



2020/21

ENFIELD PENSION FUND STATEMENT OF ACCOUNTS



Pension Policy & Investment Committee
London Borough of Enfield
2020/21

LONDON BOROUGH OF ENFIELD PENSION FUND ACCOUNT			
2019/20 £000s		Notes	2020/21 £000s
	Dealings with members, employers and others directly involved in the Fund		
51,044	Contributions	7	49,031
3,971	Transfers in from other pension funds	8	5,454
55,015			54,486
(42,778)	Benefits payable	9	(44,374)
(5,173)	Payments to and on account of leavers	10	(4,639)
(47,951)			(49,013)
7,063	Net additions/(withdrawals) from dealings with members		5,473
(10,088)	Management expenses	11	(12,063)
(3,025)	Net additional/(withdrawals) including fund management		(6,591)
	Returns on investments		
12,012	Investment income	12	13,214
	Taxes on income	13a	
(45,057)	Profit & losses on disposal of investments and changes in the market value of investments	14a	249,979
(33,045)	Net returns on investments		263,193
(36,070)	Net change in assets available for benefits during the year		256,602
1,185,500	Opening net assets of the scheme		1,149,430
1,149,430	Closing net assets of the scheme		1,406,032

NET ASSETS STATEMENT FOR YEAR ENDED 31 MARCH 2021			
2019/20 £000s		Notes	2020/21 £000s
1,094,703	Investment assets	14	1,303,311
(251)	Investment liabilities		(141)
1,094,451			1,303,170
52,855	Cash deposits	14	100,369
2,351	Other investment balances -assets	14	2,685
(149)	Other investment balances - liabilities	14	(735)
1,149,508	Total net investments	14	1,405,489
53	Long term debtor	20a	96
897	Current assets	20	937
(1,027)	Current liabilities	21	(489)
1,149,430	Net assets of the fund available to fund benefits at the end of the reporting period		1,406,032

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Signed:

Fay Hammond

Executive Director Resources

31st July 2021

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1. Description of the Fund

The Enfield Pension Fund ('the fund') is part of the LGPS and is administered by London Borough of Enfield. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Enfield Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme.

a) General

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

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

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

The fund is overseen by the Enfield Pension Policy & Investment Committee, which is a committee of London Borough of Enfield.

b) Membership

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

Organisations participating in the fund include the following:

Scheduled bodies, 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.

There are 54 employer organisations within the fund (including the Council itself), and 23,690 individual members, as detailed below. A full analysis is included

Enfield Pension Fund	31 March 2020	31 March 2021
Number of employers with active members	7,413	7,770
Number of pensioners	5,663	5,862
Deferred pensioners	6,899	7,560
Frozen/undecided	3,148	2,498
Total number of members in pension scheme	23,123	23,690

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The results of recent formal valuation as at 31 March 2019 has employer contribution rates range from 0% to 34.6% of pensionable pay.

d) Benefits

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

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

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2. Basis of preparation

The statement of accounts summarises the fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts 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 assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 19.

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, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll 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.

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) **Interest income** Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) **Dividend income** Dividend income is recognised on the date the shares are quoted 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) **Distributions 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) **Movement in the net market value of investments** Changes in the net market value of investments (including investment properties) 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.

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 Code does not require any breakdown of pension fund administrative expenses; however, it requires the disclosure of investment management transaction costs. For greater transparency, the fund discloses its pension fund management expenses in accordance with the CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016), which shows the breakdown of administrative expenses, including transaction costs.

i) **Administrative expenses** All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs** All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the

fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

iii) **Investment management expenses** All investment management expenses are accounted for on an accruals basis.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related. Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account.

Net assets statement

g) 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 the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). 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).

Foreign currency transactions

h) 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.

i) Cash and cash equivalents

Cash comprises cash in hand and demand deposits 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.

j) Financial liabilities

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

k) 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 retirement benefits by way of a note to the net assets statement (Note 19).

l) Additional voluntary contributions

The Enfield Pension Fund provides an additional voluntary contribution (AVC) scheme for its employers and are specifically for providing additional benefits for individual contributors. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically

for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

m) Contingent assets and contingent liabilities

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.

4. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 3 above, the Fund has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pooled property

As a result of the COVID-19 outbreak, which caused extensive disruption to businesses and economic activities on a global level in all sectors, the property valuers valuing the underlying assets within the two pooled property funds, have reported their valuation on the basis of 'material valuation uncertainty'. The declaration does not mean that the valuation cannot be relied upon, but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the property than would normally be the case. Additionally, the two pooled property funds had suspended trading as at 31 March 2020. The effect of this is to require these assets to be moved from a fair value hierarchy level 2 to level 3 as at 31 March 2020. In September 2020, the material uncertainty and suspended trading were removed from these funds.

5. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the net assets statement at 31 March 2021 (for which there is a significant risk of material adjustment in the forthcoming financial year) are set out in the table below:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> a. 1% decrease in the discount rate assumption would result in a decrease in the pension liability of approximately £223m. b. 1% increase in assumed earnings inflation would decrease the value of liabilities by approximately £223m. c. if life expectancy increases by two years, it would decrease the liability by approximately £92m. <p><i>It should be noted that any changes in the above would not have an effect on either the Fund Account or the Net Asset Statement.</i></p>

Hedge fund of funds (Note 15)	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge is necessary. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £230m. There is a risk that the investment may be under or overstated in the accounts. Given a tolerance of +/-7.5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/- £17.3m.
Private equity – venture capital investments (Note 15)	The figure for “Investments at fair value” is based on the latest information received from asset managers prior to the Fund’s accounting records closing for the quarter. The valuation methodologies are considered to be consistent with the International Private Equity and Venture Capital Valuation Guidelines.	The venture capital private equity investments in the financial statements are £102.4m. There is a risk that this may be over or understated. Further detail is shown in Note 15 regarding the sensitivity of this valuation.
Pooled property investments (Note 15)	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 10% i.e. an increase or decrease of £6.9m, on carrying values of £69m.

NOTE 6: EVENTS AFTER THE REPORTING DATE

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

NOTE 7: CONTRIBUTIONS**By category**

2019/20 £000s		2020/21 £000s
11,078	Employees' contributions	12,055
	Employers' contributions: -	
29,648	Normal	33,353
9,503	Deficit recovery contributions	9,503
815	Augmentation contributions	1,141
39,966	Total employers' contributions	36,976
51,044		49,031

By authority

2019/20 £000s		2020/21 £000s
39,237	Administering authority	38,497
9,724	Scheduled bodies	9,820
2,083	Admitted bodies	714
51,044		49,031

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2019/20 £000s		2020/21 £000s
3,971	Individual transfers	5,454
3,971		5,454

NOTE 9: BENEFITS PAID/PAYABLE**By category**

2019/20 £000s		2020/21 £000s
(35,828)	Pensions	(37,222)
(6,684)	Commutation and lump sum retirement benefits	(6,488)
(266)	Lump sum death benefits	(664)
(41,966)		(44,374)

By authority

2019/20 £000s		2020/21 £000s
(40,988)	Administration authority	(41,668)
(1,405)	Scheduled bodies	(2,199)
(385)	Admitted bodies	(507)
(42,778)		(44,374)

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019/20		2020/21
£000s		£000s
(129)	Refunds to members leaving service	(85)
(5,173)	Individual transfers	(4,554)
(5,302)		(4,639)

NOTE 11: MANAGEMENT EXPENSES

2019/20		2020/21
£000s		£000s
(1123)	Administrative costs	(1,659)
(108)	Oversight and governance costs	(90)
(8,857)	Investment management expenses	(10,315)
(10,088)		(12,063)

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2019/20		2020/21
£000s		£000s
(6,512)	Management fees	(6,857)
(304)	Performance related fees	(1,032)
(1,848)	Transaction costs	(2,226)
(63)	Custody fees	(83)
(130)	Other	(116)
(8,857)		(10,315)

NOTE 12: INVESTMENT INCOME

2019/20		2020/21
£000s		£000s
2,053	Income from equities	2,225
3,439	Income from bonds	3,439
1,786	Pooled property investments	2,389
4,121	Pooled investments – unit trusts and other managed funds	5,133
614	Interest on cash deposits	28
12,013		13,214

NOTE 13: TAXES ON INCOME

2019/20		2020/21
£000s		£000s
	<i>Withholding tax</i>	
(0)	Income from equities	(0)
(0)	Pooled investments – unit trusts and other managed funds	(0)
(0)		(0)

NOTE 13A: EXTERNAL AUDIT FEES

2019/20		2020/21
£000s		£000s
19	Paid in respect of external audit (excluding VAT)	19
19		19

PENSION FUND ACCOUNTS – 2020/21

Market value 31 March 2020 £000s		Market value 31 March 2021 £000s
	Investments	
90,622	Fixed interest securities	99,209
45,015	Equities	48,424
766,037	Pooled investments	925,799
68,861	Pooled property investments	68,986
124,000	Private equity	160,844
	Derivative contracts:	
168	- Futures	5
0	- Forward currency contracts	44
1,094,703	Total investment assets	1,303,311
52,855	Cash deposits	100,369
2,351	Investment income due	2,445
0	Amounts receivable for sales	240
1,149,909	Total investment assets	1,406,365
	Investment liabilities	
	Derivative contracts:	
(69)	- Futures	(141)
(183)	- Forward currency contracts	(0)
(149)	Investment expenditure due	(735)
(401)	Total investment liabilities	(876)
1,149,508	Net investment assets	1,405,489

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

	Market value 1 April 2020	Purchases	Sales	Management fees in Market value	Change in market value	Market value 31 March 2021
Period 2020/21	£000s	£000s	£000s	£000s	£000s	£000s
Bonds	90,621	14,680	(12,684)	(400)	6,992	99,209
Equities	45,015	69,180	(68,989)	(2,112)	5,330	48,424
Pooled investments	766,037	12,411	(49,076)	(1,695)	198,122	925,799
Pooled property	68,861	0	(1,047)	(367)	1,486	68,933
Private equity	124,000	11,052	(14,078)	(2,283)	42,206	160,896
	1,094,534	107,323	(145,874)	(6,857)	254,136	1,303,261
Derivatives contracts:						
Futures	99	513	(384)	-	(364)	(136)
Options						
Forward foreign exchange	(183)	350	(446)	-	323	44
	(84)	863	(830)	0	(41)	(92)
	1,094,450	108,186	(146,704)	(6,857)	254,095	1,303,169
Other investment balances						
Cash deposits	52,855				(4,115)	100,369
Investment income due	2,351					2,445
Pending investment sales	(149)					(735)
Pending investment purchases	-					240
Net investment assets	1,149,508				249,979	1,405,489

*Change in MV of short term bills and notes

	Market value 1 April 2019	Purchases	Sales	Management fees in Market value	Change in market value	Market value 31 March 2020
Period 2019/20	£000s	£000s	£000s	£000s	£000s	£000s
Bonds	88,278	30,830	(27,041)	(0)	(1,445)	90,622
Equities	43,141	989	0	0	885	45,015
Pooled investments	824,211	10,111	(8,764)	(4,714)	(54,807)	766,037
Pooled property	69,598		0	(178)	(559)	68,861
Private equity	98,549	29,270	(10,973)	(1,681)	8,835	124,000
	1,123,777	71,200	(46,778)	(6,573)	(47,091)	1,094,535
Derivatives contracts:						
Futures	66	901	(1,290)	-	422	99
Options						
Forward foreign exchange	33	486	(455)	-	(247)	(183)
	99	1,387	(1,745)	-	175	(84)
	1,123,876	72,587	(48,523)	(6,573)	(46,916)	1,094,451
Other investment balances						
Cash deposits	58,091				1,859*	52,855
Investment income due	2,386					2,351
Pending investment sales	1,147					(149)
Other investment expenses	(183)					-
Net investment assets	1,185,317				(45,057)	1,149,508

*Change in MV of short term bills and notes

Purchases and sales of derivatives are recognised in Note 14a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

NOTE 14B: ANALYSIS OF INVESTMENTS

Market value 31 March 2020 £000s		Market value 31 March 2021 £000s
	Bonds	
	UK	
2,702	Public sector quoted	2,758
42,101	Corporate quoted	49,038
	Overseas	
806	Public sector quoted	1,324
45,013	Corporate quoted	46,090
90,622		99,209
	Equities	
45,015	UK –quoted	48,424
-	Overseas –quoted	-
45,015		48,424
	Pooled funds –additional analysis	
90,762	Indexed linked securities	91,734
426,067	Equities	604,281
38,925	Developed markets equity long short fund	0
36,286	Events driven fund hedge fund	34,431
73,161	Inflation opportunities fund	78,638
29,321	Absolute bond fund	31,855
27,839	Multi-strategy equity hedge fund	30,153
43,676	Multi asset credit fund	54,707
766,037		925,799
	Pooled property investments	
68,861	UK property investments	68,986
68,861		68,986
	Private equity	
6,791	Opportunistic property	7,936
21,764	European infrastructure	22,776
73,403	Fund of Funds global private equity	102,436
22,042	UK secured long income fund	27,696
124,000		160,844
	Derivatives- Assets	
168	Futures	5
-	Forward foreign exchange	44
168		49
1,094,703	Total Investment Assets	1,303,312
52,855	Cash deposits	100,369
2,351	Investment income due	2,445
-	Amounts receivable from sales	240
1,149,909		1,406,366
	Investment liabilities	
(69)	Derivatives- futures	(141)
(183)	Derivatives- forward foreign exchanges	(0)
(149)	Investment expenses	(735)
(401)		(876)
1,149,508	Net investment assets	1,405,489

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2020			Market value 31 March 2021	
£000s	%		£000s	%
		Fixed income securities		
90,621	7.9%	Western Asset Management	98,381	7.0%
		Equities		
45,015	3.9%	International Public Partnerships	48,424	3.4%
		Pooled investments		
90,762	7.9%	Blackrock indexed linked bonds	91,734	6.5%
9,782	0.9%	Blackrock UK passive fund	-	-
148,736	12.9%	Blackrock Global passive	-	-
-	-	Blackrock Low carbon Global passive	220,389	15.7%
102,567	8.9%	MFS global equities	140,390	10.0%
74,376	6.5%	LCIV Baillie Gifford global equities	116,232	8.3%
23,420	2.0%	LCIV JP Morgan emerging equities	35,926	2.6%
67,187	5.8%	LCIV Longview	91,344	6.5%
43,676	3.8%	LCIV CQS Multi asset	54,707	3.9%
38,925	3.4%	Lansdowne hedge fund	0	0.0%
11,051	1.0%	York Capital hedge fund	5,980	0.4%
73,161	6.4%	M&G inflation opportunities	78,638	5.6%
29,321	2.6%	Insight hedge fund	31,855	2.3%
27,839	2.4%	Davidson Kempner hedge fund	30,153	2.1%
25,235	2.2%	CFM hedge fund	28,451	2.0%
		Pooled property		
342	-	RREEF commercial property	53	-
35,263	3.1%	Blackrock commercial property	34,825	2.5%
33,256	2.9%	Legal & General commercial prop.	34,108	2.4%
		Private equity		
73,403	6.4%	Adam St Partners fund of funds	102,436	7.3%
21,764	1.9%	Antin European infrastructure	22,776	1.6%
6,791	0.6%	Brockton opportunistic property	7,936	0.6%
22,042	1.8%	CBRE UK secured long income fund	27,696	2.0%
		Cash & accruals		
35,868	3.1%	Goldman Sachs cash	31,296	2.2%
16,952	1.5%	Northern Trust cash	69,039	4.9%
35	-	Blackrock MMF	35	0.0%
2,118	0.2%	Investment accruals	2,685	0.2%
1,1149,508	100.0%		1,405,489	100.0%

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

Security	Market value 31 March 2020 £000s	% of total Fund	Market value 31 March 2021 £000s	% of total Fund
Blackrock – Global Equities	148,736	12.9%		
Blackrock – Low Carbon Equities			220,389	15.7%
MFS global equities	102,567	8.9%	140,390	10.0%
Western Asset – corporate bonds	90,621	7.9%	98,381	7.0%
Blackrock – indexed linked bonds	90,762	7.9%	91,734	6.5%
LCIV – Longview global equities	67,187	5.8%	91,344	6.5%
LCIV – Baillie Gifford global equities	74,376	6.5%	116,232	8.3%
M&G Inflation opportunities	73,161	6.4%	78,638	5.6%
Adam Street Partners – private equity	73,403	6.4%	102,436	7.3%

NOTE 15: FAIR VALUE – BASIS OF VALUATION

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable & unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Published bid market price at end of the accounting period.	NAV per share	Not required
Pooled investments – hedge funds	Level 2	Most recent valuation	NAV published, Cashflow transactions, i.e. distributions or capital calls	Not Required
Property held in a limited partnership	Level 3	Most recent published NAV updated for cashflow transactions to the end of the accounting period	NAV published, Cashflow transactions, i.e. distributions or capital calls	Valuations could be affected by material events between the date of the pool fund financial statements and the fund's own reporting date, including cash flows transacted in between the audited accounts received and the pension fund's year end.

Private equity	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange movements to the end of the accounting period. The Market approach may be used in some circumstances for the valuation of underlying assets by the fund manager. Prepared in line with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2018)	Cashflow transactions, i.e. distributions or capital calls, foreign exchange movements. Audited financial statements for underlying assets, which may include market approach valuations: taking into account actual observed transactions for the underlying assets or similar assets to help value the assets of each partnership.	Valuations could be affected by material events between the date of the financial statements provided by the asset managers and the pension fund's own reporting date, including cash flows transacted in between the audited accounts received and the pension fund's year end.
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Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, 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.

Description of asset	Assessed valuation range (+/-) %	Value at 31 March 2020 £000s	Value on increase £000s	Value on decrease £000s
Pooled Property	10.0%	68,986	75,885	62,087
UK secured long income fund	7.5%	27,696	29,773	25,619
UK opportunistic property	10.0%	7,936	8,730	7,142
European Infrastructure	5.0%	22,776	23,915	21,637
Private equity fund of funds	15.0%	102,436	117,801	87,071
Total		229,830	244,068	203,556

NOTE 15A: FAIR VALUE HIERARCHY

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, exchange traded quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an investment is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments (private equity), which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table 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 the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2021	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets at fair value	147,634	925,848	229,830	1,303,312
Financial liabilities at fair value	(141)	(735)	-	(876)
Net investment assets	147,493	925,113	229,830	1,302,436

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets at fair value	135,637	766,205	192,861	1,094,703
Financial liabilities at fair value	(69)	(332)	-	(401)
Net investment assets	135,568	765,873	192,861	1,094,302

NOTE 15B: TRANSFERS BETWEEN LEVELS 1 AND 2

There has been no movement during 2020/21.

NOTE 15C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market value 1 April 2020	Transfers in/out of level	Purchases during the year	Sales during the year	Unrealised gains/losses	Realised gains/losses	Market value 31 March 2021
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Pooled Property	*68,861	0	0	0	125		68,986
	68,861	0	0	0	125	0	68,986
Venture capital	73,403	0	5,506	(8,619)	(946)	5,179	102,436
Infrastructure	21,764	0	2,459	0	2,260	0	22,776
Property Funds	22,042	0	18,505	0	(1,074)	0	27,696
UK Secured Income Funds	6,791	0	2,800	(2,354)	(344)	2,079	7,936
	124,000	0	29,270	(10,973)	(104)	7,258	160,844
	192,861	0	29,270	(10,973)	(841)	7,258	229,830

*There has been significant volatility in the financial markets as a result of the COVID-19 pandemic, the effect of this required these assets to be moved from a fair value hierarchy level 2 to level 3 as at 31 March 2020

NOTE 16: FINANCIAL INSTRUMENTS

NOTE 16A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 March 2020			31 March 2021		
Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000s	£000s	£000s	£000s	£000s	£000s
Financial assets					
90,622			Bonds	99,210	
45,015			Equities	48,424	
766,037			Pooled investments	925,799	
68,861			Pooled property	68,986	
124,000			Private equity	160,844	
168			Derivative contracts	49	
	52,855		Cash deposits		100,369
	2,351		Other investment balances		2,685
			Trade debtors		
1,094,703	55,206	-	Total financial assets	1,303,312	103,054
Financial liabilities					
		(252)	Derivative contracts		(141)
		(149)	Other investment balances		(735)
			Trade creditors		
	-	(401)	Total financial liabilities	-	(876)
1,094,703	55,206	(401)	Grand total	1,303,312	103,054

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2020 £000s		31 March 2021 £000s
Financial assets		
(46,916)	Designated at fair value through profit & loss	254,095
1,859	Financial assets at amortised costs	(4,116)
(45,057)	Total	249,979

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

NOTE 17: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Pension Fund's investment objective is to achieve a return on Fund assets, which is sufficient, over the long term, to fully meet the cost of benefits and to ensure stability of employer's contribution

rates. Achieving the investment objectives requires a high allocation to growth assets in order to improve the funding level, although this leads to a potential higher volatility of future funding levels and therefore contribution rates.

Management of risk

The Pension Fund is invested in a range of different types of asset – equities, bonds, property, private equity and cash. This is done in line with the Local Government Pension Scheme Management and Investment of Funds Regulations 2016, which require pension funds to invest any monies not immediately required to pay benefits. These regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk.

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 council's 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 of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

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

The fund manages these risks in two ways:

1. the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

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. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council 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 movement during the financial year, in consultation with the fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period (based on assumption made in March 2020 on data provided by the Fund's investment consultant. The

sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. To demonstrate the impact of this volatility, the table below shows the impact of potential price changes based on the observed historical volatility of asset class returns.

Asset type	Potential market movements (+/-)	Potential market movements (+/-)
	2019/20	2020/21
Fixed income government bond	0.2%	0.2%
Inflation-linked government bonds	0.2%	0.2%
Investment grade corporate bonds	1.5%	1.5%
Equities	7.2%	7.2%
Private equity	9.2%	9.2%
Real estate	5.4%	5.4%
Hedge funds	3.2%	3.2%

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value at 31 March 2021	Potential value on increase	Potential value on decrease
	£000	£000	£000
Fixed income government bond	4,082	4,090	4,074
Inflation-linked government bonds	91,734	91,917	91,551
Investment grade corporate bonds	94,300	95,715	92,886
Equities	652,705	699,700	605,710
Private equity	160,844	175,642	146,046
Real estate	68,986	72,711	65,261
Hedge funds	229,784	237,137	222,431
Cash & accruals	103,054	103,054	103,054
	1,405,489	1,479,966	1,331,012

Asset type	Value at 31 March 2020	Potential value on increase	Potential value on decrease
	£000	£000	£000
Fixed income government bond	3,508	3,515	3,501
Inflation-linked government bonds	90,762	90,944	90,580
Investment grade corporate bonds	87,114	88,421	85,807
Equities	471,044	504,959	437,129
Private equity	124,000	135,408	112,592
Real estate	68,861	72,579	65,143
Hedge funds	249,013	256,981	241,045
Cash & accruals	55,206	55,206	55,206
	1,149,508	1,208,013	1,091,003

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. 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. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that 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 change in interest rates.

Assets exposed to interest rate risk	Value as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits	-	-	-	-
Cash & cash equivalents	100,369	1,004	-	-
Cash balances	53	-	-	-
Bonds	190,944	1,909	192,853	189,035
Total	291,366	2,913	192,853	189,035

Assets exposed to interest rate risk	Value as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits	-	-	-	-
Cash & cash equivalents	52,855	529	-	-
Cash balances	53	-	-	-
Bonds	181,383	1,814	183,197	179,569
Total	234,291	2,343	183,197	179,569

Income exposed to interest rate risks	Amount receivable as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Interest on cash deposits	28	0	28	29
Bonds	3,439	34	3,473	3,508
Total	3,467	35	3,502	3,536

Income exposed to interest rate risks	Amount receivable as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Interest on cash deposits	614	6	620	626
Bonds	3,440	34	3,474	3,406
Total	4,053	41	4,094	4,134

This 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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (UK sterling). The fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

There is a risk that due to exchange rate movements the sterling equivalent value of the investments falls. The Fund acknowledges that adverse foreign currency movements relative to Sterling can reduce the value of the fund's investment portfolio. The table below demonstrates the potential value of the fund's investments based on positive or adverse currency movements by 10%.

Assets exposed to currency risk	Assets value as at 31 March 2020 £000	Potential movement £000	Value on increase £000	Value on decrease £000
Canadian Dollar	1,079	108	1,187	971
Danish Krone	4,091	409	4,500	3,682
Euro	34,661	3,466	38,127	31,195
Hong Kong Dollar	7,993	799	8,792	7,194
Japanese Yen	18,787	1,879	20,666	16,908
Swedish Krona	5	1	6	4
Norwegian Krone	611	61	672	550
Swiss Franc	1,153	115	1,268	1,038
US Dollar	222,875	22,288	245,163	200,587
	291,255	29,126	320,381	262,129

Assets exposed to currency risk	Assets value as at 31 March 2019 £000	Potential movement £000	Value on increase £000	Value on decrease £000
Australian Dollar	1,562	156	1,718	1,406
Canadian Dollar	1	-	1	1
Danish Krone	737	74	811	663
Euro	39,617	3,962	43,579	35,655
Japanese Yen	291	29	320	262
Mexican Peso	677	68	745	609
Norwegian Krone	6	1	7	5
Singapore Dollar	1,143	114	1,257	1,029
South African Rand	480	48	528	432
Swedish Krona	541	54	595	487
Swiss Franc	1,089	109	1,198	980
US Dollar	161,988	16,199	178,187	145,789
	208,132	20,814	228,946	187,318

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 of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives' positions, where the risk equates to the net market value of a positive derivative position. 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.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

The Council believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2020 was £52.9m (31 March 2019 - £58.1m). This was held with the following institutions:

	Rating	Balances as at 31 March 2020 £000	Balances as at 31 March 2021 £000
Termed deposits			
Close Brothers	A-	-	-
Money market funds			
Goldman Sachs money market fund	AAA _m	35,868	31,296
Blackrock money market fund	AAA _m	35	35
Bank current accounts			
HSBC	AA-	53	53
Northern Trust Custodian	AA-	15,108	65,373
Cash held by fund managers		1,844	3,666
		52,908	100,423

c) Liquidity risk - represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2020 are due within one year.

d) Refinancing risk - The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its investment strategy

NOTE 18: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the results was approved by the Pension Policy & Investment Committee at their February 2020 meeting, for implementation from 01 April 2020.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the fund was assessed as 103% funded.

Financial assumptions

The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates are shown in note 20 in the financial assumption section.

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P Light mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

Life expectancy from age 65 as valuation date	Males	Females
Current pensioners aged 65 at the valuation date	22.3	24.2
Future pensioners aged 45 at the valuation date	22.9	24.9

NOTE 19: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Enfield Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

- a) The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £1,185.5M) covering 103% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- b) The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:
- 18.5% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

- an allowance of 1.5% of pay for McCloud and cost management – see paragraph 9 below,
- c) In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	19.8	0.008
2021	19.8	0.008
2022	19.8	0.009

- d) The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.
- e) The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service

Scheduled and subsumption body funding target *	4.20% p.a.
Low risk funding target	1.30% p.a.
Ongoing Orphan funding target	3.30% p.a.

Discount rate for periods after leaving service

Scheduled and subsumption body funding target *	4.20% p.a.
Low risk funding target	1.30% p.a.
Ongoing Orphan funding target	1.60% p.a.

Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

* The scheduled and subsumption body discount rate was used for scheduled bodies and other employers whose liabilities will be subsumed after exit by a scheduled body.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

- f) The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's postcode data using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with s_k of 7.5 and parameter A of 0.0 assuming a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.3	24.2
Current active members aged 45 at the valuation date	22.9	24.9

- g) The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.
- h) The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- i) There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to Guaranteed Minimum Pensions (GMPs):**
The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response set out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:**
Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

▪ **Goodwin**

An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

- j) This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, London Borough of Enfield, the Administering Authority of the Fund, in respect of this Statement.

- k) The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

<https://new.enfield.gov.uk/pensions/wp-content/uploads/2017/10/London-Borough-of-Enfield-Pension-Fund-Actuarial-valuation-as-at-31-March-2019-.pdf>

NOTE 20: CURRENT ASSETS

31 March 2020 £000s		31 March 2021 £000s
	Debtors	
208	Contributions due - employees	195
636	Contributions due - employers	577
0	Sundry debtors	144
844		916
	Cash balances	
53	Current account	21
897		937

NOTE 20A: LONG TERM DEBTORS

31 March 2020 £000s		31 March 2021 £000s
	Debtors	
53	Pensioner Tax liability	96
53		96

NOTE 21: CURRENT LIABILITIES

31 March 2020 £000s		31 March 2021 £000s
(460)	Sundry creditors	-1
(567)	Benefits payable	(488)
(1,027)		(489)

NOTE 22: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Fund by the AVC provider are disclosed within transfers-in.

The current provider is Prudential. Funds held are summarised below:

	Opening Balance at 1 st April 19	Contributions & Transfers	Sums Paid Out	Investment Return	Closing Balance at 31 March 2020
	£000s	£000s	£000s	£000s	£000s
Plan Value	3,512	767	(1,100)	103	3,282
Bonus	(332)				(411)
	3,180	767	(1,100)	103	2,871

NOTE 23: AGENCY SERVICES

The Enfield Pension Fund does not use any agency services to administer the pension service.

NOTE 24: RELATED PARTY TRANSACTIONS

London Borough of Enfield

The Enfield Pension Fund is administered by the London Borough of Enfield. Consequently, there is a strong relationship between the Council and the Pension fund.

During the reporting period, the Council incurred costs of £1.695m (2019/20: £1.124m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The Council is also the single largest employer of members of the pension fund and contributed £38.5m to the fund in (2019/20 £39.2m). At year end the Pension Fund owed the Council £126k (£460k in 2019/20).

Scheduled and admitted bodies owed the Fund £898k (£844k in 2019/20) from employer & employee contributions. All payments were received by 19th April 2021.

Governance

The Enfield Council has decided that Councillors should not be allowed to join the LGPS scheme and receive pension benefits from the Fund.

No allowances are paid to Members directly in respect of the Pension Policy & Investment Committee. The Chair of the Pension Policy & Investment Committee, however, is paid a special responsibility allowance.

During the year, no member or Council Officer with direct responsibility for pension fund issues had undertaken any declarable material transactions with the Pension Fund. Each member of the Pension Committee is required to declare their interests at meetings.

NOTE 24A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Pension manager, Finance Manager (Pensions & Treasury), the Head of Exchequer Services. As required by paragraph 3.9.4.2 of the CIPFA code of practice 2020/21 the figures below show the total remuneration and the change in value of post-employment benefits provided to these individuals over the accounting year.

31 March 2020 £000s		31 March 2021 £000s
237	Short-term benefits	267
72	Post-employment benefits	74
309		341

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The total outstanding capital commitments (investments) at 31 March 2021 are £40m (31 March 2020 were £70m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.