



**PENSION FUND**

# **STATEMENT OF ACCOUNTS**

**2019/20**

Draft - Unaudited

**MAIN STATEMENTS**

**FUND ACCOUNT**

		2019/20	2018/19
	Notes	£000	£000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	6	(63,418)	(59,528)
Transfers in from other pension funds	7	(1,839)	(2,422)
		<b>(65,257)</b>	<b>(61,950)</b>
Benefits	8	57,420	55,154
Payments to and on account of leavers	9	7,638	4,592
		<b>65,058</b>	<b>59,746</b>
<b>Net (additions) from dealings with members</b>		<b>(199)</b>	<b>(2,204)</b>
Management expenses	10	9,536	8,073
<b>Net withdrawals including fund management expenses</b>		<b>9,337</b>	<b>5,869</b>
<b>Returns on investments</b>			
Investment income	11	(8,598)	(4,989)
Change in market value during the year	13	71,964	(56,448)
<b>Net return on investments</b>		<b>63,366</b>	<b>(61,437)</b>
<b>Net decrease / (increase) in the net assets available for benefits during the year</b>		<b>72,703</b>	<b>(55,568)</b>
<b>Opening net assets of the scheme</b>		1,152,136	1,096,568
<b>Closing net assets of the scheme</b>		<b>1,079,433</b>	<b>1,152,136</b>

**NET ASSETS STATEMENT**

		31 March 2020	31 March 2019
	Notes	£000	£000
Investment assets		1,070,804	1,142,022
Long term investments		150	150
<b>Total net investments</b>	13	<b>1,070,954</b>	<b>1,142,172</b>
Current assets	17	11,713	11,649
Current liabilities	18	(3,233)	(1,685)
<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,079,433</b>	<b>1,152,136</b>

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 2019/20* 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 can 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 2020, 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 8,630 to 7,828 at 31 March 2020. During the same period, the number of pensioners increased from 8,062 to 8,318 and the number of deferred pensioners increased from 10,803 to 11,695.

	31 March 2020	31 March 2019
<b>Number of employers with active members</b>	65	66
<b>Number of employees in scheme</b>		
London Borough of Barnet	4,880	5,166
Other employers	2,948	3,464
<b>Total</b>	7,828	8,630
<b>Number of pensioners</b>		
London Borough of Barnet	6,166	5,896
Other employers	2,152	2,186
<b>Total</b>	8,318	8,082
<b>Deferred pensioners</b>		
London Borough of Barnet	8,145	7,189
Other employers	3,550	3,614
<b>Total</b>	11,695	10,803
<b>Total number of members in pension scheme</b>	<b>27,841</b>	<b>27,515</b>

NB: Scheme members with multiple roles will be included more than once in the table as will contractors with more than one contracts.

## 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 2020. Employers also pay contributions and their rates 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 required to participate or otherwise 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 2019/20 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 2019/20, 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. The accounts have been prepared on a going concern basis.

## 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.

### 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 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 2020	31 March 2019
	£000	£000
<b>Employees' contributions:</b>	<b>(11,543)</b>	<b>(11,169)</b>
<b>Employers' contributions:</b>		
Normal contributions	(30,948)	(30,731)
Deficit recovery contributions	(16,785)	(15,098)
Augmentation contributions	(4,142)	(2,530)
<b>Total employers' contributions</b>	<b>(51,875)</b>	<b>(48,359)</b>
<b>Total contributions receivable</b>	<b>(63,418)</b>	<b>(59,528)</b>

### By authority

	31 March 2020	31 March 2019
	£000	£000
London Borough of Barnet	(34,779)	(30,199)
Scheduled bodies	(23,778)	(22,720)
Admitted bodies	(4,860)	(6,609)
<b>Total contributions receivable</b>	<b>(63,418)</b>	<b>(59,528)</b>

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

Barnet Homes - £2.481 million (2018/19 £2.620 million)

Your Choice - £0.883 million (2018/19: £0.634 million)

## 7. TRANSFERS IN FROM OTHER PENSION FUNDS

	31 March 2020	31 March 2019
	£000	£000
Individual transfers	(1,839)	(2,422)
<b>Total transfers in from other Pension Funds</b>	<b>(1,839)</b>	<b>(2,422)</b>

## 8. BENEFITS PAYABLE

### By category

	31 March 2020	31 March 2019
	£000	£000
Pensions	47,873	45,507
Commutation and lump sum retirement benefits	8,638	8,662
Lump sum death benefits	909	986
<b>Total benefits payable</b>	<b>57,420</b>	<b>55,154</b>

### By authority

	31 March 2020	31 March 2019
	£000	£000
London Borough of Barnet	38,513	37,184
Scheduled bodies	15,021	13,715
Admitted bodies	3,886	4,255
<b>Total benefits payable</b>	<b>57,420</b>	<b>55,154</b>

## 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020	31 March 2019
	£000	£000
Refunds to members leaving service	169	149
Individual transfers	7,470	4,443
<b>Total payments to and on account of leavers</b>	<b>7,638</b>	<b>4,592</b>

**10. MANAGEMENT EXPENSES**

	31 March 2020	31 March 2019
	£000	£000
Administrative costs	913	627
Investment management expenses	7,761	6,426
Oversight and governance costs	862	1,020
<b>Total management expenses</b>	<b>9,536</b>	<b>8,073</b>

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

**10A. INVESTMENT MANAGEMENT EXPENSES**

	31 March 2020	31 March 2019
	£000	£000
Management fees	4,559	3,675
Performance related fees	1,377	1,173
Custody fees	15	15
Transaction costs	1,811	1,563
<b>Total investment management expenses</b>	<b>7,761</b>	<b>6,426</b>

**11. INVESTMENT INCOME**

	31 March 2020	31 March 2019
	£000	£000
Pooled investments – unit trusts and other managed funds	(8,568)	(4,942)
Interest on cash deposits	(29)	(47)
<b>Total investment income</b>	<b>(8,598)</b>	<b>(4,989)</b>

**12. AUDIT COSTS**

	31 March 2020	31 March 2019
	£000	£000
Payable in respect of external audit	36	36
<b>Total external audit costs</b>	<b>36</b>	<b>36</b>

Prior year audit costs in the above table have been restated to include additional charges agreed after the closure of the accounts.

### 13. INVESTMENTS

2019/20					
	Market value	Purchases during the year	Sales during the year	Change in market value during the year	Market value
	1 April 2019				31 March 2020
	£000	£000	£000	£000	£000
<b>Investment assets:</b>					
Pooled investments	1,127,712	224,913	(213,555)	(71,964)	1,067,106
Money market funds	14,300	58,352	(68,970)		3,682
Long term investments	150				150
	<b>1,142,162</b>	<b>283,265</b>	<b>(282,525)</b>	<b>(71,964)</b>	<b>1,070,938</b>
Other investment balances:					
Cash deposits	10				16
<b>Net investment assets</b>	<b>1,142,172</b>				<b>1,070,954</b>

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
<b>Investment assets:</b>					
Pooled investments	1,074,130	36,169	(39,035)	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
	<b>1,077,780</b>	<b>61,969</b>	<b>(54,035)</b>	<b>56,448</b>	<b>1,142,162</b>
Other investment balances:					
Cash deposits	5				10
<b>Net investment assets</b>	<b>1,077,785</b>				<b>1,142,172</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year 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 2020	31 March 2019
	£000	£000
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Unit trusts	394,627	452,150
UK managed funds	644,923	675,562
Money market funds	3,682	14,300
<b>Non-UK</b>		
Overseas Managed Fund	27,556	0
	<b>1,070,787</b>	<b>1,142,012</b>
Long term investments	150	150
Cash deposits	16	10
<b>Total investment assets</b>	<b>1,070,954</b>	<b>1,142,172</b>

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 2020	Market value	31 March 2019
	£000	%	£000	%
Legal and General	394,627	36.7	452,151	39.6
Schroder Investment Management	242,659	22.7	263,900	23.1
LCIV	79,209	7.4	120,528	10.6
Alcentra	55,082	5.1	65,799	5.8
Partners Group	69,835	6.5	57,609	5.0
Barings	32,324	3.0	38,284	3.4
Insight Investments	40,664	3.8	42,498	3.7
M&G Investments	28,753	2.7	30,795	2.7
IFM Investors	67,629	6.3	56,308	4.9
Aberdeen Long Lease Property	28,933	2.7	0	0.0
CBRE	25,390	2.4	0	0.0
Adams Street	2,165	0.2	0	0.0
Aberdeen Standard Life	3,682	0.3	14,300	1.3
	<b>1,070,954</b>	<b>100.0</b>	<b>1,142,172</b>	<b>100.0</b>

**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, LCIV (44.2% of investments) are either invested with the LCIV or monitored by them. The table below provides further analysis of the investments as at 31 March 2020 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 2020			31 March 2019		
	£'000	£'000	%	£'000	£'000	%
<b>Equities</b>						
UK	29,181		3%	48,441		4%
Overseas	437,888		41%	538,189		47%
Global	22,356		2%	931		0%
		489,425	46%		587,561	51%
<b>Bonds</b>						
UK	150,408		14%	58,025		5%
Overseas	194,063		18%	152,940		13%
Global	37,942		4%	241,564		21%
		382,413	36%		452,529	40%
<b>Property</b>						
UK	35,302		3%	0		0%
Overseas	24,552		2%	0		0%
		59,854	6%			
<b>Infrastructure</b>						
		71,139	7%		56,308	5%
<b>Other assets</b>						
		35,073	3%		62,076	5%
<b>FX Forward derivative</b>						
		0	0%		-38,292	-3%
<b>Cash</b>						
		33,050	3%		21,990	2%
<b>Total Investment Assets</b>		<b>1,070,954</b>	<b>100%</b>		<b>1,142,172</b>	<b>100%</b>

Where no geographic split is available, global in the table above represents both UK and overseas. With the exception of Money Market Funds (£3.6 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 2020		31 March 2019	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker Fund	176,988	16.5	219,525	19.2
Legal and General Global Equity Tracker Fund	188,934	17.7	198,716	17.4
Schroder Life Diversified Growth Fund	115,239	10.8	141,644	12.4
LCIV NW Real Return Fund	45,288	4.2	120,378	10.5
Schroder All Maturities Corporate Bond Fund	127,405	11.9	122,247	10.7
IFM Global Infrastructure	67,629	6.3	56,308	4.9

### 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 2020.
- UK managed funds are stated at net asset value as calculated by their respective managers as at 31 March 2020
- Money market funds are valued at net asset value (which to date has always been equal to 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 2020				
	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
	£000	£000	£000	
<b>Financial Assets</b>				
Fair value through profit and loss		1,067,256		
Amortised cost	3,697			
<b>Total financial assets</b>	<b>3,697</b>	<b>1,067,256</b>		<b>0</b>
<b>Grand Total:</b>				<b>1,070,954</b>

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

#### 14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

	31 March 2020			31 March 2019		
	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
<b>Financial assets</b>						
Pooled investments	1,067,106			1,127,712		
Cash and cash equivalents		8,994			19,101	
Other investment balances		150			150	
Receivables		6,416			6,859	
<b>Total financial assets</b>	<b>1,067,106</b>	<b>15,560</b>	<b>0</b>	<b>1,127,711</b>	<b>26,110</b>	<b>0</b>
<b>Financial liabilities</b>						
Creditors			(3,233)			(1,686)
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>(3,233)</b>	<b>0</b>	<b>0</b>	<b>(1,686)</b>
<b>Total</b>	<b>1,067,106</b>	<b>15,560</b>	<b>(3,233)</b>	<b>1,127,711</b>	<b>26,110</b>	<b>(1,686)</b>
<b>Grand Total</b>			<b>1,079,433</b>			<b>1,152,136</b>

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 £30,000 (2018/19: £47,000) 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 14<sup>th</sup> March 2017 (updated 26<sup>th</sup> 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 2019/20 reporting period.

Asset type	Potential market movements (+/-)
Pooled investments	7%

The 7% assumed volatility for pooled assets as at 31<sup>st</sup> March 2020 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 6.5%. It should be noted that large changes in value in one direction are often followed by a reversal. For example, in the 2018-19 accounts the largest ten-year movement was reported as 18% loss in 2008/9, which was followed by a 26% gain in 2009/10. Similarly the fund suffered a 13.3% decline in Q1, 2020 due to Covid-19 followed by a 10.5% gain in Q2, 2020. 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 2020	on increase	on decrease
	£000	£000	£000
Pooled investments	1,067,106	1,141,804	992,409
<b>Total</b>	<b>1,067,106</b>	<b>1,141,804</b>	<b>992,409</b>

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
<b>Total</b>	<b>1,127,712</b>	<b>1,330,701</b>	<b>924,724</b>

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 2020 and 31 March 2019 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 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	8,994	90	9,084	8,904
<b>Total</b>	<b>8,994</b>	<b>90</b>	<b>9,084</b>	<b>8,904</b>

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

In addition to cash balances, the fund holds bonds and credit instruments with a value of £382.4 million as at 31 March 2020 (2018/19: £452.5 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 7% 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 £3.8 million (2018/19: £4.5 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's short-term expenditure liquidity requirements are broadly covered by contributions and income. Many of the overseas investments are hedged into sterling by the investment managers. After hedging, the net exposure to non-sterling currencies is £318.6 million (2018/19: £362.3 million). The most significant non-sterling exposure is to the US dollar (£150.3 million as at 31.3.20). A 10% change in the relative value of sterling would change the value of investments by £31.9 million (2018/19: £36.2 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 2020 working capital was held in the Pension Fund bank account with NatWest Bank 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 as at 31 March 2020 £000	Balances as at 31 March 2019 £000
Standard Life MMF cash	AAAm	Moody's	3,682	14,300
Royal Bank of Scotland	A1	Moody's	5,297	6,196
Cash held by Fund Managers			15	10
<b>Total</b>			<b>8,994</b>	<b>20,506</b>

### 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 2019 in accordance with the Local Government Pension Scheme Regulations 2013. The actuarial valuation calculates the contribution rate payable by the employers, including the LBB Council, to meet the administering authority's funding objectives.

The funding level at 31 March 2019 was 86% (2016: 73%). This corresponded to a shortfall on the funding target of £190 million (2016: £339 million). The aggregate primary contribution rate for 2019/20 was a primary rate of 17.9% of pensionable pay plus a secondary contribution of £16.047 million. Under the new schedule of contributions effective from 1 April 2020 the aggregate primary rate is 20.6% and the secondary contribution for 2020/21 is £11.142 million. This is the average required employer contribution to restore the funding position to 100% over the next 17 years.

The assumptions used for the triennial valuation were:

### Financial assumptions

	31 March 2019	31 March 2016
	%	%
Discount rate	4.4	4.2
CPI	2.3	2.1
Pension increases rate	2.3	2.1
Salary increases rate	3.0	2.4

### Demographic assumptions

	31 March 2019	31 March 2016
<b>Life expectancy from age 65</b>		
Retiring today:		
Males	21.7	21.9
Females	24.0	24.3
Retiring in 20 years:		
Males	22.9	23.9
Females	25.7	26.5
<b>Othyer demographic assumptions</b>		
Commutation	50%	50%
50:50 option	1%	5%

The 2019 triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 13 February 2020. The next actuarial valuation will be based on the value of the fund as at 31 March 2022.

## 17. CURRENT ASSETS

	31 March 2020	31 March 2019
	£000	£000
Contributions due – employees	846	799
Contributions due – employers	5,582	5,805
Sundry debtors	(12)	255
Cash balances	5,297	4,790
<b>Total current assets</b>	<b>11,713</b>	<b>11,649</b>

## 18. CURRENT LIABILITIES

	31 March 2020	31 March 2019
	£000	£000
Sundry creditors	(2,478)	(1,253)
Benefits payable	(755)	(432)
<b>Total current liabilities</b>	<b>(3,233)</b>	<b>(1,685)</b>

## 19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market value 31 March 2020	Market value 31 March 2019
	£000	£000
Aviva	506	506
Prudential	2,769	2,889
<b>Total AVC</b>	<b>3,275</b>	<b>3,395</b>

AVC contributions of £0.391m (2018/19: £0.518m) were paid directly to Prudential and £0.005m (2018/19: £0.007m) 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 £1.099m (2018/19: £1.319m) 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 £34.779 million to the Fund in 2019/20 (2018/19: £30.198 million) [should this be £30.393m?]. These amounts include employee

contributions of £5.776 million (2019/20) and £5.432 million (2018/19) and also contributions from companies wholly owned by the Council. As at 31 March 2020 the Council (including subsidiaries) owed the Pension Fund £3.005 million in pension contributions (£3.580 million as at 31 March 2019).

**Governance**

One member of the Pension Fund Committee as at 31 March 2020 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 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 2020	31 March 2019
	£000	£000
Short-term benefits	44	48
Post-employment benefits	12	13
<b>Total remuneration</b>	<b>57</b>	<b>61</b>

## 21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

The statement below is prepared by the Scheme Actuary.

### Introduction

## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 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, the London Borough of Barnet Council, 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	31 March 2020	31 March 2019
Active members (£m)	637	874
Deferred members (£m)	482	496
Pensioners (£m)	724	676
<b>Total (£m)</b>	<b>1,843</b>	<b>2,046</b>

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The 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 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £158m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £51m.

### Financial assumptions

Year ended (% p.a.)	31 March 2020	31 March 2019
Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.6%	2.8%
Discount Rate	2.3%	2.4%

### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.7 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.9 years	25.7 years

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

### Commutation assumptions

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

### Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	154
0.5% p.a. increase in the Salary Increase Rate	1%	17
0.5% p.a. decrease in the Real Discount Rate	9%	172

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a one 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 2020 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:-



Gemma Sefton FFA

7 May 2020

For and on behalf of Hymans Robertson LLP

## 22. CONTINGENT LIABILITIES

Barnet College and Southgate College merged in 2011. As part of the merger the active employees of Southgate College transferred to the LB Barnet Pension Fund whereas deferred and Pensioner members remained with LB Enfield Pension Fund. LB Barnet Pension Fund assumed responsibility for past service accrued benefits and on-going benefits for the transferred employees from the LB Enfield Pension Fund. LB Enfield Pension Fund has requested a transfer value buy-out from LB Barnet Pension Fund or Barnet Southgate College estimated at £4.2 million to fund the liability shortfall for the deferred and pensioner members based on a cessation funding formula.

The Council has sought advice from the Scheme Actuary who stated that the original LB Enfield proposal to seek settlement of the liability on a cessation funding basis was not out of line with other similar cases. However, the Pension Fund may be able to mitigate some of the cost through agreeing a direction order for the transfer. This approach is also supported by the latest legal opinion obtained by the Council.

Negotiations are still on going with LB Enfield to agree a way forward which may result in the LB Barnet Pension Fund not having to make payments to LB Enfield Pension Fund by agreeing that LB Enfield's pensioners and deferred members being transferred into the LB Barnet Fund, with LB Barnet Pension Fund receiving a share of LB Enfield Pension Fund's assets attributable to the Southgate liabilities.

The process is not concluded and at this stage the potential liability for LB Barnet Pension Fund remains uncertain.

## 23. EVENTS AFTER THE REPORTING PERIOD

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