Q1 2023, the UK nominal gilt curve fell across all maturities except for the shortest end of the curve, as markets priced in additional rate increases in the immediate future but a lower terminal rate thereafter. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 16.3% and index-linked gilts fell by 26.7% over the last twelve months.

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index,

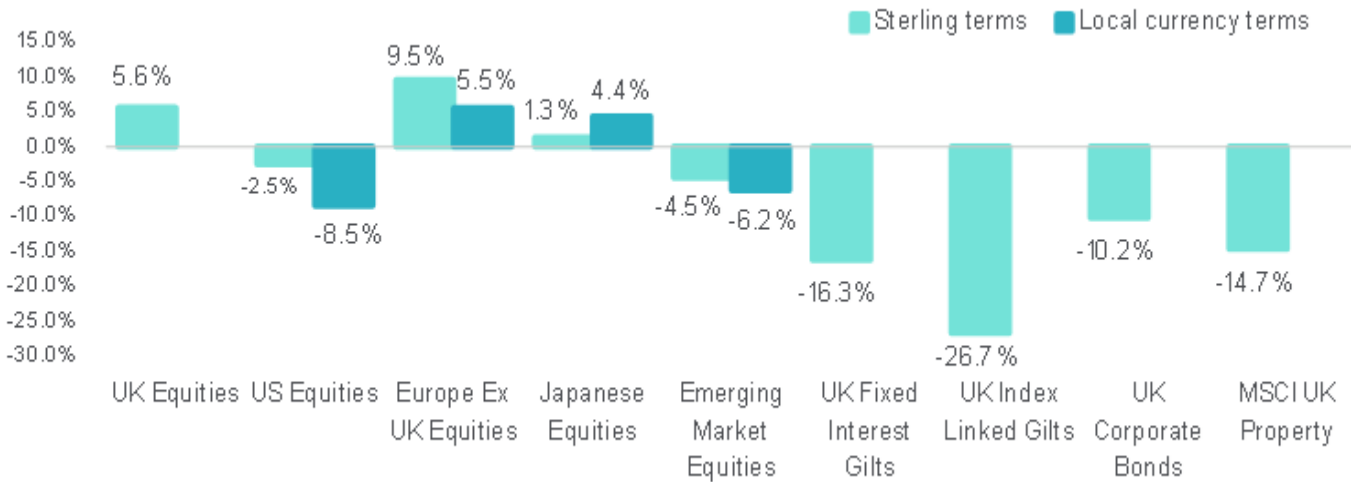
widened by 37bps to 167bps. The index declined 10.2% as rising gilt yields and widening spreads outweighed the income yield.

Sterling ended the twelve months 2.6% lower on a trade-weighted basis.

Brent crude oil prices fell by 26.1% to \$80/BBL over the last twelve months. In Q2 2022, OPEC+ agreed to a larger-than-expected oil production increase as oil prices surged. The group decided to increase production by 648,000 barrels per day for July and August. However, a sharp fall in oil prices in the third quarter amid growing fears of recession and weak oil demand from China due to its “zero-covid” policy prompted OPEC+ to agree to 100,000 barrels a day oil production cut from October. In Q4 2022, OPEC+ agreed to cut 2m barrels a day in oil production to keep oil prices from falling as a result of weaker global demand. In Q1 2023, OPEC+ announced surprise oil production cuts of more than 1 million barrels a day (b/d), including a 500,000 b/d cut by Saudi Arabia. The timing of the announcement was unusual as it wasn't made during a formal OPEC+ meeting.

The MSCI UK property index returned -14.7% over the year as capital values depreciated, following sharply higher capitalisation rates over the last year. The income return was 5.0% but the 18.8% decrease in capital values weighed over. The retail, office, and industrials sectors fell 7.8%, 13.2%, and 21.2% respectively.

Index Returns



Index returns from 31/3/2022 to 31/3/2023. Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit).

Investment Policy

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

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

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

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

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

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

The cumulative cost of pooling for the Pension Fund to 31 March 2023 is £0.757m paid to the London CIV for annual service charges and development funding.

The following table compares the actual asset allocation as at 31 March 2023 to the agreed allocation

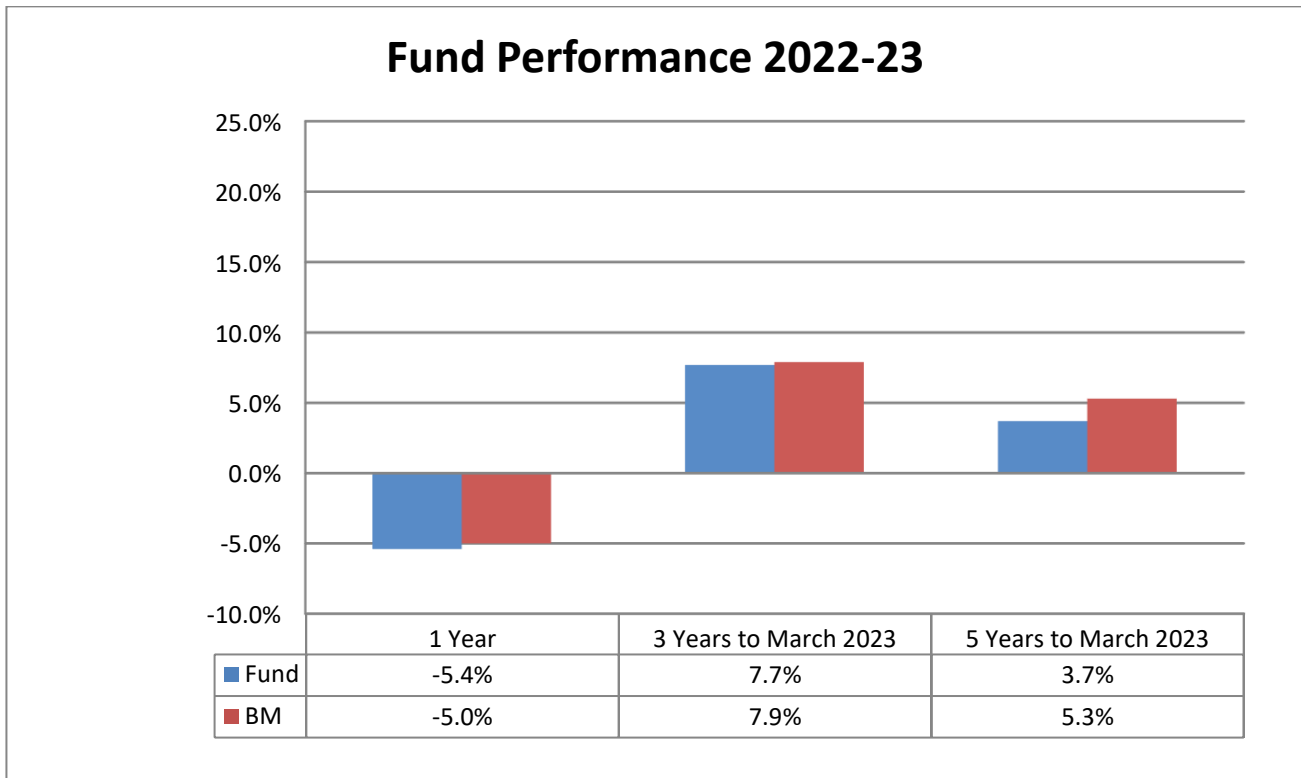
| Investment assets | Actual | Agreed |
|----------------------------------|--------------------|------------|
| | Percentage of Fund | Allocation |
| | % | % |
| Global equities-passive | 24 | 24 |
| Developed world equities-active | 19 | 18 |
| Emerging markets equities-active | 8 | 8 |
| Fixed interest securities | 5 | 5 |
| Global Bonds | 5 | 5 |
| Index linked securities | 5 | 5 |
| Private equity | 1 | 1 |
| Cash | 1 | 0 |
| Forward currency contracts | 1 | 0 |
| Diversified growth funds | 7 | 5.5 |
| Multi Asset Credit | 10 | 10 |
| Pooled property | 6 | 6 |
| Infrastructure | 8 | 12.5 |
| Total | 100 | 100 |

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

Fund performance

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

Investment returns over 1, 3, and 5 years at 31st March 2023 are shown below.



The Fund’s return of -5.4% during 2022-23 reflected the negative returns of most asset class. Global Equities generated negative returns over the twelve months, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia’s ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressures. Credit markets also declined over the past twelve months.

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

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

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

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

Communications Policy Statement

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

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

Funding Strategy Statement

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

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

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

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

Investment Strategy Statement

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

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

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

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

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

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

Local Government Pension Scheme Guide

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

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

RISK MANAGEMENT

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

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

Governance and Regulatory Risk

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

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

Sponsor Risk

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

Investment Risk

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

Pricing Risk

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

Procedures in place to manage the volatility of investments include:

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

Liquidity Risk

Investments in some asset classes e.g., private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Harrow's Funds allocated 19.5% of its total assets to illiquid assets. This is deemed appropriate for the fund even though it has a slightly negative Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy and are all currently readily accessible without notice.

Counterparty Risk

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

Actuarial Risk

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

Operational Risk

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

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

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

INTERNAL CONTROLS

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

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

The results of the latest reviews are summarised below.

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

CONTACTS

| | |
|--------------------------|--|
| Registered Address | Pensions Team London Borough of Harrow Forward Drive Harrow HA3 8FL |
| Administration Enquiries | Email : Pension@harrow.gov.uk Telephone Number: 020 8424 1186 Website: www.harrowpensionfund.org |
| Complaints and Advice | The Money and Pension Service 120 Holborn London EC1N 2TD Pensions Help line: 01159 659570 Website: www.moneyandpensionservice.org.uk The Pensions Regulator Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU Telephone Number: 0800 917 4487 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk |
| Tracing Service | The Pension Tracing Service Telephone Number: 0800 731 0193 Website: www.gov.uk/find-pension-contact-details |

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

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

The Director of Finance and Assurance's Responsibilities

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

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

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

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2023 and its income and expenditure for the year then ended.

Dawn Calvert – CPFA

Director of Finance and assurance

13th July 2022

Harrow Pension Fund Account as at 31 March 2023

| 2021-22 | | Notes | 2022-23 |
|--------------------|---|-------|--------------------|
| £'000 | | | £'000 |
| | Dealings with members, employers and others directly involved in the fund | | |
| (36,058) | Contributions | 7 | (37,238) |
| (3,066) | Transfers in from other pension funds | 8 | (3,877) |
| (33) | Other income | | (121) |
| (39,157) | | | (41,236) |
| 36,974 | Benefits | 9 | 40,269 |
| 6,141 | Payments to and on account of leavers | 10 | 3,610 |
| 43,115 | | | 43,878 |
| 3,958 | Net (additions)/withdrawals from dealings with members | | 2,643 |
| 5,331 | Management expenses | 11 | 4,550 |
| 9,289 | Net (additions)/withdrawals including fund management expenses | | 7,193 |
| | Return on investments | | |
| (7,030) | Investment income | 12 | (8,355) |
| (52,286) | (Profit)/losses on disposal of investments and changes in the market value of investments | 14A | 64,351 |
| (59,316) | Net return on investments | | 55,996 |
| (50,027) | Net (increase)/decrease in the net assets available for benefits during the year | | 63,189 |
| (967,984) | Opening net assets of the scheme | | (1,018,011) |
| (1,018,011) | Closing net assets of the scheme | | (954,822) |

Net Assets Statement as at 31 March 2023

| 31 March 2022 | | Notes | 31 March 2023 |
|------------------|--|-------|----------------|
| £'000 | | | £'000 |
| | Investment assets | | |
| 996,706 | Investments | 14 | 920,835 |
| 1,191 | Derivative contracts | 14 | 14,517 |
| 17,004 | Cash with investment managers | 14 | 11,433 |
| 1,014,901 | | | 946,785 |
| 7,288 | Cash deposits | 14 | 7,672 |
| 1,022,189 | | | 954,457 |
| | Investment liabilities | | |
| (5,232) | Derivative contracts | 14 | (770) |
| 1,016,957 | | | 953,687 |
| 2,154 | Current assets | 21 | 1,445 |
| 140 | Long Term Debtors | 21A | 176 |
| 1,019,251 | | | 955,308 |
| (1,240) | Current liabilities | 22 | (486) |
| 1,018,011 | Net assets of fund available to fund benefits at the period end | | 954,822 |

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

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

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2023

NOTE 1: DESCRIPTION OF FUND

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

a) General

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

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

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

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

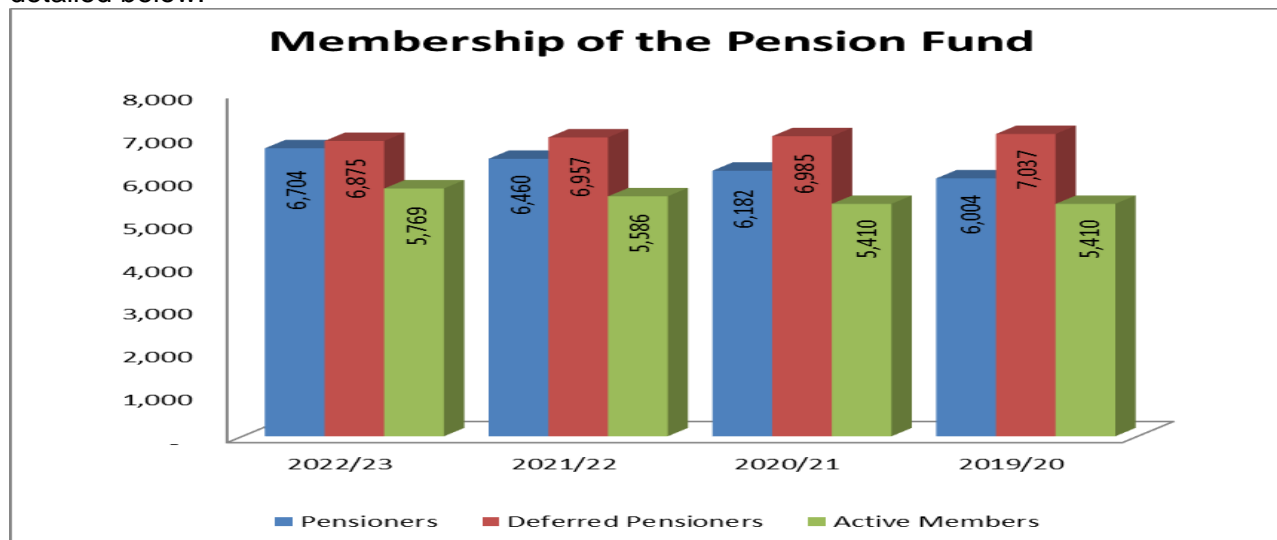
b) Membership

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

Organisations participating in the Fund include the following:

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

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



| Employer | Status | PENSIONERS | DEFERREDS | ACTIVES | Total | % |
|-------------------------------|--------------------------|------------|-----------|---------|--------|-------|
| Harrow Council | Scheduled Body | 6187 | 5633 | 3666 | 15,486 | 80.64 |
| Nower Hill | Scheduled Body | 40 | 144 | 189 | 373 | 1.83 |
| Stanmore College | Scheduled Body | 109 | 154 | 100 | 363 | 1.80 |
| Heathland and Whitefriars | Scheduled Body | 27 | 86 | 203 | 316 | 1.54 |
| Hatch End High | Scheduled Body | 39 | 135 | 69 | 243 | 1.26 |
| Rooks Heath | Scheduled Body | 29 | 99 | 129 | 257 | 1.33 |
| Park High | Scheduled Body | 19 | 82 | 113 | 214 | 1.11 |
| Canons High | Scheduled Body | 18 | 78 | 124 | 220 | 1.14 |
| Bentley Wood | Scheduled Body | 13 | 89 | 88 | 190 | 0.98 |
| Harrow High | Scheduled Body | 20 | 61 | 78 | 159 | 0.82 |
| St Dominics 6th form college | Scheduled Body | 50 | 33 | 48 | 131 | 0.68 |
| Aylward Primary School | Scheduled Body | 11 | 30 | 79 | 120 | 0.62 |
| Pinner High School | Scheduled Body | 3 | 11 | 101 | 115 | 0.59 |
| Priestmead School | Scheduled Body | 6 | 12 | 88 | 106 | 0.55 |
| Salvatorian Academy | Scheduled Body | 24 | 50 | 17 | 91 | 0.47 |
| St Georges Primary | Scheduled Body | 7 | 5 | 75 | 87 | 0.45 |
| St John Fisher | Scheduled Body | 5 | 7 | 63 | 75 | 0.39 |
| St Josephs Primary | Scheduled Body | 5 | 6 | 64 | 75 | 0.39 |
| Welldon Park School | Scheduled Body | 5 | 5 | 59 | 69 | 0.36 |
| Earlsmead Academy | Scheduled Body | 7 | 11 | 41 | 59 | 0.30 |
| Alexandra Academy | Scheduled Body | 8 | 18 | 31 | 57 | 0.29 |
| Sacred Heart High School | Scheduled Body | 6 | 8 | 32 | 46 | 0.24 |
| Avanti House Secondary School | Scheduled Body | 0 | 4 | 46 | 50 | 0.26 |
| St Bernadettes | Scheduled Body | 10 | 6 | 32 | 48 | 0.25 |
| St Jerome | Scheduled Body | 1 | 2 | 39 | 42 | 0.22 |
| Krishna Avanti Academy | Scheduled Body | 0 | 16 | 27 | 43 | 0.22 |
| Jubilee Academy | Scheduled Body | 0 | 16 | 19 | 35 | 0.18 |
| Avanti House Primary School | Scheduled Body | 1 | 12 | 22 | 35 | 0.18 |
| Avanti School Trust | Scheduled Body | 0 | 1 | 9 | 10 | 0.05 |
| Hujjat Primary School | Scheduled Body | 0 | 1 | 16 | 17 | 0.09 |
| NLCS | Community Admission Body | 45 | 48 | 42 | 135 | 0.70 |
| Evergreen | Admitted Body | 0 | 0 | 19 | 19 | 0.10 |
| ISS Catering | Admitted Body | 3 | 2 | 10 | 15 | 0.08 |
| SOS Ltd | Admitted Body | 0 | 2 | 4 | 6 | 0.03 |
| Brayborne Facilities Services | Admitted Body | 0 | 0 | 5 | 5 | 0.03 |
| SOS Longfield | Admitted Body | 0 | 3 | 2 | 5 | 0.03 |
| Wates (Linbrook) | Admitted Body | 3 | 0 | 3 | 6 | 0.03 |
| Evergreen Harrow High | Admitted Body | 1 | 0 | 4 | 5 | 0.03 |
| PSC Ltd | Admitted Body | 0 | 0 | 4 | 4 | 0.02 |
| PSC Roxeth | Admitted Body | 0 | 0 | 3 | 3 | 0.02 |
| PSC Vaughan | Admitted Body | 0 | 0 | 2 | 2 | 0.01 |
| Govindas | Admitted Body | 0 | 3 | 2 | 5 | 0.03 |
| Evergreen Aylward | Admitted Body | 2 | 0 | 1 | 3 | 0.02 |
| Evergreen LBH | Admitted Body | 0 | 2 | 1 | 3 | 0.02 |
| | | 6,704 | 6,875 | 5,769 | 19,348 | 100 |

c) Funding

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

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

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2022 and showed that the Fund was 96% 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 17.2% to 35.4% of pensionable pay.

d) Benefits

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

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

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

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

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2022-23 financial year and its position as at 31 March 2023. The Accounts have been prepared on a going concern basis in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2021-22' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

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

Fund account – Expense items

a) Benefits payable

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

b) Taxation

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

c) Management expenses

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

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 2022-23.

Net Assets Statement

a) Financial assets

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

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

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

b) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (See note 15). Derivatives are used by the Fund to reduce its exposure to the risk of fluctuations in currency values in its global equity portfolio. They are valued on the basis of the change in the relative values of sterling and the currency being hedged between the point at which the derivatives were purchased and the balance sheet date.

c) Cash and cash equivalents

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

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

d) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date with the exception of current liabilities. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Current Liabilities are shown at amortised cost - given the short-term nature of these liabilities there are unlikely to be any gains or losses arising from these before settlement.

e) Actuarial present value of promised retirement benefits

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

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

f) Additional Voluntary Contributions

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

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

g) Contingent Liabilities

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

h) Contingent Assets

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

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

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

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

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

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

Unquoted private equity investments

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

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

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

The items in the net assets statement at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|--|--|--|
| Actuarial present value of promised retirement benefits (Note 20) | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ° 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £15.7m ° 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £1.3m ° 0.1% increase in Pension benefits would increase the liability by approximately £14.6m |

| | | |
|--|--|--|
| Private equity (Note 16C) | Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</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 £4.05m in the financial statements. There is a risk that this investment may be under or overstated in the accounts. |
| Fair value – basis of valuation (Note 16) | In March 2020, the outbreak of Covid-19 had a significant impact on global financial markets. This fall in asset prices/values was more than offset by the subsequent recovery during 2020 and 2021. However, there has been a fall back in 2022 to date, due in part to geopolitical events (the Russian invasion of Ukraine and its impact on commodity prices) and their knock-on effect on inflation. As at the valuation date, it is considered that less weight can be attached to previous market evidence to inform opinions of value on level 3 investments. Consequently, less certainty and a higher degree of caution should be attached to level 3 valuations. At the current time, it is still not possible to predict accurately the long term impact of Covid-19 on property investments in some locations and sectors of the economy. | Any reduction in investment values will result in a reduction in the Fund's net asset position. |
| Pooled Property Fund | Revaluation of Pension Fund assets within the pooled property funds are undertaken by the asset managers using professional valuers as set out in the fund agreements. For 2020/21, following the impact of Covid-19 on global markets, our fund managers advised that valuations were reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book, meaning that less weight could be applied to previous market evidence to inform opinions of value. Consequently, less certainty – and a higher degree of caution – was attached to valuations of pooled property fund assets than would normally be the case. They have not applied the same caveat to the valuations reported as at 31 March 2023. | The total property pooled investments in the financial accounts are £59.9m. There is a risk that these investments may be understated or overstated in the accounts. |

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2022-23 for which the accounts have been adjusted.

The valuation of the Pension Fund's investment assets will fluctuate from time to time as a result of economic factors and market movements. Since March 2023, global investment markets have been volatile for a number of reasons. As a result, the value of the Fund's investment assets had been volatile too. However, the Fund's actuary advises that the impact of the increase in Gilt yields in the same period is likely to have reduced the Fund's liabilities significantly. Furthermore, the Fund is an "open" pension scheme, which means it has a long time horizon before many of its liabilities will fall due for payment

Therefore the change in asset valuations is treated as a non-adjusting post balance sheet event.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

| 2021-22 | | 2022-23 |
|-----------------|---------------------------------------|-----------------|
| £'000 | | £'000 |
| (7,659) | Employees' contributions | (8,209) |
| | Employers' contributions: | |
| (19,646) | Normal contributions | (20,827) |
| (8,564) | Deficit recovery contributions | (8,173) |
| (189) | Pension strain contributions | (29) |
| (28,399) | Total employers' contributions | (29,029) |
| (36,058) | Total contributions receivable | (37,238) |

By type of employer

| 2021-22 | | 2022-23 |
|-----------------|-----------------------------|-----------------|
| £'000 | | £'000 |
| (27,028) | Administering Authority | (28,187) |
| (7,765) | Scheduled bodies | (8,190) |
| (746) | Community admission body | (708) |
| (519) | Transferee admission bodies | (152) |
| (36,058) | | (37,238) |

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

| 2021-22 | | 2022-23 |
|----------------|----------------------|----------------|
| £'000 | | £'000 |
| (2,499) | Group transfers | 0 |
| (567) | Individual transfers | (3,877) |
| (3,066) | | (3,877) |

NOTE 9: BENEFITS PAYABLE

By category

| 2021-22 | | 2022-23 |
|---------------|--|---------------|
| £'000 | | £'000 |
| 31,640 | Pensions | 33,465 |
| 4,672 | Commutation and lump sum retirement benefits | 5,631 |
| 662 | Lump sum death benefits | 1,173 |
| 36,974 | | 40,269 |

By type of employer

| 2021-22 | | 2022-23 |
|---------------|-----------------------------|---------------|
| £'000 | | £'000 |
| 34,367 | Administering Authority | 36,755 |
| 2,214 | Scheduled bodies | 2,966 |
| 250 | Community admission body | 274 |
| 143 | Transferee admission bodies | 274 |
| 36,974 | | 40,269 |

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVER

| 2021-22 | | 2022-23 |
|--------------|------------------------------------|--------------|
| £'000 | | £'000 |
| 54 | Refunds to members leaving service | 59 |
| 2,350 | Group transfers | 0 |
| 3,737 | Individual transfers | 3,551 |
| 6,141 | | 3,610 |

NOTE 11: MANAGEMENT EXPENSES

| 2021-22 | | 2022-23 |
|--------------|--------------------------------|--------------|
| £'000 | | £'000 |
| 888 | Administrative costs | 703 |
| 3,828 | Investment management expenses | 3,166 |
| 615 | Oversight and governance costs | 681 |
| 5,331 | | 4,550 |

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

| 2022-23 | Total | Management Fees | Other Fees |
|-----------------------------------|--------------|-----------------|------------|
| | | £'000 | £'000 |
| Pooled Investments - Equities | 1,403 | 1,226 | 177 |
| Pooled Investments - Alternatives | 899 | 866 | 33 |
| Pooled Investments - Other | 791 | 772 | 20 |
| Derivatives | 62 | 62 | 0 |
| Custodian | 10 | 10 | 0 |
| | 3,166 | 2,936 | 230 |

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

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

NOTE 12: INVESTMENT INCOME

| 2021-22 | | 2022-23 |
|----------------|-------------------------------|----------------|
| £'000 | | £'000 |
| (2,975) | Pooled Investments - Equities | (4,898) |
| (1,712) | Pooled Investments - Property | (1,790) |
| (2,343) | Pooled investments - Other | (1,667) |
| (7,030) | | (8,355) |

NOTE 13: EXTERNAL AUDIT COSTS

| 2021-22 | | 2022-23 |
|-------------|--------------------------------------|-------------|
| £'000 | | £'000 |
| (16) | Payable in respect of external audit | (17) |
| (16) | | (17) |

NOTE 14: INVESTMENTS

| Market value | | Market value |
|------------------|--|----------------|
| 31 March 2022 | | 31 March 2023 |
| £'000 | | £'000 |
| | Investment assets (Pooled) | |
| 541,760 | Pooled equities investments | 484,745 |
| 135,362 | Pooled bonds investments | 134,377 |
| 197,553 | Pooled alternative investments | 165,151 |
| 45,180 | Pooled infrastructure | 72,462 |
| 71,330 | Pooled property investments | 59,898 |
| 991,185 | | 916,633 |
| | Investment assets (Other) | |
| 150 | Equity in London CIV | 150 |
| 5,371 | Private equity | 4,052 |
| 1,191 | Derivative contracts: forward currency | 14,517 |
| 17,004 | Cash with investment managers | 11,433 |
| 1,014,901 | | 946,785 |
| 7,288 | Cash deposits | 7,672 |
| 1,022,189 | Total investment assets | 954,457 |
| | Investment liabilities | |
| (5,232) | Derivative contracts: forward currency | (770) |
| (5,232) | Total investment liabilities | (770) |
| 1,016,957 | All investments | 953,687 |

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

| | Market value 31 March 2022 | 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 2023 |
|--------------------------------|----------------------------|---|---|--|----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Investment assets | | | | | |
| Pooled equities investments | 541,760 | 71,246 | (118,219) | (10,042) | 484,745 |
| Pooled bonds investments | 135,362 | 26,547 | (98) | (27,434) | 134,377 |
| Pooled alternative investments | 197,553 | 0 | (21,954) | (10,448) | 165,151 |
| Pooled property investments | 71,330 | 0 | (565) | (10,867) | 59,898 |
| Pooled infrastructure | 45,180 | 21,553 | (2,771) | 8,500 | 72,462 |
| Equity in London CIV | 150 | 0 | 0 | 0 | 150 |
| Private equity | 5,371 | 0 | (50) | (1,269) | 4,052 |
| Derivative contracts | (4,041) | 30,578 | 0 | (12,790) | 13,747 |
| | 992,665 | 149,924 | (143,657) | (64,351) | 934,582 |
| Cash with investment managers | 17,004 | | | | 11,433 |
| Cash deposits | 7,288 | | | | 7,672 |
| | 24,292 | | | | 19,105 |
| Net investment assets | 1,016,957 | | | | 953,687 |

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

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

| Market value 31 March 2022 | Percentage of Fund | Manager | Investment assets | Market value 31 March 2023 | Percentage of Fund |
|--|-----------------------|---------------|----------------------------------|----------------------------------|-----------------------|
| £'000 | % | | | £'000 | % |
| Investments managed by London CIV | | | | | |
| 127,495 | 13 | LCIV | Developed world equities-active | 110,100 | 12 |
| 103,777 | 10 | LCIV | Alternative credit fund | 98,277 | 10 |
| 73,314 | 7 | LCIV | Sustainable equities | 67,704 | 7 |
| 45,180 | 4 | LCIV | Infrastructure funds | 72,462 | 8 |
| 46,816 | 5 | LCIV | Global bond fund | 43,613 | 5 |
| 269,113 | 26 | BlackRock | Global equities - passive | 233,414 | 24 |
| 42,083 | 4 | BlackRock | Bonds - index-linked active | 44,225 | 5 |
| 0 | 0 | LCIV | Emerging markets equities-active | 73,527 | 8 |
| 665,695 | 65 | | Total LCIV | 743,322 | 78 |
| 71,330 | 7 | LaSalle | Pooled property | 59,898 | 6 |
| 11,027 | 1 | BlackRock | Cash with investment managers | 11,406 | 1 |
| 46,463 | 5 | BlackRock | Bonds - fixed interest | 46,539 | 5 |
| 7,288 | 1 | Cash Deposits | Cash with Banks | 7,672 | |
| 71,838 | 7 | GMO | | 0 | 0 |
| 93,776 | 9 | Insight | Diversified growth fund | 66,874 | 7 |
| 5,977 | 1 | JP Morgan | Cash with investment managers | 27 | |
| 150 | 0 | LCIV | UK equities-passive | 150 | 0 |
| 5,371 | 1 | Pantheon | Private equity | 4,052 | 1 |
| (4,041) | (0) | Record | Forward currency contracts | 13,747 | 1 |
| 351,262 | 35 | | Total - Managers | 210,365 | 22 |
| 1,016,957 | 100 | | Total Investments | 953,687 | 100 |

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

| Market value 31 March 2022 | % of total fund | Investment assets | Market value 31 March 2023 | % of total fund |
|-------------------------------|--------------------------|--|-------------------------------|-----------------------|
| £'000 | | | £'000 | |
| 269,113 | 26 | Blackrock Equity Beta Portfolio | 233,414 | 24 |
| 46,463 | 5 | BlackRock Institutional Bond Fund - Corp Bond 10 yrs | 46,539 | 5 |
| | | Blackrock Aquila life ovr 5yr UK idx lkd | 44,225 | 5 |
| 71,838 | 7 | GMO Emerging Domestic Opportunities Equity Fund | | |
| 93,776 | 9 | Insight Broad Opportunities Fund | 66,874 | 7 |
| 71,330 | 7 | LaSalle Investors UK Real Estate Fund of Funds | 59,898 | 6 |
| 127,495 | 13 | LCIV Global Equity Focus Fund | 110,100 | 12 |
| 103,777 | 10 | LCIV Alternative Credit Fund | 98,277 | 10 |
| 73,314 | 7 | LCIV Sustainable Equity Fund | 67,704 | 7 |
| 46,816 | 5 | LCIV Global bond fund | 43,613 | 5 |
| | | LCIV Infrastructure Funds | 72,462 | 8 |
| | | LCIV Emerging Markets | 73,527 | 8 |
| 903,922 | 89 | Total over 5% holdings | 916,633 | 97 |

NOTE 14D: STOCK LENDING

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

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

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

Value of Stock on Loan as at 31 March 2023 £36.8m (11.35%) compared to £25.9m (7.25%) as at 31 March 2022.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

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

Analysis of Open forward currency contracts:-

| Settlement | Currency bought | Local value | Currency sold | Local value | Asset value | liability value |
|---|-----------------|-------------|---------------|-------------|---------------|-----------------|
| | | 000 | | 000 | £'000 | £'000 |
| Up to one month | CHF | 4,387 | GBP | (3,882) | 5 | |
| One to six months | GBP | 3,773 | AUD | (6,838) | 64 | |
| One to six months | GBP | 11,103 | CAD | (18,380) | 117 | |
| One to six months | GBP | 4,663 | CHF | (5,151) | 101 | |
| One to six months | GBP | 270 | EUR | (304) | 3 | |
| Over six months | GBP | 27,237 | EUR | (30,434) | 393 | |
| One to six months | GBP | 28,169 | HKD | (268,132) | 500 | |
| Over six months | GBP | 11,564 | JPY | (1,811,700) | 416 | |
| One to six months | GBP | 3,438 | NOK | (42,157) | 177 | |
| One to six months | GBP | 30 | NZD | (58) | 1 | |
| One to six months | GBP | 850 | SEK | (10,688) | 16 | |
| One to six months | GBP | 1,247 | SGD | (2,035) | 8 | |
| Over six months | GBP | 225,332 | USD | (263,215) | 12,717 | |
| Up to one month | NZD | 11 | GBP | (6) | 0 | |
| Up to one month | SEK | 9,647 | GBP | (752) | 1 | |
| Up to one month | AUD | 3,419 | GBP | (1,855) | | (3) |
| Up to one month | CAD | 9,190 | GBP | (5,497) | | (3) |
| One to six months | CHF | 764 | GBP | (691) | | (14) |
| Up to one month | EUR | 9,942 | GBP | (8,753) | | (13) |
| One to six months | EUR | 912 | GBP | (810) | | (8) |
| One to six months | GBP | 3,913 | CHF | (4,387) | | (5) |
| One to six months | GBP | 6 | NZD | (11) | | (0) |
| One to six months | GBP | 754 | SEK | (9,647) | | (1) |
| Up to one month | HKD | 134,066 | GBP | (13,838) | | (19) |
| Up to one month | JPY | 591,200 | GBP | (3,607) | | (12) |
| One to six months | JPY | 38,100 | GBP | (243) | | (10) |
| Up to one month | NOK | 17,212 | GBP | (1,338) | | (8) |
| One to six months | NOK | 7,733 | GBP | (635) | | (37) |
| One to six months | NZD | 47 | GBP | (25) | | (1) |
| One to six months | SEK | 1,041 | GBP | (82) | | (1) |
| Up to one month | SGD | 954 | GBP | (582) | | (1) |
| One to six months | SGD | 127 | GBP | (79) | | (2) |
| Up to one month | USD | 85,011 | GBP | (68,861) | | (96) |
| One to six months | USD | 8,182 | GBP | (7,154) | | (538) |
| Open forward currency contracts at 31 March 2023 | | | | | 14,517 | (770) |
| Net forward currency contracts at 31 March 2023 | | | | | | 13,747 |
| Prior year comparative | | | | | | |
| Open forward currency contracts at 31 March 2022 | | | | | 1,191 | (5,232) |
| Net forward currency contracts at 31 March 2022 | | | | | | (4,041) |

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

TABLE NEEDS TO BE REVIEWED – DATA in ‘All Notes’ Working Paper

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

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2023 using data provided by PIRC.

| | Assessed valuation range (+/-) | Valuation at 31 March 2023 | Value on increase | Value on decrease |
|-------------------------------------|--------------------------------|----------------------------|-------------------|-------------------|
| | | £000 | £000 | £000 |
| Private Equity | 5.75% | 4,052 | 4,285 | 3,820 |
| Pooled investments - Infrastructure | 5.31% | 72,462 | 76,309 | 68,614 |
| Pooled investments - property funds | 7.04% | 59,898 | 64,114 | 55,682 |
| | | 136,412 | 144,708 | 128,116 |

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

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 2023 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Financial assets at fair value through profit and loss | | | | |
| Pooled equities investments | 484,745 | | | 484,745 |
| Pooled bonds investments | 90,764 | 43,613 | | 134,377 |
| Pooled alternative investments | 66,874 | 98,277 | | 165,151 |
| Pooled property investments | | | 59,898 | 59,898 |
| Pooled infrastructure | | | 72,462 | 72,462 |
| Private equity | | | 4,052 | 4,052 |
| Derivative contracts: forward currency | | 13,747 | | 13,747 |
| Cash Deposits / Other | 19,105 | 150 | | 19,255 |
| Total | 661,488 | 155,787 | 136,412 | 953,687 |

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

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

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

| Period 2022/23 | Market Value 31 March 2022 | Transfers into level 3 | Transfers out of level 3 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Gains/ (losses) | Market Value 31 March 2023 |
|-------------------------|----------------------------|------------------------|--------------------------|---|---|-----------------|----------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Private Equity | 5,371 | 0 | 0 | 0 | (50) | (1,269) | 4,052 |
| Pooled - Infrastructure | 45,180 | 0 | 0 | 21,553 | (2,771) | 8,500 | 72,462 |
| Pooled - property | 71,330 | 0 | 0 | 0 | (565) | (10,867) | 59,898 |
| | 121,881 | 0 | 0 | 21,553 | (3,386) | (3,636) | 136,412 |

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

NOTE 17: FINANCIAL INSTRUMENTS

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

| 31 March 2022 | | | 31 March 2023 | | |
|------------------------------------|--------------------------|-------------------------------|------------------------------------|--------------------------|-------------------------------|
| Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost | Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | | |
| 541,760 | 0 | 0 | Pooled equities investments | 484,745 | 0 |
| 135,362 | 0 | 0 | Pooled bonds investments | 134,377 | 0 |
| 197,553 | 0 | 0 | Pooled alternative investments | 165,151 | 0 |
| 45,180 | 0 | 0 | Pooled Infrastructure | 72,462 | 0 |
| 71,330 | 0 | 0 | Pooled property investments | 59,898 | 0 |
| 150 | 0 | 0 | Equity in London CIV | 150 | 0 |
| 5,371 | 0 | 0 | Private equity | 4,052 | 0 |
| 1,191 | 0 | 0 | Derivative contracts | 14,517 | 0 |
| 0 | 25,676 | 0 | Cash | 0 | 19,163 |
| 0 | 910 | 0 | Debtors | 0 | 1,563 |
| 997,897 | 26,586 | 0 | | 935,352 | 20,726 |
| Financial liabilities | | | | | |
| (5,232) | 0 | 0 | Derivative contracts | (770) | 0 |
| 0 | 0 | (1,240) | Creditors | 0 | 0 |
| (5,232) | 0 | (1,240) | | (770) | 0 |
| 992,665 | 26,586 | (1,240) | | 934,582 | 20,726 |
| 1,018,011 | | Grand Total | | 954,822 | |

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

Risk and risk management

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

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

Market risk

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

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

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

Price risk

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

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

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

| Assets type | Potential market movements (+/-) % |
|-----------------|---------------------------------------|
| Equities | 12.32 |
| Bonds | 9.34 |
| Alternatives | 5.31 |
| Pooled Property | 7.04 |
| Private Equity | 5.75 |

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 2023 | Percentage change | Value on increase | Value on decrease |
|-------------------------------------|---------------------------|-------------------|-------------------|-------------------|
| | £'000 | % | £'000 | £'000 |
| Investment portfolio assets: | | | | |
| Pooled equities investments | 498,492 | 12.32 | 559,899 | 437,085 |
| Pooled bond investments | 134,377 | 9.34 | 146,933 | 121,821 |
| Pooled alternative investments | 165,151 | 5.31 | 173,920 | 156,382 |
| Pooled property investments | 59,898 | 7.04 | 64,114 | 55,682 |
| Private Equity | 4,052 | 5.75 | 4,285 | 3,819 |
| Pooled Infrastructure | 72,462 | 5.31 | 76,309 | 68,615 |
| Equity - London CIV | 150 | 0.00 | 150 | 150 |
| Total | 934,582 | | 1,025,610 | 843,554 |

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

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 2023 and 31 March 2022 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 2023 | Potential movement on 1% change in interest rates | Value on increase | Value on decrease |
|---|-------------------------------------|---|-------------------|-------------------|
| | £'000 | | £'000 | £'000 |
| Cash and cash equivalents | 19,105 | 0 | 19,105 | 19,105 |
| Fixed interest securities | 46,539 | 465 | 47,004 | 46,074 |
| Global bond fund | 43,613 | 436 | 44,049 | 43,177 |
| Total change in assets available | 109,257 | 901 | 110,158 | 108,356 |

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

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

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

Currency risk

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

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.54%

A 7.54% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

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

| Currency Exposure - asset type | Asset Value as at 31 March 2023 | Change to net assets | |
|--------------------------------|---------------------------------|----------------------|-------------------|
| | | Value on increase | Value on decrease |
| | | +7.54% | -7.54% |
| | £'000 | £'000 | £'000 |
| Overseas Pooled Equities | 455,904 | 490,279 | 421,529 |

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

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 2023 was £19.1m (31 March 2022: £24.3m). This was held with the following institutions.

| Summary | Rating | Balances at 31 March 2022 | Balances at 31 March 2023 |
|----------------------|---------------|------------------------------|------------------------------|
| | | £'000 | £'000 |
| Bank accounts | | | |
| NatWest PLC | A+ (Fitch) | 7,288 | 7,672 |
| JP Morgan | Aa1 (Moody's) | 5,977 | 27 |
| BlackRock | AAAmf (Fitch) | 11,027 | 11,406 |
| | | 24,292 | 19,105 |

Liquidity risk

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

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

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2023 the value of illiquid assets was £136.4m. This represented 14.30% of the total Fund assets (31 March 2022: £121.9m).

Refinancing risk

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

NOTE 19: FUNDING ARRANGEMENTS

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

The key elements of the funding policy are:

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

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

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

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

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

Financial assumptions

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

Demographic assumptions

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

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

| | Male | Female |
|---|------|--------|
| Current pensioners | 22.2 | 24.8 |
| Future pensioners (assumed to be aged 45) | 23.1 | 26.4 |

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 2022 | | 31 March 2023 |
|------------------|---|------------------|
| £m | | £m |
| (1,502) | Present value of promised retirement benefits | (1,120) |
| 914 | Fair value of scheme assets | 952 |
| (588) | Net Liability | (168) |

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

IAS19 Assumptions used

| | 2021-22 | 2022-23 |
|---|---------|---------|
| | % pa | % pa |
| Inflation/pensions increase rate assumption | 3.2 | 3.0 |
| Salary increase rate | 4.2 | 4.0 |
| Discount rate | 2.7 | 4.8 |

NOTE 21: CURRENT ASSETS

| 31 March 2022 | | 31 March 2023 |
|----------------------------|-------------------------------|------------------|
| £'000 | | £'000 |
| Short Term Debtors: | | |
| 768 | Contributions due - employers | 951 |
| 2 | Sundry debtors | 436 |
| 1,384 | Cash owed to Fund | 58 |
| 2,154 | | 1,445 |

NOTE 21A: LONG TERM DEBTORS

| 31 March 2022 | | 31 March 2023 |
|---------------|-------------------------|---------------|
| £'000 | | £'000 |
| 140 | Lifetime Tax Allowances | 176 |
| 140 | | 176 |

NOTE 22: CURRENT LIABILITIES

| 31 March 2022 | | 31 March 2023 |
|----------------|------------------|---------------|
| £'000 | | £'000 |
| (191) | Sundry creditors | (220) |
| (752) | Transfer values | 0 |
| (297) | Benefits payable | (266) |
| (1,240) | | (486) |

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

| Market value 31 March 2022 | | Market value 31 March 2023 |
|-------------------------------|------------------------------------|-------------------------------|
| £'000 | | £'000 |
| 2,681 | Prudential Assurance | 2,515 |
| 577 | Clerical Medical | 577 |
| 237 | Utmost (Previously Equitable Life) | 237 |
| 3,495 | | 3,329 |

Clerical Medical / Utmost – Not yet updated for 2022/23 as waiting for Valuation reports

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

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

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

| 31 March 2022 | | 31 March 2023 |
|------------------|--|------------------|
| £'000 | | £'000 |
| (21,187) | Employer's Pension Contributions to the Fund | (21,889) |
| 1,078 | Administration expenses paid to the Council | 900 |
| 1,384 | Cash held by the Council | 58 |

Governance

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

NOTE 25A: KEY MANAGEMENT PERSONNEL

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

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

| 31 March 2022 | | 31 March 2023 |
|------------------|---------------------|------------------|
| £'000 | | £'000 |
| 112 | Short-term benefits | 111 |

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2023 totalled £58.7m (31 March 2022: £77.8m).

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

NOTE 27: CONTINGENT ASSETS

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

London Borough of Harrow Pension Fund (“the Fund”) Actuarial Statement for 2022/23

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

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2023. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund’s assets, which at 31 March 2022 were valued at £1,018 million, were sufficient to meet 96% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2022 valuation was £39 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers’ contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2022 valuation were as follows:

| Financial assumptions | 31 March 2022 |
|-----------------------------------|---------------|
| Discount rate | 4.4% |
| Salary increase assumption | 3.7% |
| Benefit increase assumption (CPI) | 2.7% |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 22.2 years | 24.8 years |
| Future Pensioners* | 23.1 years | 26.4 years |

*Aged 45 at the 2022 valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

Experience over the period since 31 March 2022

Markets have been disrupted by the ongoing war in Ukraine, a change in fiscal policy in the UK as well as global inflationary pressures. The combined impact has subdued the investment returns achieved by the Fund's assets. In addition, high levels of inflation have resulted in a higher-than-expected LGPS benefit increase of 10.1% in April 2023. However, interest rates have also increased over the period, which has increased the investment returns the Fund anticipates it will earn in the future which reduces the liabilities. The overall impact has been a material increase in funding level since the previous formal valuation as at 31 March 2022.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.



Steven Law FFA

9 May 2023

For and on behalf of Hymans Robertson LLP