

## Pension Fund

### Pension Fund Account for the year ended 31 March 2021

| 2019/20<br>£000 |   | Notes | 2020/21<br>£000 |
|-----------------|---|-------|-----------------|
|                 | <b>Dealings with members, employers and others directly involved in the fund</b>            |       |                 |
| 45,812          | Contributions receivables   | 7     | 47,418          |
| 5,951           | Transfers in from other pension funds   | 8     | 4,896           |
| 51,763          |   |       | 52,314          |
| (38,769)        | Benefits  | 9     | (38,804)        |
| (3,272)         | Payments to and on account of leavers   | 10    | (44,630)        |
| (42,041)        |   |       | (83,434)        |
| 9,722           | Net additions (withdrawals) from dealings with members                                      |       | (31,120)        |
| (3,975)         | Management expenses   | 11    | (4,428)         |
| <b>5,747</b>    | <b>Net additions/(withdrawals) including fund management expenses</b>                       |       | <b>(35,548)</b> |
|                 | <b>Returns on investments</b>   |       |                 |
| 10,077          | Investment income   | 12    | 15,539          |
| (1)             | Taxes on Income   | 13    | -               |
| (20,518)        | Profit and losses on disposal of investments and changes in the market value of investments | 14a   | 165,548         |
| <b>(10,442)</b> | <b>Net returns on investments</b>   |       | <b>181,087</b>  |
| <b>(4,695)</b>  | <b>Net increase (decrease) in the net assets available for benefits during the year</b>     |       | <b>145,539</b>  |
| 733,391         | Opening net assets of the Fund at start of year   |       | 728,696         |
| <b>728,696</b>  | <b>Closing net assets of the Fund at end of year</b>  |       | <b>874,235</b>  |

#### Net Asset Statement for the year ended 31 March 2021

| £000           |   |    | £000           |
|----------------|---|----|----------------|
| 150            | Long Term Investments   | 14 | 150            |
| 707,782        | Investment Assets   | 14 | 858,410        |
| (2,174)        | Investment Liabilities  | 14 | (263)          |
| <b>705,758</b> | <b>Total net investments</b>  |    | <b>858,297</b> |
| 23,552         | Current Assets  | 21 | 16,403         |
| (614)          | Current Liabilities   | 22 | (465)          |
| <b>728,696</b> | <b>Net assets of the Fund available to fund benefits at end of the reporting period</b> |    | <b>874,235</b> |

The financial statements summarise the transactions and the net assets of the London Borough of Havering Pension Fund ("the Fund"). They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 19 of these accounts.

## Notes to the Pension Fund

### 1 Description of the Fund

The Havering Pension Fund ("**the Fund**") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer.

The following description of the scheme is a summary only. For more details on the operation of the Fund, reference should be made to the Fund's Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

#### 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 LGPS Regulations 2013 (as amended),

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended),

The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, are not included as they come within another national pension scheme.

The Fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee: 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:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools. These have been accounted for within London Borough of Havering

During 2020/21 five new employers joined the Fund and one cessation.

There are 56 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

| 31-Mar-20     |  | 31-Mar-21     |
|---------------|--|---------------|
| <b>51</b>     | <b>Number of employers with active members</b>   | <b>56</b>     |
|               | <b>Number of employees in scheme</b>             |               |
| 4,769         | London Borough of Havering                       | 4,650         |
| 1,650         | Scheduled bodies                                 | 1,697         |
| 73            | Admitted bodies                                  | 79            |
| <b>6,492</b>  | <b>Total</b>                                     | <b>6,426</b>  |
|               | <b>Number of pensioners and dependants</b>       |               |
| 5,950         | London Borough of Havering                       | 6,014         |
| 346           | Scheduled bodies                                 | 369           |
| 114           | Admitted bodies                                  | 29            |
| <b>6,410</b>  | <b>Total</b>                                     | <b>6,412</b>  |
|               | <b>Deferred pensioners</b>                       |               |
| 5,274         | London Borough of Havering                       | 5,179         |
| 807           | Scheduled bodies                                 | 791           |
| 93            | Admitted bodies                                  | 50            |
| <b>6,174</b>  | <b>Total</b>                                     | <b>6,020</b>  |
| <b>19,076</b> | <b>Total number of members in pension scheme</b> | <b>18,858</b> |

#### c) Funding

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 for the year ended 31 March 2021. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Current employer contribution rates range from 14.2% to 40.8% of pensionable pay.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. Havering Council pay a monetary value, other employers as a percentage 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 in the following table:

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website [www.yourpension.org.uk](http://www.yourpension.org.uk).

## 2 Basis of Preparation

The Statement of Accounts summarise the Fund's transactions for the 2020/21 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 "(the Code)" which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet into the Balance Sheet of Lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 20.

The Administering Authority is satisfied that Havering Pension Fund is a going concern. The return for 2020/2021 of 24.90% is greater than the actuary's long term target return for the Fund of +3.89% pa. The Fund still has the remaining year of the actuarial period to achieve the target return, and beyond this has agreed a 20 year recovery period should this be necessary to make good an increase in the funding deficit at the next actuarial valuation. The Fund's cashflow remains robust. The Fund held cash of £19m at the Balance Sheet date, equivalent to 2% of the Fund Assets. In addition, the Fund held £724m in Level 1 and Level 2 investment assets which could be realised within 3 months if required. However, based upon review of its operational cash flow projections the Fund is satisfied it has sufficient cash to meet its obligations to pay pensions, for at least 12 months from the date of authorisation of these accounts, without the need to sell any of these investments. As such the accounts have been prepared on a going concern basis.

## 3 Summary of Significant Accounting Policies

### Fund Account – revenue recognition

#### (a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all that arise according to pensionable pay

Employer contributions are set at the percentage rate recommended by the fund actuary for the period 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 scheme actuary or on receipt if earlier than the due date.

Additional employers' contributions in respect of ill-health and early retirements (augmentation) are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

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

Transfers in and out relate to members who have either joined or left the fund.

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

**(c) Investment Income**

***i) Interest Income***

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

***ii) Dividend Income***

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

***iii) Distribution from Pooled Funds***

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 Assets Statement as a current financial asset.

***iv) Property - Related Income***

Property related income consists primarily of rental income and is recognised at the date of issue.

***v) Movement in the Net Market Value of Investments***

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund Account – Expense Items**

**(d) 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, providing the payment has been approved.

**(e) Taxation**

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

**(f) Management Expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*". All items of expenditure are charged to the fund on an accruals basis as follows:

*Administrative Expenses*

All staff costs of the pensions' administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

*Oversight and Governance Costs*

All costs associated with governance and oversight are separately identified and recharged to the Fund and charged as expenses to the Fund.

*Investment Management Fees*

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

Fees charged by external investment managers and custodian are set out 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 value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Officers' time spent on investment management functions are also charged to the fund.

**(g) Lifetime Allowances**

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

**Net Assets Statement**

**(h) 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 assets are recognised by the Fund. Any amounts due or payable in respect of trades entered but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a.

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 IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016)*.

**(i) Foreign Currency Transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**(j) 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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

**(k) Cash and Cash Equivalents**

Cash comprises cash in hand (Fund's Bank account) and includes amounts held by the Fund's external managers.

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.

**(l) Financial Liabilities**

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

**(m) Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme 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 benefits by way of a note to the Net Asset Statement (Note 20).

**(n) Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

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

**(o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

#### 4 Critical Judgements in Applying Accounting Policies

##### Pension Fund Liability

The Pension Liability is calculated every three years by the appointed actuary, with annual updates provided to the admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

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

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

#### 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows

| Item  | Uncertainties   | Effect if Actual Results differ from Assumptions  | Approximate monetary amount (£m) |
|---|---|---|----------------------------------|
| 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, and expected returns on Fund's 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 present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:<br>0.5% decrease in the real discount rate could result in an increase of 9%.<br>0.5% increase in salary increase rate could result in an increase of 1%<br>0.5% increase in the pension increase rate could result in an increase of 10% | 138<br>12<br>153                 |



## 6 Events after the Reporting Date

The Present Value of Promised Retirement Benefits (note 20) includes an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabilities this year. There will be changes made to scheme regulations that will remove age discrimination from the LGPS and it is anticipated that these regulations will come into force from 1 April 2023.

### **COVID-19**

The Fund has valued its assets based on the 31 March 2020 position as reported by its investment managers. However, there is uncertainty over asset valuations, in particular for real and private market assets. The Fund believes that these valuations are the most reliable, as there are not alternative reliable estimates given the absence of trading in these asset classes.

On 11 March 2020 the World Health Organisation (WHO) declared a COVID 19 pandemic. This caused a world-wide public health emergency and initially significantly impacted global markets which contributed to both a volatile and a severe decline in those sectors that were impacted. The rebound in equity markets from the COVID-19 lows have been a lot faster and stronger than many predicted and has resulted in traditional equity and bond markets ending March 2021 at exceptionally high levels. Whilst COVID 19 pandemic continued throughout 2020/21 volatility remains due to the uncertainty of further waves due to increases in coronavirus infections. For the purposes of these financial statements the COVID 19 impact is considered a non- adjusting event.

7 Contributions Receivable

By category

| 2019/20<br>£000 |                                       | 2020/21<br>£000 |
|-----------------|---------------------------------------|-----------------|
|                 | <b>Employees' contributions</b>       |                 |
|                 | <b>Normal:</b>                        |                 |
| 5,819           | London Borough of Havering            | 6,268           |
| 1,462           | Scheduled Bodies                      | 1,442           |
| 74              | Admitted Bodies                       | 73              |
|                 | <b>Additional contributions:</b>      |                 |
| 7               | London Borough of Havering            | 6               |
| <b>7,362</b>    | <b>Total Employees' Contribution</b>  | <b>7,789</b>    |
|                 | <b>Employers' contributions</b>       |                 |
|                 | <b>Normal:</b>                        |                 |
| 13,808          | London Borough of Havering            | 14,716          |
| 5,853           | Scheduled bodies                      | 5,545           |
| 311             | Admitted bodies                       | 311             |
|                 | <b>Deficit funding:</b>               |                 |
| 18,449          | London Borough of Havering*           | 18,677          |
|                 | <b>Augmentation</b>                   |                 |
| 4               | London Borough of Havering            | 341             |
| 25              | Scheduled bodies                      | 37              |
| 0               | Admitted bodies                       | 2               |
| <b>38,450</b>   | <b>Total Employers' Contributions</b> | <b>39,629</b>   |
| <b>45,812</b>   | <b>Total Contributions Receivable</b> | <b>47,418</b>   |

\*The 2020/21 figure reflects additional contributions made by the Authority to the Pension Fund: consists of £12.650m secondary contributions and £6.027m voluntary planned contributions.

By authority

| 2019/20<br>£000 |                                       | 2020/21<br>£000 |
|-----------------|---------------------------------------|-----------------|
| 38,087          | London Borough of Havering            | 40,008          |
| 7,340           | Scheduled bodies                      | 7,024           |
| 385             | Admitted Bodies                       | 386             |
| <b>45,812</b>   | <b>Total Contributions Receivable</b> | <b>47,418</b>   |

**8 Transfers in from Other Pension Funds**

| 2019/20<br>£000 |  | 2020/21<br>£000 |
|-----------------|--|-----------------|
| 5,951           | Individual transfers                               | 4,896           |
| <b>5,951</b>    | <b>Total Transfers In from Other Pension Funds</b> | <b>4,896</b>    |

**9 Benefits Payable**

**By category**

| 2019/20<br>£000 |   | 2020/21<br>£000 |
|-----------------|---|-----------------|
|                 | <b>Pensions</b>                                   |                 |
| 30,137          | London Borough of Havering                        | 30,798          |
| 1,399           | Scheduled Bodies                                  | 1,692           |
| 851             | Admitted Bodies                                   | 881             |
| <b>32,387</b>   | <b>Pension Total</b>                              | <b>33,371</b>   |
|                 | <b>Commutation and Lump Sum Retirements</b>       |                 |
| 4,431           | London Borough of Havering                        | 3,577           |
| 402             | Scheduled Bodies                                  | 344             |
| 179             | Admitted Bodies                                   | 394             |
| <b>5,012</b>    | <b>Commutation and Lump Sum Retirements Total</b> | <b>4,315</b>    |
|                 | <b>Lump Sum Death Benefits</b>                    |                 |
| 1,305           | London Borough of Havering                        | 976             |
| 65              | Scheduled Bodies                                  | 110             |
| -               | Admitted Bodies                                   | 32              |
| <b>1,370</b>    | <b>Lump Sum Death Benefits Total</b>              | <b>1,118</b>    |
| <b>38,769</b>   | <b>Total Benefits Payable</b>                     | <b>38,804</b>   |

**By authority**

| 2019/20<br>£000 |                               | 2020/21<br>£000 |
|-----------------|-------------------------------|-----------------|
| 35,873          | Havering                      | 35,351          |
| 1,866           | Scheduled bodies              | 2,146           |
| 1,030           | Admitted Bodies               | 1,307           |
| <b>38,769</b>   | <b>Total Benefits Payable</b> | <b>38,804</b>   |

**10 Payments To and On Account of Leavers**

| 2019/20<br>£000 |  | 2020/21<br>£000 |
|-----------------|--|-----------------|
| 110             | Refunds to members leaving service           | 70              |
| -               | - Group Transfer*                            | 40,438          |
| 3,162           | Individual transfers                         | 4,122           |
| <b>3,272</b>    | <b>Payments to and on Account of Leavers</b> | <b>44,630</b>   |

\*College Transfer settlement - includes £15m cash withdrawal from Havering Pension Fund internally held cash & £25.4m investment withdrawal

## 11 Management Expenses

| 2019/20<br>£000 |   | 2020/21<br>£000 |
|-----------------|---|-----------------|
| 315             | Administrative Costs                                  | 601             |
| 3,192           | Investment Management Expenses                        | 3,412           |
| 452             | Oversight and Governance Costs                        | 398             |
| 14              | Oversight and Governance Costs - External Audit costs | 16              |
| 2               | Local Pension Board                                   | 1               |
| <b>3,975</b>    | <b>Management Expenses</b>                            | <b>4,428</b>    |

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £0.102m (2019/20 £0.108m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.067m in respect of transaction costs (2019/20 £0.023m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

### 11a. Investment Management Expenses

| 2020-21                                 | Management fees | Performance Related fees | Transaction cost | 2020/21 Total |
|---|-----------------|--------------------------|------------------|---------------|
|   | £000            | £000                     | £000             | £000          |
| Bonds                                   | 162             | -                        | -                | 162           |
| Fixed Interest Unit Trust               | 106             | -                        | -                | 106           |
| Diversified Growth Funds                | 622             | -                        | 15               | 637           |
| Infrastructure                          | 313             | -                        | -                | 313           |
| Global Equity                           | 1,445           | -                        | 52               | 1,497         |
| <b>Other Investments</b>                |                 |                          |                  |               |
| Pooled Property                         | 304             | 102                      | -                | 406           |
| Private Equity and joint venture        | 190             | -                        | -                | 190           |
| Derivatives -Forward Currency Contracts | 17              | -                        | -                | 17            |
|   | <b>3,159</b>    | <b>102</b>               | <b>67</b>        | <b>*3328</b>  |
| Custody fees                            |                 |                          |                  | 37            |
| Performance Measurement fees            |                 |                          |                  | 33            |
| Other Investment fees                   |                 |                          |                  | 14            |
| <b>Investment Management Expenses</b>   |                 |                          |                  | <b>3,412</b>  |

\*Includes £2.086m charged for assets in the London CIV asset pool (£1.732m In 2019/20)

11a Investment Management Expenses continued

| 2019-20 Restated                         | Management fees | Performance Related fees | Transaction cost | Total        |
|--|-----------------|--------------------------|------------------|--------------|
|  | £000            | £000                     | £000             | £000         |
| Bonds                                    | 133             | -                        | -                | 133          |
| Fixed Interest Unit Trust                | 101             | -                        | -                | 101          |
| Diversified Growth fund                  | 393             | -                        | 15               | 408          |
| Infrastructure                           | 364             | -                        | -                | 364          |
| Global Equity                            | 1,409           | -                        | 58               | 1,467        |
| <b>Other Investments:</b>                |                 |                          |                  |              |
| Pooled Property                          | 405             | 105                      | 23               | 533          |
| Private Equity and joint venture         | 127             | 3                        | -                | 130          |
| Derivatives - Forward Currency Contracts | 3               | -                        | -                | 3            |
|  | <b>2,935</b>    | <b>108</b>               | <b>96</b>        | <b>3,139</b> |
| Custody fees                             |                 |                          |                  | 27           |
| Performance measurement fees             |                 |                          |                  | 17           |
| Other Investment fees                    |                 |                          |                  | 9            |
| <b>Investment Management Expenses</b>    |                 |                          |                  | <b>3,192</b> |

12 Investment Income

| 2019/20<br>£000 |   | 2020/21<br>£000 |
|-----------------|---|-----------------|
| 8,149           | Pooled Investments - unit trusts and other managed funds  | 8,101           |
| 2,582           | Income from Bonds*  | 1,881           |
| 1,920           | Pooled Property Investments                               | 1,887           |
| (2,642)         | Income form Derivatives (Foreign Exchange Gains/(losses)) | 3,841           |
| 202             | Interest on Cash Deposits                                 | 126             |
| (134)           | Other Income**  | (297)           |
| <b>10,077</b>   | <b>Investment Income</b>                                  | <b>15,539</b>   |

\* Income includes Index linked Interest of £0.137m (2019/20 £0.103m).

\*\* Management expenses to offset against gross income from dividends

13 Taxes on Income

| 2019/20<br>£000 |                        | 2020/21<br>£000 |
|-----------------|------------------------|-----------------|
| (1)             | Withholding Tax        | -               |
| <b>(1)</b>      | <b>Taxes on Income</b> | <b>-</b>        |

14 Analysis of Investments

| 2019/20<br>Restated |  | 2020/21        |
|---------------------|--|----------------|
| £000                |  | £000           |
|                     | <b>Investment Assets</b>                 |                |
| 150                 | <b>Long Term Investments</b>             | 150            |
| <b>150</b>          |  | <b>150</b>     |
|                     | <b>Bonds</b>                             |                |
| 49,206              | Fixed Interest Securities                | 39,001         |
| 40,033              | Index-Linked Securities                  | 36,897         |
| <b>89,239</b>       |  | <b>75,898</b>  |
|                     | <b>Pooled Investment</b>                 |                |
| 32,881              | Fixed Interest Unit Trust                | 61,822         |
| 80,000              | Diversified Growth Fund                  | 87,978         |
| 43,988              | Infrastructure                           | 44,536         |
| 362,966             | Global Equity                            | 477,416        |
| <b>519,835</b>      |  | <b>671,752</b> |
|                     | <b>Other Investments</b>                 |                |
| 70,130              | Pooled Property                          | 68,986         |
| 19,630              | Private Equity and Joint Venture         | 36,825         |
| 1,445               | Derivatives - Forward Currency Contracts | 1,148          |
| <b>91,205</b>       |  | <b>106,959</b> |
| 6,778               | Cash deposits Managers                   | 3,321          |
| 725                 | Investment income due                    | 480            |
| <b>7,503</b>        |  | <b>3,801</b>   |
| <b>707,932</b>      | <b>Total Investment Assets</b>           | <b>858,560</b> |
|                     | <b>Investment Liabilities</b>            |                |
|                     | <b>Derivative Contracts</b>              |                |
| (2,173)             | Forward Currency Contracts               | (262)          |
| (1)                 | Income receivable                        | (1)            |
| <b>(2,174)</b>      | <b>Total Investment Liabilities</b>      | <b>(263)</b>   |

14a. Reconciliation of movements in investments and derivatives

|  | Market Value at 31 March 2020<br>Restated | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2021 |
|--|---|---|---|--|------------------------|-------------------------------|
|  | £000                                      | £000  | £000  | £000                                   | £000                   | £000                          |
| Fixed Interest Securities                | 49,206                                    | 19,163  | (32,774)                                      | 3,406                                  | -                      | 39,001                        |
| Index-linked Securities                  | 40,033                                    | 95,380  | (99,896)                                      | 1,380                                  | -                      | 36,897                        |
| Pooled Investment Vehicles               | 519,985                                   | 33,363  | (43,672)                                      | 162,226                                | -                      | 671,902                       |
| Other Investments                        | 89,760                                    | 23,815  | (4,685)                                       | (3,079)                                | -                      | 105,811                       |
| Derivatives – forward currency contracts | (728)                                     | 94,996  | (94,996)                                      | 1,614                                  | -                      | 886                           |
| Cash Deposits (fund managers)            | 6,778                                     | -   | -   | 1                                      | (3,458)                | 3,321                         |
|  | <b>705,034</b>                            | <b>266,717</b>                                    | <b>(276,023)</b>                              | <b>165,548</b>                         | <b>(3,458)</b>         | <b>857,818</b>                |
| Other Investment Balances                | 724                                       | -   | -   | -                                      | (245)                  | 479                           |
|  | <b>705,758</b>                            | <b>266,717</b>                                    | <b>(276,023)</b>                              | <b>165,548</b>                         | <b>(3,703)</b>         | <b>858,297</b>                |

|  | Market Value at 31 March 2019 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2020 |
|--|-------------------------------|---|---|--|------------------------|-------------------------------|
|  | £000                          | £000  | £000  | £000                                   | £000                   | £000                          |
| Equities                                 | 96                            | -   | (107)   | 11                                     | -                      | -                             |
| Fixed Interest Securities                | 89,985                        | 28,259  | (71,671)                                      | 2,633                                  | -                      | 49,206                        |
| Index-linked Securities                  | 33,086                        | 41,935  | (35,974)                                      | 986                                    | -                      | 40,033                        |
| Pooled Investment Vehicles               | 584,442                       | 94,427  | (45,707)                                      | (23,417)                               | -                      | 609,745                       |
| Derivatives – forward currency contracts | -                             | 146,466   | (146,466)                                     | (728)                                  | -                      | (728)                         |
| Cash Deposits (fund managers)            | 10,505                        | -   | -   | (3)                                    | (3,724)                | 6,778                         |
|  | <b>718,114</b>                | <b>311,087</b>                                    | <b>(299,925)</b>                              | <b>(20,518)</b>                        | <b>(3,724)</b>         | <b>705,034</b>                |
| Other Investment Balances                | 1,322                         | -   | -   | -                                      | (598)                  | 724                           |
|  | <b>719,436</b>                | <b>311,087</b>                                    | <b>(299,925)</b>                              | <b>(20,518)</b>                        | <b>(4,322)</b>         | <b>705,758</b>                |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £0.67m (2019 Restated £0.96m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

14b. Investments analysed by Fund Manager

| Value 31 March 2020   |               | Manager                                     | Mandate   | Value 31 March 2021 |               |
|---|---------------|---|---|---------------------|---------------|
| £000  | %             |   |   | £000                | %             |
| <b>Investments managed by London CIV asset Pool:</b>                  |               |   |   |                     |               |
| 150   | 0.02          | London CIV                                  | Equities Unquoted                               | 150                 | 0.01          |
| 97,738  | 13.85         | Ruffer                                      | Pooled Absolute Return Fund                     | 111,270             | 12.96         |
| 136,341   | 19.32         | Baillie Gifford                             | Pooled Global Alpha Growth Fund                 | 191,042             | 22.27         |
| 80,000  | 11.34         | Baillie Gifford                             | Pooled Diversified Growth Fund                  | 87,978              | 10.25         |
| <b>314,229</b>  | <b>44.53</b>  |   |   | <b>390,440</b>      | <b>45.49</b>  |
| <b>PLUS Life Fund Investments aligned with London CIV asset pool:</b> |               |   |   |                     |               |
| 123,850   | 17.55         | Legal & General Investment Management       | Passive UK/Global Equities/<br>Emerging Markets | 175,105             | 20.41         |
| <b>438,079</b>  | <b>62.08</b>  | <b>London CIV Total</b>                     |   | <b>565,545</b>      | <b>65.90</b>  |
| <b>Investments managed outside of the London CIV asset Pool:</b>      |               |   |   |                     |               |
| 70,577  | 10.00         | Royal London Index Linked Bonds Fund        | Investment Grade Bonds                          | 37,958              | 4.42          |
| 53,611  | 7.60          | Royal London Corp' Bond Fund                | Investment Grade Bonds                          | 38,731              | 4.51          |
| -   | -             | Royal London Multi Asset Credit Pooled Fund | Fixed Interest Unit Trust                       | 61,822              | 7.20          |
| 41,067  | 5.82          | UBS Property                                | Pooled Property                                 | 41,034              | 4.78          |
| 5,038   | 0.71          | GMO Global Real Return (UCITS) Fund         | Pooled Multi Asset                              | -                   | -             |
| 28,956  | 4.10          | CBRE  | Global Pooled Property                          | 27,793              | 3.24          |
| 17,447  | 2.47          | Stafford Capital SISF II                    | Overseas Pooled Infrastructure                  | 19,118              | 2.23          |
| -   | -             | Stafford Capital SISF IV                    | Overseas Pooled Infrastructure                  | 1,557               | 0.18          |
| 26,964  | 3.82          | JP Morgan                                   | Overseas Pooled Infrastructure                  | 23,861              | 2.78          |
| 14,026  | 1.99          | Churchill                                   | Overseas Pooled Private Debt                    | 19,138              | 2.23          |
| 5,605   | 0.79          | Permira                                     | Overseas/UK Pooled Private Debt                 | 17,687              | 2.06          |
| (728)   | (0.10)        | Russell Investments                         | Currency Management                             | 2,666               | 0.31          |
| 5,116   | 0.72          | Other                                       | Other   | 1,387               | 0.16          |
| <b>267,679</b>  | <b>37.92</b>  |   |   | <b>292,752</b>      | <b>34.10</b>  |
| <b>705,758</b>  | <b>100.00</b> | <b>Total Fund</b>                           |   | <b>858,297</b>      | <b>100.00</b> |

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

| Market Value 31-Mar-20 | % of total fund | Security                                    | Market Value 31-Mar-21 | % of total fund |
|------------------------|-----------------|---|------------------------|-----------------|
| £000                   |                 |   | £000                   |                 |
| 136,341                | 18.70           | London CIV Global Alpha Fund                | 191,042                | 21.85           |
| 97,738                 | 13.41           | London CIV Ruffer Absolute Return Fund      | 111,270                | 12.73           |
| 80,000                 | 10.97           | London CIV Diversified Growth Fund          | 87,978                 | 10.06           |
| 51,296                 | 7.04            | LGIM All World Equity Index                 | 71,550                 | 8.18            |
| 44,638                 | 6.12            | LGIM FTSE RAFI AW 3000 Index                | 64,316                 | 7.36            |
| -                      | -               | Royal London Multi Asset Credit Pooled Fund | 61,821                 | 7.07            |
| 41,067                 | 5.65            | UBS Property                                | -                      | -               |
| <b>451,080</b>         |                 | <b>Total Fund</b>                           | <b>587,978</b>         |                 |



#### 14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stocklending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2021, the value of quoted equities on loan was £3.233m (nil 31 March 2020) These equities continue to be recognised in the fund's financial statements.

#### 15 Analysis of derivatives

##### Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives maybe 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 various investment managers.

##### Forward foreign currency

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Royal London and Russell. A breakdown of forward contracts held by the Fund as at 31 March 2021 and prior year is shown below:

| Settlement  | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value (Unrealised Gain) | Liability Value (Unrealised Loss) |
|---|-----------------|-------------|---------------|-------------|-------------------------------|-----------------------------------|
|   |                 | 000         |               | 000         | £000                          | £000                              |
| Up to One month   | GBP             | 11,135      | EUR           | (10,706)    | 429                           | -                                 |
|   | GBP             | 17,511      | USD           | (17,328)    | 183                           | (1)                               |
|   | GBP             | 2,642       | AUD           | (2,582)     | 60                            | -                                 |
|   | USD             | 414         | GBP           | (409)       | 5                             | -                                 |
|   | EUR             | 507         | GBP           | (517)       | -                             | (10)                              |
|   | AUD             | 308         | GBP           | (309)       | -                             | (1)                               |
| Up to Two months  | GBP             | 12,422      | EUR           | (12,238)    | 184                           | -                                 |
|   | GBP             | 17,027      | USD           | (17,277)    | -                             | (250)                             |
|   | GBP             | 2,346       | AUD           | (2,310)     | 37                            | -                                 |
|   | USD             | 70          | GBP           | (69)        | 1                             | -                                 |
|   | EUR             | 1,855       | GBP           | (1,855)     | -                             | -                                 |
|   | AUD             | 111         | GBP           | (111)       | -                             | -                                 |
| Up to Three months  | GBP             | 12,871      | EUR           | (12,714)    | 157                           | -                                 |
|   | GBP             | 13,749      | USD           | (13,670)    | 79                            | -                                 |
|   | GBP             | 2,027       | AUD           | (2,014)     | 13                            | -                                 |
| <b>Open forward currency contracts at 31 March 2021</b>       |                 |             |               |             | <b>1,148</b>                  | <b>(262)</b>                      |
| <b>Net forward currency contracts at 31 March 2021</b>        |                 |             |               |             |                               | <b>886</b>                        |
| <b>Gross open forward currency contracts at 31 March 2020</b> |                 |             |               |             | <b>1,445</b>                  | <b>(2,173)</b>                    |
| <b>Net forward currency contracts at 31 March 2020</b>        |                 |             |               |             | <b>-</b>                      | <b>(728)</b>                      |

## 16 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, where possible using market based information. There has been no change in the valuation techniques used during the year.

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

### Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The Valuation basis for each category of investment asset is set out below:

| Description of asset                                     | Value hierarchy | Basis of valuation   | Observable and unobservable inputs  | Key sensitivities affecting the valuations provided  |
|--|-----------------|--|---|--|
| <b>Market quoted investments</b>                         | Level 1         | Published bid market price ruling on the final day of the accounting period  | Not required  | Not required   |
| <b>Pooled quoted</b>                                     | Level 1         | Published bid market   | Not required  | Not required   |
| <b>Quoted bonds</b>                                      | Level 1         | Fixed interest securities are valued at a market value based on current yields                                     | Not required  | Not required   |
| <b>Forward foreign exchange derivatives</b>              | Level 2         | Market forward exchange rates at the year-end  | Exchange rate risk  | Not required   |
| <b>UK Pooled instruments property funds</b>              | Level 3         | Valuations carried out by the property funds external valuers, Knight Frank LLP                                    | Market value in accordance with the "RICS" Appraisal and Valuation standards  | Valuations could be affected by significant differences in rental value and rental growth  |
| <b>Overseas Pooled instruments property funds (CBRE)</b> | Level 3         | The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD | A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments | Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount |

16 Fair Value Basis of Valuation (continued)

| Description of asset   | Value hierarchy | Basis of valuation   | Observable and unobservable inputs  | Key sensitivities affecting the valuations provided  |
|--|-----------------|--|---|--|
| <b>Overseas Pooled instruments Infrastructure Funds (JP Morgan)</b>        | Level 3         | Estimated fair values are determined by the Advisor at valuation date and independently appraised on a quarterly basis.  | Three valuation techniques can be used, the market, income or cost approach. For this fund, Income approach was used based on Unobservable input of Discount/WAAC rate and Exit EBITDA Multiples. | Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount           |
| <b>Overseas Pooled instruments Infrastructure Funds (Stafford Capital)</b> | Level 3         | Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.  | Fair Value is determined by the Fund manager in accordance with guidelines and principles set out by International Private Equity and Venture Capital Valuations.                                 | Risks to the valuation involve a number of local, national and international economic conditions. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuations may have increased or decreased by a significant amount           |
| <b>Overseas Pooled instruments Private Debt Funds (Churchill)</b>          | Level 3         | Valuations undertaken quarterly and determined by the Investment Manager. To determine the value the manager relies on guidance by various regulatory and industry organisations and authorised to use independent third party pricing services and valuation firms. | Unobservable inputs are determined by the Investment Manager and shall take into account items that it reasonably believes would impact the valuation (such as expenses and reserves).            | Significant increases (decreases) in discount yields could result in lower (higher) fair value measurement. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount. |
| <b>Overseas/UK Pooled instruments Private Debt Funds (Permira)</b>         | Level 3         | Fair Value is determined by the AIFM based on advice from Portfolio Manager and based on the International Private Equity and Venture Capital guidelines or other standards agreed by the Senior Fund Advisory Committee.  | Unobservable inputs are determined by the Investment Manager.   | Use of estimates and changes in assumptions may have significant on the valuations. Timing difference between the date of the last reported valuation and the date of the Funds financial statements means that valuation may have increased or decreased by a significant amount.                         |

## 16 Fair Value Basis of Valuation (continued)

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent performance measurement service, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

|                              | Assessed valuation range (+/-) | Value at 31 March 2021 | Value on increase | Value on decrease |
|------------------------------|--------------------------------|------------------------|-------------------|-------------------|
|                              | %                              | £000                   | £000              | £000              |
| <b>Pooled Property funds</b> | 3.40                           | 68,985                 | 71,330            | 66,640            |
| <b>Pooled Unit Trusts</b>    | 7.80                           | 81,361                 | 87,707            | 75,015            |

### 16a. Fair Value Hierarchy

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

|   | Quoted Market price | Using observable inputs | With significant unobservable inputs |                |
|---|---------------------|-------------------------|--------------------------------------|----------------|
| Values at 31 March 2021                                     | Level 1<br>£000     | Level 2<br>£000         | Level 3<br>£000                      | Total<br>£000  |
| <b>Financial Assets</b>                                     |                     |                         |                                      |                |
| Financial assets at fair value through profit and loss      | 704,263             | 150                     | 150,346                              | 854,759        |
| Loans and receivables                                       | 20,204              | -                       | -                                    | 20,204         |
| <b>Total Financial Assets</b>                               | <b>724,467</b>      | <b>150</b>              | <b>150,346</b>                       | <b>874,963</b> |
| <b>Financial Liabilities</b>                                |                     |                         |                                      |                |
| Financial liabilities at fair value through profit and loss | (728)               | -                       | -                                    | (728)          |
| <b>Total Financial Liabilities</b>                          | <b>(728)</b>        | <b>-</b>                | <b>-</b>                             | <b>(728)</b>   |
| <b>Net Financial Assets</b>                                 | <b>723,739</b>      | <b>150</b>              | <b>150,346</b>                       | <b>874,235</b> |

16a. Fair Value Hierarchy continued

|   | Quoted<br>Market<br>price | Using<br>observable<br>inputs | With<br>significant<br>unobservable<br>inputs |                |
|---|---------------------------|-------------------------------|---|----------------|
| Values at 31<br>March 2020                                  | Level 1<br>£000           | Level 2<br>£000               | Level 3<br>£000                               | Total<br>£000  |
| <b>Financial Assets</b>                                     |                           |                               |   |                |
| Financial assets at fair value through profit and loss      | 566,530                   | 150                           | 133,749                                       | 700,429        |
| Loans and receivables                                       | 31,055                    | -                             | -   | 31,055         |
| <b>Total Financial Assets</b>                               | <b>597,585</b>            | <b>150</b>                    | <b>133,749</b>                                | <b>731,484</b> |
| <b>Financial Liabilities</b>                                |                           |                               |   |                |
| Financial liabilities at fair value through profit and loss | (2,788)                   | -                             | -   | (2,788)        |
| <b>Total Financial Liabilities</b>                          | <b>(2,788)</b>            | <b>-</b>                      | <b>-</b>                                      | <b>(2,788)</b> |
| <b>Net Financial Assets</b>                                 | <b>594,797</b>            | <b>150</b>                    | <b>133,749</b>                                | <b>728,696</b> |

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

16b. Reconciliation of Fair Value Measurement within Level 3

|                | Market<br>Value<br>31 March<br>2020 | Transfer<br>Into<br>Level 3 | Purchases    | Sales          | Unrealised<br>gains/<br>losses | Realised<br>gains/losses | Market Value<br>31 March<br>2021 |
|----------------|-------------------------------------|-----------------------------|--------------|----------------|--------------------------------|--------------------------|----------------------------------|
|                | £000                                | £000                        | £000         | £000           | £000                           | £000                     | £000                             |
| Property       |                                     |                             |              |                |                                |                          |                                  |
| Funds          | 70,130                              | -                           | -            | (80)           | (1,065)                        | -                        | 68,985                           |
| Infrastructure | 43,989                              | 7,561                       | 490          | (2,299)        | (5,192)                        | (13)                     | 44,536                           |
| Private Debt   | 19,630                              | 18,753                      | 5,064        | (4,606)        | (2,016)                        | -                        | 36,825                           |
| <b>Total</b>   | <b>133,749</b>                      | <b>26,314</b>               | <b>5,554</b> | <b>(6,985)</b> | <b>(8,273)</b>                 | <b>(13)</b>              | <b>150,346</b>                   |

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

(a) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Infrastructure Level 3

(b) Transferred from Level 1 to Level 3 due to progressing the change in investment strategy - disinvestment from Level 1 to invest in Private Debt Level 3

(c) All transfers between levels are recognised in the month in which they occur.

## 17 Financial Instruments

### (a) Classification of financial instruments

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

| 31 March 2020 Restated             |                          |                               |                                    | 31 March 2021                      |                          |                               |
|------------------------------------|--------------------------|-------------------------------|------------------------------------|------------------------------------|--------------------------|-------------------------------|
| Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |                                    | Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |
| £000                               | £000                     | £000                          |                                    | £000                               | £000                     | £000                          |
|                                    |                          |                               | <b>Financial Assets</b>            |                                    |                          |                               |
| 150                                | -                        | -                             | - Long Term Investments            | 150                                | -                        | -                             |
| 49,206                             | -                        | -                             | - Bonds -Fixed Interest Securities | 39,001                             | -                        | -                             |
| 40,033                             | -                        | -                             | - Bonds - Index linked securities  | 36,897                             | -                        | -                             |
| 1,445                              | -                        | -                             | - Derivative contracts             | 1,148                              | -                        | -                             |
| 519,835                            | -                        | -                             | - Pooled investment Vehicles       | 671,752                            | -                        | -                             |
| 19,630                             | -                        | -                             | - Private Equity and joint venture | 36,825                             | -                        | -                             |
| 70,130                             | -                        | -                             | - Property                         | 68,986                             | -                        | -                             |
| -                                  | 6,778                    | -                             | - Cash                             | -                                  | 3,321                    | -                             |
| -                                  | 725                      | -                             | - Other Investment Balances        | -                                  | 480                      | -                             |
| -                                  | 23,552                   | -                             | - Debtors                          | -                                  | 16,403                   | -                             |
| <b>700,429</b>                     | <b>31,055</b>            | -                             | <b>Financial Assets Total</b>      | <b>854,759</b>                     | <b>20,204</b>            | -                             |
|                                    |                          |                               | <b>Financial Liabilities</b>       |                                    |                          |                               |
| (1)                                | -                        | -                             | - Other Investment Balances        | (1)                                | -                        | -                             |
| (2,173)                            | -                        | -                             | - Derivative contracts             | (262)                              | -                        | -                             |
| -                                  | -                        | (614)                         | - Creditors                        | -                                  | -                        | (465)                         |
| <b>(2,174)</b>                     | -                        | <b>(614)</b>                  | <b>Financial Liabilities Total</b> | <b>(263)</b>                       | -                        | <b>(465)</b>                  |
| <b>698,255</b>                     | <b>31,055</b>            | <b>(614)</b>                  | <b>Grand total</b>                 | <b>854,496</b>                     | <b>20,204</b>            | <b>(465)</b>                  |
|                                    | <b>728,696</b>           |                               |                                    |                                    | <b>874,235</b>           |                               |

### (b) Net Gains and Losses on Financial Instruments

| 2019/20<br>£000 |                                    | 2020/21<br>£000 |
|-----------------|------------------------------------|-----------------|
|                 | <b>Financial assets</b>            |                 |
| (20,518)        | Fair value through profit and loss | 165,548         |
| <b>(20,518)</b> | <b>Total</b>                       | <b>165,548</b>  |

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

## 18 Nature and Extent of Risks Arising from Financial Instruments

### **Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's 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 the Fund's forecast cash flows. The Fund 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. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### **(a) 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 equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising investment return.

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 pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

### **Other Price Risk**

Other 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 is exposed to share and derivative price risk. The Fund's investment managers mitigate this risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

### **Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

| Asset Type                  | Value as at 31<br>March 2021 | Potential<br>market<br>movements | Value on<br>Increase | Value on<br>Decrease |
|-----------------------------|------------------------------|----------------------------------|----------------------|----------------------|
|                             | £000                         | %                                | £000                 | £000                 |
| Pooled Equities             | 539,389                      | 15.60                            | 623,532              | 455,243              |
| Total Bonds                 | 75,898                       | 7.70                             | 81,743               | 70,054               |
| Pooled Overseas Unit Trusts | 81,361                       | 7.80                             | 87,707               | 75,015               |
| Global Pooled inc.UK        | 87,978                       | 6.50                             | 93,697               | 82,260               |
| Pooled Property             | 68,985                       | 3.40                             | 71,331               | 66,640               |
| Cash                        | 4,686                        | 0.60                             | 4,714                | 4,658                |
| <b>Total</b>                | <b>858,297</b>               |                                  | <b>962,724</b>       | <b>753,870</b>       |

| Asset Type                  | Value as at 31<br>March 2020 | Potential<br>market<br>movements | Value on<br>Increase | Value on<br>Decrease |
|-----------------------------|------------------------------|----------------------------------|----------------------|----------------------|
|                             | £000                         | %                                | £000                 | £000                 |
| Equities                    | 260,341                      | 13.10                            | 294,446              | 226,237              |
| Total Bonds                 | 122,119                      | 8.00                             | 131,888              | 112,349              |
| Pooled Overseas Unit Trusts | 63,619                       | 14.40                            | 72,780               | 54,457               |
| Global Pooled inc.UK        | 182,776                      | 6.00                             | 193,742              | 171,809              |
| Pooled Property             | 70,130                       | 4.00                             | 72,935               | 67,325               |
| Cash                        | 6,773                        | 0.60                             | 6,814                | 6,733                |
| <b>Total</b>                | <b>705,758</b>               |                                  | <b>772,605</b>       | <b>638,910</b>       |

#### Interest Rate Risk

The Fund 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. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

#### Interest Rate Risk Sensitivity Analysis

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.



### Assets exposed to Interest Rate Risk

| Assets exposed to interest rate risk | Asset Values<br>as at 31 March<br>2021<br>£000 | Potential<br>movement on<br>1% change in<br>interest rates | Value on<br>increase<br>£000 | Value on<br>Decrease<br>£000 |
|--------------------------------------|--|--|------------------------------|------------------------------|
| Bond Securities                      | 75,898   | 759  | 76,657                       | 75,140                       |
| Cash and Cash Equivalents            | 4,686  | 47   | 4,733                        | 4,639                        |
| Cash Balances                        | 15,963   | 160  | 16,123                       | 15,804                       |
| <b>Total Change in Asset Value</b>   | <b>96,547</b>                                  | <b>966</b>   | <b>97,513</b>                | <b>95,583</b>                |

| Assets exposed to interest rate risk | Asset Values<br>as at 31 March<br>2020<br>£000 | Potential<br>movement on<br>1% change in<br>interest rates | Value on<br>increase<br>£000 | Value on<br>Decrease<br>£000 |
|--------------------------------------|--|--|------------------------------|------------------------------|
| Bond Securities                      | 122,119  | 1,221  | 123,340                      | 120,898                      |
| Cash and Cash Equivalents            | 6,773  | 68   | 6,841                        | 6,705                        |
| Cash Balances                        | 23,056   | 231  | 23,287                       | 22,825                       |
| <b>Total Change in Asset Value</b>   | <b>151,948</b>                                 | <b>1,520</b>   | <b>153,469</b>               | <b>150,428</b>               |

### Currency Risk

Currency risk represents the risk that fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

### Currency Risk (cont'd)

Following analysis of historical data in consultation with PIRC, it has been determined that a likely volatility associated with foreign exchange rate movements is 8.4% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 8.4% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

### Currency Risk – Sensitivity Analysis

| Assets exposed to currency risk            | Asset Values<br>as at 31 March<br>2021<br>£000 | Potential<br>Market<br>movement<br>8.40% | Value on<br>increase<br>£000 | Value on<br>Decrease<br>£000 |
|--|--|--|------------------------------|------------------------------|
| Overseas Pooled                            | 91,468   | 7,683                                    | 99,151                       | 83,784                       |
| Overseas Cash                              | 541  | 45                                       | 587                          | 496                          |
| <b>Total change in assets available to</b> | <b>92,009</b>                                  | <b>7,728</b>                             | <b>99,738</b>                | <b>84,280</b>                |

| Assets exposed to currency risk            | Asset Values<br>as at 31 March<br>2020<br>£000 | Potential<br>Market<br>movement<br>7.40% | Value on<br>increase<br>£000 | Value on<br>Decrease<br>£000 |
|--|--|--|------------------------------|------------------------------|
| Overseas Pooled                            | 86,970   | 6,436                                    | 93,406                       | 80,534                       |
| Overseas Cash                              | 4,836  | 358                                      | 5,194                        | 4,478                        |
| <b>Total change in assets available to</b> | <b>91,806</b>                                  | <b>6,794</b>                             | <b>98,600</b>                | <b>85,012</b>                |

## **(b) 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 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. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

Cash not needed to settle immediate financial obligations are invested by the Authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

## **(c) Liquidity Risk**

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

The Fund's cash holding under its treasury management arrangements as at 31 March 2021 was £15.963m (31 March 2020 £23.065m). The Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow forecasts are prepared to manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's cash management policy and in line with the Fund's investment strategy holds assets that are considered readily realised.

The Fund defines liquid assets as assets 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 2021 the value of liquid assets was £724m, which represented 83% of the total Fund (31 March 2020 £595m, which represented 82% of the total fund assets).

## **(d) Refinancing Risk**

The key risk is that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

## 19 Funding Arrangements

### Actuarial Statement for 2020/21

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 December 2019. 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 tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £733 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £320 million.

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

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

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

#### Method

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

#### Assumptions

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

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

| <b>Financial assumptions</b>      | <b>31-Mar-19</b> |
|-----------------------------------|------------------|
|                                   | <b>%</b>         |
| Discount Rate for Period          | 3.3              |
| Salary increases assumption       | 3.0              |
| Benefit increase assumption (CPI) | 2.3              |

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

|                    | <b>Males</b> | <b>Females</b> |
|--------------------|--------------|----------------|
| Current Pensioners | 21.6 years   | 23.7 years     |
| Future Pensioners* | 22.4 years   | 25.2 years     |

\* Aged 45 at the 2019 Valuation

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

#### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is broadly similar to that reported at the previous formal valuation.

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

## 20 Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities to disclose the actuarial present value of retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19.

| 31-Mar-20  | Year Ended                                    | 31-Mar-21  |
|------------|---|------------|
| £m         |   | £m         |
| 1,195      | Present Value of Promised Retirement Benefits | 1,557      |
| 729        | Fair Value of Scheme assets (bid Value)       | 874        |
| <b>466</b> | <b>Net Liability</b>                          | <b>683</b> |

The promised retirement's benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2021 include an allowance for the "McCloud ruling", i.e an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. This estimate was allowed for in the 31 March 2020 IAS26 reporting and is continued to be allowed for within the liabilities this year.

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

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. It is estimated that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £299m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £21m.

### Financial assumptions

The actuary's recommended financial assumptions are summarised below:

| 31-Mar-21 | Year Ended (% p.a)    | 31-Mar-20 |
|-----------|-----------------------|-----------|
| % p.a.    |                       | % p.a.    |
| 2.85      | Pension Increase Rate | 1.90      |
| 3.55      | Salary Increase Rate  | 2.60      |
| 2.00      | Discount Rate         | 2.30      |

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves alongside future improvements based on the CMI 2020 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|                    | <b>Males</b> | <b>Females</b> |
|--------------------|--------------|----------------|
| Current Pensioners | 21.8 years   | 24.1 years     |
| Future Pensioners  | 22.9 years   | 25.9 years     |

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

### Commutation assumption

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

### Sensitivity Analysis

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

| <b>Sensitivity to the assumptions for the year ended 31 March 2020</b> | <b>Approximate % increase to liabilities</b> | <b>Approximate monetary amount (£m)</b> |
|--|--|---|
| 0.5% p.a. increase in the Pension Increase Rate                        | 9%   | 138                                     |
| 0.5% p.a. increase in the Salary Increase Rate                         | 1%   | 12                                      |
| 0.5% p.a. decrease in the Real Discount Rate                           | 10%  | 153                                     |

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

### Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

## 21 Current Assets

| 2019/20<br>£000 |                                    | 2020/21<br>£000 |
|-----------------|------------------------------------|-----------------|
|                 | <b>Debtors:</b>                    |                 |
| 265             | Contributions due from employers   | 307             |
| 68              | Contributions due from employees   | 79              |
| 1,307           | Pension Fund Bank Account Balances | 116             |
| 3               | Sundry Debtors                     | 9               |
| 21,909          | Cash deposit with LB Havering      | 15,876          |
| -               | Holding Accounts                   | 16              |
| <b>23,552</b>   | <b>Current Assets</b>              | <b>16,403</b>   |

## 22 Current Liabilities

| 2019/20<br>£000 |                   | 2020/21<br>£000 |
|-----------------|-------------------|-----------------|
|                 | <b>Creditors:</b> |                 |
| (314)           | Benefits Payable  | (252)           |
| (140)           | Sundry Creditors  | (169)           |
| (160)           | Holding Accounts  | (44)            |
| <b>(614)</b>    |                   | <b>(465)</b>    |

## 23 Additional Voluntary Contributions

| Market Value<br>2019/20<br>£000 | AVC Provider  | Market Value<br>2020/21<br>£000 |
|---------------------------------|---------------|---------------------------------|
| 753                             | Prudential*   | TBC                             |
| 108                             | Standard Life | 144                             |

\*Prudential unable to provide statement until July 2021

Some employees made additional voluntary contributions (AVC's) of £31,030 (2019/20 £33,022) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2020/21 were £28,730 (2019/20 £30,622) to the Prudential and £2,400 (2019/20 £2,400) to Standard Life.

## 24 Agency Services

The Fund pays discretionary awards to the former employees of Havering. The amounts paid are fully reclaimed from the employer bodies.

| 2019/20<br>£000 |  | 2020/21<br>£000 |
|-----------------|--|-----------------|
| 1,360           | Payments on behalf of Havering Council | 1,329           |

## 25 Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Fund, or to be controlled or influenced by the Fund.

The Fund is administering by the London Borough of Havering. During the reporting period, the council incurred costs of £0.538 (2019/20 £0.230m) in relation to the administration and management of the fund and was reimbursed by the Fund for these expenses.

The Authority is also the largest employer in the Fund and in 2020/21 contributed £33.392m (19/20 £32.257m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of London Borough of Havering, through a service level agreement. As at 31 March 2021 cash holdings totalled £15.837m (2019/20 £23.056m), earning interest over the year of £0.126m (2019/20 £0.202m).

The Fund is a minority shareholder in the London CIV Pool limited, and shares valued at £0.150m at 31 March 2021 (19/20 £0.150m) are included as long term investments in the net asset statement. A mixed portfolio of pension fund investments is managed by the London CIV as shown in Note 14b. During 2020/21 a total of £2.086m was charged to the Fund by the London CIV in respect of investment management services (19/20 £1.732m).

### Governance

Responsibility for management of the Fund has been delegated to the Pensions Committee and the day to day operations of the Fund have been delegated to the Statutory Section 151 officer and the Managing Director of oneSource.

No members of the Pension Fund Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions Committee and Local Pension Board are required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for Fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

The members of the Local Pension Board receive an attendance allowance for each meeting and these costs are included within Note 11.



## **25a Key Management Personnel**

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

## **26 Contingent Liabilities and Contractual Commitments**

Outstanding capital commitments (investments) at 31 March 2021 were £50.62m. (31 March 2020 were £49.94m). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. There are potential liabilities of £0.706m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

Three admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.33m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Six admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.36m.

The Fund, in conjunction with the other borough shareholders in the London CIV, has entered into an exit payment agreement with the London CIV, acting as a Guarantor. The Fund will meet any exit payments due should the London CIV cease its admission arrangements with the City of London. Should the amount become due the Fund will meet 1/32 share of the costs.