



PENSION FUND

STATEMENT OF ACCOUNTS

2018/19

MAIN STATEMENTS
FUND ACCOUNT

| | | 2018/19 | 2017/18 |
|--|-------|------------------|------------------|
| | Notes | £000 | £000 |
| Dealings with members, employers and others directly involved in the fund | | | |
| Contributions | 6 | (58,728) | (57,533) |
| Transfers in from other pension funds | 7 | (2,423) | (2,732) |
| | | (61,151) | (60,265) |
| Benefits | 8 | 55,024 | 50,467 |
| Payments to and on account of leavers | 9 | 4,819 | 3,980 |
| | | 59,843 | 54,447 |
| Net (additions) from dealings with members | | (1,308) | (5,818) |
| Management expenses | 10 | 8,073 | 5,870 |
| Net withdrawals including fund management expenses | | 6,765 | 52 |
| Returns on investments | | | |
| Investment income | 11 | (4,989) | (2,405) |
| Change in market value during the year | 13 | (56,448) | (42,058) |
| Net return on investments | | (61,437) | (44,463) |
| Net (increase) in the net assets available for benefits during the year | | (54,672) | (44,411) |
| Opening net assets of the scheme | | 1,096,568 | 1,052,157 |
| Closing net assets of the scheme | | 1,151,240 | 1,096,568 |

NET ASSETS STATEMENT

| | | 31 March 2019 | 31 March 2018 |
|---|-------|------------------|------------------|
| | Notes | £000 | £000 |
| Investment assets | | 1,142,022 | 1,077,635 |
| Long term investments | | 150 | 150 |
| Total net investments | 13 | 1,142,172 | 1,077,785 |
| Current assets | 17 | 10,850 | 21,080 |
| Current liabilities | 18 | (1,782) | (2,297) |
| Net assets of the fund available to fund benefits at the end of the reporting period | | 1,151,240 | 1,096,568 |

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 21.

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

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

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Finance Officer (Section 151 Officer) of the Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the *London Borough of Barnet Pension Fund Annual Report 2018/19* and the underlying statutory powers underpinning the scheme.

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 the LBB Council to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

The Fund's accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The Fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council and has authority under the Council's constitution to approve the Pension Fund Annual Report and Pension Fund Statement of Accounts.

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff in schools, are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements (except teachers, who have a separate scheme). Organisations participating in the Fund are classed as admitted and scheduled bodies:

- Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector
- Scheduled Bodies – local authorities, academies, colleges and similar bodies whose staff are automatically entitled to be members of the Fund

The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2019, including the comparative figures. An analysis of membership movement in the year is provided in the note below.

The number of employees contributing to the Fund decreased during the year from 9,093 to 8,630 at 31 March 2019. During the same period, the number of pensioners increased from 7,804 to 8,082 and the number of deferred pensioners increased from 10,238 to 10,803.

| | 31 March 2019 | 31 March 2018 |
|--|------------------|------------------|
| Number of employers with active members | 61 | 65 |
| Number of employees in scheme | | |
| London Borough of Barnet | 5,166 | 5,166 |
| Other employers | 3,464 | 3,762 |
| Total | 8,630 | 8,928 |
| Number of pensioners | | |
| London Borough of Barnet | 5,896 | 5,156 |
| Other employers | 2,186 | 2,683 |
| Total | 8,082 | 7,839 |
| Deferred pensioners | | |
| London Borough of Barnet | 7,189 | 6,616 |
| Other employers | 3,614 | 3,661 |
| Total | 10,803 | 10,277 |
| Total number of members in pension scheme | 27,515 | 27,044 |

Funding

The Fund is financed by contributions from employers, employees and the income from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities, allowing for future increases in pay and pensions.

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 ended 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Further details of the last actuarial valuation are given in Note 16.

Benefits

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of LBB and those bodies admitted to the Fund referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments.

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Fund account – revenue recognition

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.

Augmentation contributions are accounted for when the contributions are receivable, which is mainly when the relevant benefits are paid.

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.

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

Investment income

- **Distributions from pooled funds** are recognised at the date of payment. Should there be a timing delay between the date the net asset value is reduced to reflect the distribution and the date of receipt, the income is disclosed in the net assets statement as a current financial asset.
- **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.

3.2 Fund account – expense items

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.

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. As the London Borough of Barnet is the administering authority of the Fund, VAT input tax is recoverable on all Fund activities.

Members are entitled to request the Pension Funds pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays members tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Management expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

- All **administrative expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity, based on estimated time spent, and charged as expenses to the Fund. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.
- All **oversight and governance expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- 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. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

3.3 Net assets statement

Financial assets

Investment assets are included in the net assets statement on a fair value or cost basis as at the reporting date. Cash held by fund managers, money market fund investments, long-term investments, receivables and own cash are at amortised cost. 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. 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). Further details are provided by note 13.

Purchases and sales of investments in foreign currencies have been accounted for at the spot market rate at the date of the transaction. End of year spot market exchange rates are used to value non-sterling denominated investments.

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.

Financial liabilities

The Fund recognises financial liabilities at amortised cost 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.

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.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension Fund. The Fund has appointed Prudential and Aviva as its AVC providers. 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 19).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 16.

These 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 amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

There is a significant risk of material adjustment in the forthcoming financial year is as follows.

Actuarial present value of promised retirement benefits

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 managers with expert advice about the assumptions to be applied. Sensitivity analysis and the effects of changes in individual assumptions on the net pension liability are shown in Note 21.

6. CONTRIBUTIONS RECEIVABLE

By category

| | 31 March 2019 | 31 March 2018 Restated |
|---------------------------------------|------------------|------------------------------|
| | £000 | £000 |
| Employees' contributions: | (11,169) | (11,155) |
| Employers' contributions: | | |
| Normal contributions | (28,274) | (28,413) |
| Deficit recovery contributions | (17,555) | (14,342) |
| Augmentation contributions | (1,730) | (3,623) |
| Total employers' contributions | (47,559) | (46,378) |
| Total contributions receivable | (58,728) | (57,533) |

By authority

| | 31 March 2019 | 31 March 2018 |
|---------------------------------------|------------------|------------------|
| | £000 | £000 |
| London Borough of Barnet | (30,199) | (29,838) |
| Scheduled bodies | (21,920) | (22,033) |
| Admitted bodies | (6,609) | (5,662) |
| Total contributions receivable | (58,728) | (57,533) |

An adjustment has been made to the prior year contributions to move £9.245 million from normal to deficit recovery contributions.

The contributions shown in the table above for the London Borough of Barnet, included the following wholly owned subsidiary of the Council:

Barnet Homes - £2.620 million (2017/18 £2.566 million)
 Your Choice - £0.634 million (2016/17: £0.714 million)

7. TRANSFERS IN FROM OTHER PENSION FUNDS

| | 31 March 2019 | 31 March 2018 |
|--|------------------|------------------|
| | £000 | £000 |
| Individual transfers | (2,423) | (2,732) |
| Total transfers in from other Pension Funds | (2,423) | (2,732) |

8. BENEFITS PAYABLE

By category

| | 31 March 2019 | 31 March 2018 |
|--|------------------|------------------|
| | £000 | £000 |
| Pensions | 45,507 | 43,156 |
| Commutation and lump sum retirement benefits | 8,531 | 6,656 |
| Lump sum death benefits | 986 | 655 |
| Total benefits payable | 55,024 | 50,467 |

By authority

| | 31 March 2019 | 31 March 2018 |
|-------------------------------|------------------|------------------|
| | £000 | £000 |
| London Borough of Barnet | 37,096 | 34,175 |
| Scheduled bodies | 13,683 | 12,378 |
| Admitted bodies | 4,245 | 3,914 |
| Total benefits payable | 55,024 | 50,467 |

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 31 March 2019 | 31 March 2018 |
|--|------------------|------------------|
| | £000 | £000 |
| Refunds to members leaving service | 149 | 97 |
| Individual transfers | 4,670 | 3,883 |
| Total payments to and on account of leavers | 4,819 | 3,980 |

10. MANAGEMENT EXPENSES

| | 31 March 2019 | 31 March 2018 |
|----------------------------------|------------------|------------------|
| | £000 | £000 |
| Administrative costs | 627 | 465 |
| Investment management expenses | 6,426 | 4,473 |
| Oversight and governance costs | 1,020 | 932 |
| Total management expenses | 8,073 | 5,870 |

Administration costs represent charges from the third party pension administrator. Oversight and governance costs include staff cost recharges from London Borough of Barnet, actuarial fees, investment advisory fees and audit fees.

10A. INVESTMENT MANAGEMENT EXPENSES

| | 31 March 2019 | 31 March 2018 |
|---|------------------|------------------|
| | £000 | £000 |
| Management fees | 3,675 | 3,424 |
| Performance related fees | 1,173 | 387 |
| Custody fees | 15 | 15 |
| Transaction costs | 1,563 | 647 |
| Total investment management expenses | 6,426 | 4,473 |

11. INVESTMENT INCOME

| | 31 March 2019 | 31 March 2018 |
|--|------------------|------------------|
| | £000 | £000 |
| Pooled investments – unit trusts and other managed funds | (4,942) | (2,357) |
| Interest on cash deposits | (47) | (48) |
| Total investment income | (4,989) | (2,405) |

12. AUDIT COSTS

| | 31 March 2019 | 31 March 2018 |
|--------------------------------------|------------------|------------------|
| | £000 | £000 |
| Payable in respect of external audit | 21 | 44 |
| Total external audit costs | 21 | 44 |

13. INVESTMENTS

| 2018/19 | | | | | |
|------------------------------|------------------|---------------------------|-----------------------|--|------------------|
| | Market value | Purchases during the year | Sales during the year | Change in market value during the year | Market value |
| | 1 April 2018 | | | | 31 March 2019 |
| | £000 | £000 | £000 | £000 | £000 |
| Investment assets: | | | | | |
| Pooled investments | 1,074,130 | 34,914 | (37,780) | 56,448 | 1,127,712 |
| Money market funds | 3,500 | 25,800 | (15,000) | 0 | 14,300 |
| Long term investments | 150 | 0 | 0 | 0 | 150 |
| | 1,077,780 | 60,714 | (52,780) | 56,448 | 1,142,162 |
| Other investment balances: | | | | | |
| Cash deposits | 5 | | | | 10 |
| Net investment assets | 1,077,785 | | | | 1,142,172 |

| 2017/18 | | | | | |
|------------------------------|------------------|---------------------------|-----------------------|--|------------------|
| | Market value | Purchases during the year | Sales during the year | Change in market value during the year | Market value |
| | 1 April 2017 | | | | 31 March 2018 |
| | £000 | £000 | £000 | £000 | £000 |
| Investment assets: | | | | | |
| Pooled investments | 1,014,952 | 136,777 | (119,657) | 42,058 | 1,074,130 |
| Money market funds | 23,900 | 67,168 | (87,568) | 0 | 3,500 |
| Long term investments | 150 | 0 | 0 | 0 | 150 |
| | 1,039,002 | 203,945 | (207,225) | 42,058 | 1,077,780 |
| Other investment balances: | | | | | |
| Cash deposits | 20 | | | | 5 |
| Net investment assets | 1,039,022 | | | | 1,077,785 |

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 and any income attributed to the unitised funds that has been retained by the funds and reinvested. Transaction costs are included in investment management expenses (note 10A).

13A. ANALYSIS OF INVESTMENTS

| | 31 March 2019 | 31 March 2018 |
|---|------------------|------------------|
| | £000 | £000 |
| Pooled funds – additional analysis | | |
| UK | | |
| Unit trusts | 452,150 | 425,658 |
| UK managed funds | 675,562 | 648,472 |
| Money market funds | 14,300 | 3,500 |
| | 1,142,012 | 1,077,630 |
| Long term investments | 150 | 150 |
| Cash deposits | 10 | 5 |
| Total investment assets | 1,142,172 | 1,077,785 |

All investments are held through managed pooled entities and comprise underlying investments that are domiciled in both the UK and overseas.

13B. INVESTMENTS ANALYSED BY FUND MANAGER

| | Market value | 31 March 2019 | Market value | 31 March 2018 |
|---|------------------|------------------|------------------|------------------|
| | £000 | % | £000 | % |
| Legal and General | 452,151 | 39.5 | 425,658 | 39.5 |
| Schroder Investment Management | 263,900 | 23.1 | 259,541 | 24.1 |
| LCIV NW Real Return Fund | 120,378 | 10.5 | 125,948 | 11.7 |
| Alcentra | 65,799 | 5.8 | 61,093 | 5.7 |
| Partners Group | 57,609 | 5.0 | 43,624 | 4.0 |
| Barings | 38,284 | 3.4 | 37,556 | 3.5 |
| Insight Investments | 42,498 | 3.7 | 41,528 | 3.9 |
| M&G Investments | 30,795 | 2.7 | 30,977 | 2.9 |
| IFM Investors | 56,308 | 4.9 | 48,211 | 4.5 |
| London Collective Investment Vehicle (Share Capital) | 150 | 0.0 | 150 | 0.0 |
| Aberdeen Standard Life | 14,300 | 1.3 | 3,500 | 0.3 |
| | 1,142,172 | 100.0 | 1,077,785 | 100.0 |

Pooling

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares. The Fund's investments with Legal and General and LCIV NW Real Return (50.1% of investments) are either invested with the LCIV or monitored by them. The Pension Fund Committee is currently discussing new mandates via the LCIV equivalent to 12.6% of the fund value in UK property, emerging market equities and private debt. Opportunities to switch assets to the management of the LCIV are reviewed regularly, in particular when a change of asset class or investment manager is being considered. The table below provides further analysis of the investments as at 31 March 2019 by both asset class and geographical exposure. Additional details of each fund are provided in the investment policy report.

INVESTMENTS ANALYSED BY ASSET CLASS

| Asset Class | 31 March 2019 | | 31 March 2018 | |
|--------------------------------|------------------|-------------|------------------|-------------|
| | £'000 | £'000 | £'000 | £'000 |
| Equities | | | | |
| UK | 48,441 | 4% | 29,350 | 3% |
| Overseas | 538,189 | 47% | 453,552 | 42% |
| Global | 931 | 0% | 55,921 | 5% |
| | 587,561 | 51% | 538,823 | 50% |
| Bonds | | | | |
| UK | 58,025 | 5% | 44,644 | 4% |
| Overseas | 152,940 | 13% | 143,524 | 13% |
| Global | 241,564 | 21% | 206,078 | 19% |
| | 452,529 | 40% | 394,246 | 37% |
| Infrastructure | 56,308 | 5% | 48,211 | 4% |
| Other assets | 62,076 | 5% | 52,696 | 5% |
| Cash | -16,302 | -1% | 43,809 | 4% |
| Total Investment Assets | 1,142,172 | 100% | 1,077,785 | 100% |

NB: where no geographic split is available, global in the table above represents both UK and overseas.

With the exception of Money Market Funds (£14.3 million) none of the investment funds are listed. However, the underlying investments e.g. those managed by Legal and General, may be listed.

The following investments represent more than 5% of the net assets of the scheme. These funds are registered in the UK.

| | 31 March 2019 | | 31 March 2018 | |
|--|---------------|---------------------------|---------------|---------------------------|
| | £000 | as % of investment assets | £000 | as % of investment assets |
| Legal and General RAFI 3000 Tracker Fund | 219,525 | 19.2 | 215,638 | 19.4 |
| Legal and General Global Equity Tracker Fund | 198,716 | 17.4 | 177,237 | 16.7 |
| Schroder Life Diversified Growth Fund | 141,644 | 12.4 | 142,284 | 13.9 |
| LCIV NW Real Return Fund | 120,378 | 10.5 | 125,948 | 12.9 |
| Schroder All Maturities Corporate Bond Fund | 122,247 | 10.7 | 117,252 | 11.0 |

13C. FAIR VALUE – BASIS OF VALUATION

Financial assets are shown in the Net Asset Statement at Fair Value. Fair Value has been determined as:

- Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2019.
- UK managed funds are stated at net asset value as calculated by their respective managers as at 31 March 2019.
- Money market funds are valued at net asset value (which to date has always equalled cost) as calculated by the fund manager.

13D. FAIR VALUE – HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

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

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. This included unit trusts priced by the fund managers that are not held as exchange traded funds.

Level 3

Assets and liabilities 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.

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.

| 31 March 2019 | | | |
|------------------------------------|---------------------------|-------------------------------|---|
| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs |
| | Level 1 | Level 2 | Level 3 |
| | £000 | £000 | £000 |
| Financial Assets | | | |
| Fair value through profit and loss | | 1,127,862 | |
| Amortised cost | 14,310 | | |
| Total financial assets | 14,310 | 1,127,862 | 0 |
| Grand Total: | | | 1,142,172 |

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs |
|------------------------------------|---------------------------|-------------------------------|---|
| | Level 1 | Level 2 | Level 3 |
| | £000 | £000 | £000 |
| Financial Assets | | | |
| Fair value through profit and loss | | 1,074,280 | |
| Amortised cost | 3,505 | | |
| Total financial assets | 3,505 | 1,074,280 | 0 |
| Grand Total: | | | 1,077,785 |

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. The headings in the table below have been updated to reflect the requirements of IFRS9.

| | 31 March 2019 | | | 31 March 2018 | | |
|------------------------------------|---|-------------------|---|---|-------------------|---|
| | Fair value through profit and loss | Amortised cost | Financial liabilities at amortised cost | Fair value through profit and loss | Amortised cost | Financial liabilities at amortised cost |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial assets | | | | | | |
| Pooled investments | 1,127,712 | | | 1,074,130 | | |
| Cash and cash equivalents | | 19,101 | | | 13,600 | |
| Other investment balances | | 150 | | | 150 | |
| Receivables | | 6,059 | | | 10,985 | |
| Total financial assets | 1,127,712 | 25,310 | 0 | 1,074,129 | 24,735 | 0 |
| Financial liabilities | | | | | | |
| Creditors | | | (1,782) | | | (2,297) |
| Total financial liabilities | 0 | 0 | (1,782) | 0 | 0 | (2,297) |
| Total | 1,127,712 | 25,310 | (1,782) | 1,074,129 | 24,735 | (2,297) |
| Grand Total | | | 1,151,240 | | | 1,096,568 |

The net return on investments is wholly attributable to assets held at fair value through the profit and loss with the exception of interest earned on cash balances of £47,000 (2017/18: £48,000) classified as loans and receivables.

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to have a reasonable probability of achieving in the long-term returns at least in line with the 'prudent' return set by the Scheme Actuary when calculating the required employers' contributions. The Fund achieves this through selection of appropriate returning asset classes, 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.

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.

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, which require an administering authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund in accordance with its Investment Strategy Statement.

The administering authority's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks.

The Pension Fund Committee has prepared an Investment Strategy Statement which sets out the Pension Fund's policy on matters such as the type of investments to be held, the balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external investment managers is reported to the Pension Fund Committee quarterly. Performance of Pension Fund investments managed by external Investment managers is compared to benchmark returns.

15A. Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016. Details of the (Management and Investment of Funds) regulations 2016 can be found in the Investment Strategy Statement adopted by Pension Fund Committee on 14th March 2017 (updated 26th March 2019).

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.

Following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

| Asset type | Potential market movements (+/-) |
|--------------------|----------------------------------|
| Pooled investments | 18% |

The 18% assumed volatility for pooled assets as at 31st March 2019 is based on the largest negative movement in the value of the fund's assets recorded in the last 10 years. This compares with an average annual change in value (positive or negative) during that period of 8.3%. It should be noted that large changes in value in one direction are often followed by a reversal. For example, the 18% loss in 2008/9 was followed by a 26% gain in 2009/10. The assumed volatility for cash balances is 1%.

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 as at | Potential value | Potential value |
|--------------------|------------------|------------------|-----------------|
| | 31 March 2019 | on increase | on decrease |
| | £000 | £000 | £000 |
| Pooled investments | 1,127,712 | 1,330,701 | 924,724 |
| Total | 1,127,712 | 1,330,701 | 924,724 |

| Asset type | Value as at | Potential value | Potential value |
|--------------------|------------------|------------------|-----------------|
| | 31 March 2018 | on increase | on decrease |
| | £000 | £000 | £000 |
| Pooled investments | 1,074,130 | 1,267,473 | 880,787 |
| Total | 1,074,130 | 1,267,473 | 880,787 |

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 direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Assets exposed to interest rate risk | Value as at | Potential movement on | Value | Value |
|--------------------------------------|---------------|-----------------------------|---------------|---------------|
| | 31 March 2019 | 1% change in interest rates | on increase | on decrease |
| | £000 | £000 | £000 | £000 |
| Cash and cash equivalents | 19,101 | 191 | 19,292 | 18,910 |
| Total | 19,101 | 191 | 19,292 | 18,910 |

| Assets exposed to interest rate risk | Value as at | Potential movement on | Value | Value |
|--------------------------------------|---------------|-----------------------------|---------------|---------------|
| | 31 March 2018 | 1% change in interest rates | on increase | on decrease |
| | £000 | £000 | £000 | £000 |
| Cash and cash equivalents | 13,600 | 136 | 13,736 | 13,464 |
| Total | 13,600 | 136 | 13,736 | 13,464 |

In addition to cash balances, the fund holds bonds and credit instruments with a value of £452.5 million as at 31 March 2019 (2017/18: £394.2 million). Changes in interest rates impact on both the value and future income of these bonds. An increase in interest rates will not affect the value of short-term and variable rate instruments but increase the income, whereas for longer duration bonds, the income is not impacted by a change in interest rates, but the bond value will decline if interest rates increase. The possible impact of changes in interest rates is captured within the 18% volatility for pooled funds above. However, in isolation, if we are to assume that bonds are variable / short-dated, a 1% increase in interest rates will add £4.5 million (2017/18: £4.7 million) in annual income. A decrease in interest rates will lead to a similar scale reduction in annual income.

The Pension Fund holds financial assets and liabilities in overseas financial markets and therefore could be exposed to the risk of loss from exchange rate movements of foreign currencies against sterling. This risk is deemed acceptable as the investments are widely diversified by currency and the scheme has no short-term expenditure liquidity requirements. Many of the overseas investments are hedged into sterling by the investment managers. After hedging, the net exposure to non-sterling currencies is £362.3 million (2017/18: £370.9 million). The most significant non-sterling exposure is to the US dollar. A 10% change in the relative value of sterling would change the value of investments by £36.2 million (2017/18: £37.1 million). This risk is a sub-set of the market risk calculation above.

15B. 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. However, the Pension Fund reviews its exposure to credit and counterparty risk through its external investment managers by review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in their activities for the Pension Fund.

As at 31 March 2019 working capital was held in the Pension Fund bank account with the Royal Bank of Scotland and in a money market fund with Aberdeen Standard Life, in accordance with the credit rating criteria within the Council's Treasury Management Strategy. Pension administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

| Summary | Rating | Source | Balances | Balances |
|----------------------------|--------|---------|---------------|---------------|
| | | | as at | as at |
| | | | 31 March | 31 March |
| | | | 2019 | 2018 |
| | | | £000 | £000 |
| Standard Life MMF cash | AAAm | Moody's | 14,300 | 23,900 |
| Royal Bank of Scotland | A1 | Moody's | 6,196 | 2,326 |
| Cash held by Fund Managers | | | 10 | 20 |
| Total | | | 20,506 | 26,246 |

15C. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a comprehensive cash flow management system that seeks to ensure that the cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. The Fund is also able to sell units in its Pooled Investment Vehicles if required, most of which can be realised within one month.

The key refinancing 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.

16. ACTUARIAL VALUATION

Hymans Robertson LLP were appointed as fund actuary in 2016 and undertook a formal triennial actuarial valuation of the fund as at 31 March 2016 in accordance with the Local Government Pension Scheme Regulations 2013. The actuarial valuation calculates the contribution rate payable by the all employers, including the LBB Council, to meet the administering authority's funding objectives.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The aggregate primary contribution rate for 2018/19 is 17.9% of pensionable pay plus a secondary contribution of £14.683 million. The secondary contribution in 2019/20 increases to £16.047 million. This is the average required employer contribution to restore the funding position to 100% over the next 20 years.

The assumptions used for the triennial valuation were:

Financial assumptions

| | 31 March 2016 | 31 March 2013 |
|------------------------|------------------|------------------|
| | % | % |
| Discount rate | 4.2 | 6.0 |
| RPI | 3.2 | 3.5 |
| CPI | 2.1 | 2.7 |
| Pension increases rate | 2.1 | 2.7 |
| Salary increases rate | 2.4 | 4.5 |

Demographic assumptions

| | 31 March 2016 | 31 March 2013 |
|--------------------------------------|------------------|------------------|
| Life expectancy from age 65 | | |
| Retiring today: | | |
| Males | 21.9 | 22.1 |
| Females | 24.3 | 24.4 |
| Retiring in 20 years: | | |
| Males | 23.9 | 24.2 |
| Females | 26.5 | 26.8 |
| Other demographic assumptions | | |
| Commutation | 50% | 50% |
| 50:50 option | 5% | 10% |

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 14 March 2017. The next actuarial valuation will be based on the value of the fund as at 31 March 2019.

17. CURRENT ASSETS

| | 31 March 2019 | 31 March 2018 |
|-------------------------------|------------------|------------------|
| | £000 | £000 |
| Contributions due – employees | 799 | 798 |
| Contributions due – employers | 5,005 | 9,875 |
| Sundry debtors | 255 | 312 |
| Cash balances | 4,791 | 10,095 |
| Total current assets | 10,850 | 21,080 |

18. CURRENT LIABILITIES

| | 31 March 2019 | 31 March 2018 |
|-----------------------------------|------------------|------------------|
| | £000 | £000 |
| Sundry creditors | (1,782) | (2,297) |
| Transfer values payable (leavers) | 0 | 0 |
| Total current liabilities | (1,782) | (2,297) |

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

| | Market value 31 March 2019 | Market value 31 March 2018 |
|------------------|-------------------------------|-------------------------------|
| | £000 | £000 |
| Aviva | 478 | 478 |
| Prudential | 2,889 | 2,557 |
| Total AVC | 3,367 | 3,035 |

AVC contributions of £0.518m (2017/18: £0.460m) were paid directly to Prudential and £0.008m (2017/18: £0.008m) were paid to Aviva during the year.

20. RELATED PARTY TRANSACTIONS

The London Borough of Barnet Pension Fund is administered by the London Borough of Barnet. Consequently, there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £1.319m (2016/17: 1.181m) 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 £24.961m to the Fund in 2018/19 (2017/18: £24.335m). As at 31 March 2019 the Council owed the Pension Fund £4.111 million in pension contributions (£5.662 million as at 31 March 2018).

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operation of Barnet Council. During the year to 31 March 2019, the Fund had an average investment balance of £7.5m (year to 31 March 2018: £11.0m), earning interest of £0.046m (2016/17: £0.048m).

Governance

One member of the Pension Fund Committee as at 31 March 2019 is in receipt of a pension from the Barnet Pension Fund. There are no active members of the Fund that are members of the Pension Fund Committee. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

20A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Chief Executive, the Director of HR, the s.151 officer and the Deputy s.151 officer. The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below.

| | 31 March 2019 | 31 March 2018 |
|---------------------------|---------------|---------------|
| | £000 | £000 |
| Short-term benefits | 48 | 43 |
| Post-employment benefits | 13 | 11 |
| Total remuneration | 61 | 54 |

21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

Introduction

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

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

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

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

Present value of promised retirement benefits Year ended

| Year ended | 31 March 2019 | 31 March 2018 |
|-----------------------|---------------|---------------|
| Active members (£m) | 874 | 728 |
| Deferred members (£m) | 496 | 456 |
| Pensioners (£m) | 676 | 680 |
| Total (£m) | 2,046 | 1,864 |

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

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £112m. I estimate that there is no impact from any change in demographic and longevity assumptions because they are identical to the previous year.

Financial assumptions

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

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of

1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--|------------|------------|
| Current pensioners | 21.9 years | 24.3 years |
| Future pensioners (assumed to be aged 45 at the latest formal valuation) | 23.9 years | 26.5 years |

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

Commutation assumptions

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

Sensitivity Analysis

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

| Sensitivity of assumptions for year ended 31 March 2018 | Approximate % increase liabilities | Approximate monetary Value (£m) |
|---|------------------------------------|---------------------------------|
| 0.5% p.a. increase in the Pension Increase Rate | 8% | 169 |
| 0.5% p.a. increase in the Salary Increase Rate | 1% | 23 |
| 0.5% p.a. decrease in the Real Discount Rate | 10% | 203 |

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

Professional notes

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

Prepared by:-



Peter Summers FFA
3 May 2019
For and on behalf of Hymans Robertson LLP

22. EVENTS AFTER THE REPORTING PERIOD

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