LONDON BOROUGH OF WALTHAM FOREST | STATEMENT OF ACCOUNTS

**PENSION FUND ACCOUNTS 2019/2020**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2018/19** |  |  |  |  |  |  | **2019/20** |  |
|  |  |  |  |  |  |  |  |  |
| **£'000** |  |  |  |  |  |  | **£'000** | **Notes** |
|   | **Dealings with members, employers and others directly involved in the scheme** |  |   |
|   |  |  |  |  |  |  |  |   |
|  (31,005) | Contributions Receivable |  |  |  |  (30,606) | **7** |
|  (4,515) | Transfers from individuals |  |  |  |  (6,735) | **8** |
|  **(35,520)** |  |  |  |  |  |  |  **(37,341)** |  |
|   |  |  |  |  |  |  |  |  |
|  44,010  | Benefits payable |  |  |  |  |  46,538  | **9** |
|  4,746  | Payments to and on account of leavers |  |  5,950  | **10** |
|  48,756  |  |  |  |  |  |  |  52,488  |  |
|   |  |  |  |  |  |  |  |  |
|  **13,236**  | **Net (withdrawals)/additions from dealings with members**  |  **15,147**  |  |
|   |  |  |  |  |  |  |  |  |
|  10,264  | Management Expenses |  |  |  |  10,221  | **11** |
|   |  |  |  |  |  |  |  |   |
|  **23,500**  | **Net (withdrawals)/additions including fund management expenses** |  **25,368**  |   |
|   |  |  |  |  |  |  |  |   |
|   | **Return on investments** |  |  |  |  |   |
|   |  |  |  |  |  |  |  |   |
|  (8,846) | Investment income |  |  |  |  |  (12,117) | **12** |
|   | Profit and losses on disposal of investments and |  |  |   |
|  (64,454) | changes in value of investments |  |  |  54,311  | **13a** |
|   |  |  |  |  |  |  |  |   |
|  **(73,300)** | **Net return on investments** |  |  |  |  **42,194**  |   |
|   |  |  |  |  |  |  |  |   |
|   | **Net increase/(decrease) in the net assets available**  |  |   |
|  (49,800) | **for benefits during the year** |  |  |  67,562  |   |
|   |  |  |  |  |  |  |  |   |
|  (880,268) | **Opening net assets of the scheme** |  |  |  (930,068) |   |
|   |  |  |  |  |  |  |  |   |
|  **(930,068)** | **Closing net assets of the scheme** |   |   |  **(862,506)** |   |

**NET ASSETS STATEMENT**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  | **2019/20** |  |
|  |  |  | **Notes** |
| **£'000** |  | **£'000** |  |
|   | **Investment assets** |   |   |
|   |  |  |   |
|  150  | Long term investments |  150  | **13a** |
|   |  |  |   |
|  922,292  | Investment assets |  855,266  | **13a** |
|  (90) | Investment liabilities |  (135) | **13a** |
|   |  |  |   |
|  **922,352**  | **Net investment assets** |  **855,281**  |  |
|   |  |  |  |
|   |  |  |  |
|  8,196  | Current Assets |  9,366  | **18** |
|   |  |  |  |
|  (480) | Creditors |  (2,141) | **19** |
|   | **Net assets of the scheme available to fund** |  |  |
|  **930,068**  | **benefits at the period end** |  **862,506**  |   |

**NOTE:** the fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17a.

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 actuarial present value of promised retirement benefits, valued using the International Accounting Standard IAS19 basis, is disclosed in Note 17a of these statements.

**NOTE 1: DESCRIPTION OF THE FUND**

The London Borough of Waltham Forest Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Waltham Forest. The London Borough is the reporting entity for this Pension Fund.

**a) General**

The scheme is governed by the Public Services 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 London Borough of Waltham Forest Council to provide pension and other benefits for pensionable employees of the London Borough of Waltham Forest Council and a range of other scheduled and admitted bodies within the borough. Teachers, police, firefighters and ex-NHS workers (who transferred when Public Health became Local Authority controlled in April 2013) are not included as they come within other national pension schemes. The fund is overseen by the London Borough of Waltham Forest Pension Committee, which is a Committee of the London Borough of Waltham Forest Council.

**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Waltham Forest Pension Fund include:

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

The following table summarises the membership of the Fund as at 31 March 2020 and 31 March 2019:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **31 March 2019** |  |  |  | **31 March 2020** |
|   |   |   |   |   |
| 56 | Number of employers with active members  |  61  |
|   |   |  |  |   |
|   | **Number of employees in scheme:** |   |
| 4,073 | London Borough of Waltham Forest  | 4,463 |
| 2,208 | Other employers  | 2,469 |
|  **6,281** | **Total**  |  **6,932** |
|   |  |  |  |   |
|   | **Number of pensioners:** |   |
| 6,797 | London Borough of Waltham Forest  | 6,861 |
| 715 | Other employers  | 818 |
|  **7,512** | **Total** |  |  |  **7,679** |
|   |  |  |  |   |
|   | **Number of Deferred members:** |   |
| 7,492 | London Borough of Waltham Forest | 7,506 |
| 2,167 | Other employers |  | 2,380 |
|  **9,659** | **Total** |  |  |  **9,886** |
|   |  |  |  |   |
|  **23,452** | **Total number of members in the scheme** |  **24,497** |
|   |   |   |   |   |

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 7.5% to 22% of pensionable pay. New employer rates will be payable from 1 April 2020 ranging from 1.5% to 28.1%.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website [www.lgpsmember.org](http://www.lgpsmember.org/).

**NOTE 2: BASIS OF PREPARATION**

The Statement of Accounts summarises the Pension Fund's transactions for the 2019/20 financial year and its position 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 (the Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 17. The pension fund accounts have been prepared on a going concern basis.

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Account - revenue recognition**

**a) Contribution income**

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

* Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise accordingly with pensionable pay.
* Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.
* Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body or on receipt if earlier than the due date.
* Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

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

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

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

**c) Investment income**

(i) Interest income

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

(ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received at the end of the reporting period is disclosed in the net assets statement as a current financial asset.

(iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the reporting period are disclosed in the net assets statement as a current financial asset.

(iv) Movement in the net market value of investments

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

**Fund account - expense items**

**d) Benefits payable**

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

**e) Taxation**

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

**f) Management expenses**

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

**Administrative expenses**

All staff costs of the pensions administration team are charged directly to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

**Oversight and governance costs**

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

**Investment management expenses**

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

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

In addition, the fund negotiated with Darwin Leisure Property Fund, Capital Dynamics, Global Infrastructure Partners, IVUK and Invesco an element of their fee be performance related.

Where an investment manager's fee note has not been received by year-end, an estimate based on the market value of their mandate at 31 March is used for inclusion in the fund account.

The cost of a proportion of the time spent by officers on investment management activity is charged to the fund.

**Net Assets Statement**

**g) Financial assets**

Investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). 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).

**h) Foreign currency transactions**

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

**i) Cash and cash equivalents**

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

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

**j) Financial assets at amortised cost**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

**k) Financial liabilities**

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

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

**l) Actuarial present value of promised retirement benefits**

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 17).

**m) Additional Voluntary Contributions**

The London Borough of Waltham Forest Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20).

**n) Contingent Assets and Contingent Liabilities**

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

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

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed in the notes.

**NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

**Pension Fund Liability**

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17. Actuarial re-valuations 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.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported accounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

**Actuarial present value of promised retirement benefits**

The effects on the net pension liability of changes in individual assumptions can be measured. For instance:

* a 0.5% increase in the discount rate assumption results in a decrease in the value of the pension liabilities of £110 million
* a 0.25% increase in assumed earnings inflation increases the value of liabilities by approximately £7 million
* a one-year increase in assumed life expectancy increases the value of the liability by approximately £36 million.

**COVID-19 IMPACT**

The ongoing impact of the Covid-19 pandemic has created uncertainty surrounding the valuation of illiquid assets. As such, the fund’s infrastructure and pooled property fund allocations as at 31 March 2020 are difficult to value. Values for these allocations have been based on the latest available pricing data (adjusted for any known cash movements and an allowance for impairment losses)

**NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE**

**McCloud case**

The McCloud and Sargeant cases are two national legal cases which impact on the transitional provisions of the 2014 Local Government Pension Scheme on age discrimination grounds. In December 2018 the Court of Appeal ruled against the Government on the two cases. The Government attempted to appeal the two cases on 27 June 2019, but the appeal was refused by the Supreme Court requiring remedy to the two underlying public service pension schemes - the judicial and firefighters pension schemes respectively. Subsequently, on 13 July the Chief Secretary to The Treasury announced that the remedies would apply to all public service pension schemes, which will result in an increase in benefits.

In light of the above the IAS26 valuation of the fund's liabilities disclosed at Note 18 has been updated to reflect the estimated impact of the possible remedy. This increases the net overall liabilities of the fund by £10m from £300m to £310m. This has no impact on the net assets available to pay benefits, because the pension fund accounts do not take into account the actuarial present value of future retirement benefits (Accounting Policy Note 2(l) refers).

**COVID-19 impact**

In March 2020 the Prime Minister announced a national lockdown for three months to prevent the spread of the COVID-19 virus as the UK Government’s response to the international pandemic. This was followed by a further national lockdown in November.

**NOTE 7: CONTRIBUTIONS RECEIVABLE**





**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 3,745  | LBWF |  | 5,834 |
| 770  | Scheduled bodies | 898 |
|   | Admitted Bodies | 3  |
|  **4,515**  | Total |   |  **6,735**  |

**NOTE 9: BENEFITS PAYABLE**

By category

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 35,735  | Pensions | 37,775 |
| 7,406  | Commutation and lump sum retirement benefits | 8,027 |
| 869  | Lump sum death benefits | 736 |
|   |  |  |   |
|  **44,010**  | Total |   |  **46,538**  |

By type of employer

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 39,890 | LBWF |  | 41,331 |
| 2,749 | Scheduled bodies | 3,712 |
| 1,371 | Admitted bodies | 1,495 |
|   |  |  |   |
|  **44,010**  | Total |   |  **46,538**  |

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 206 | Refunds to members leaving service | 236 |
| 3,496 | LBWF |  | 5,047 |
| 640 | Scheduled bodies | 625 |
| 404 | Admitted bodies | 42 |
|   |  |  |   |
|  **4,746**  | Total |   |  **5,950**  |

**NOTE 11: MANAGEMENT EXPENSES**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 1,016 | Administration Expenses | 1,240 |
| 175 | Actuary expenses | 255 |
| 117 | Oversight and Governance\* | 79 |
| 8,956 | Investment management expenses (note 11a) | 8,647 |
|  **10,264**  | Total  |   |  **10,221**  |

‘\* Included in Oversight and Governance above are external audit fees for the pension fund of £16k (£16k for 2018/19).

**NOTE 11a: INVESTMENT MANAGEMENT EXPENSES**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
| 1,016 | Administration Expenses | 1,240 |
| 175 | Actuary expenses | 255 |
| 117 | Oversight and Governance\* | 79 |
| 8,956 | Investment management expenses (as below) | 8,647 |
|  **10,264**  | Total  |   |  **10,221**  |

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
|  24  | Custody fees |  | 22 |
|  1,401  | Transaction Costs |  | 516 |
|  7,159  | Investment management expenses |  | 7,130 |
|  372  | Investment Management TER |  | 979 |
|  **8,956**  | Total  |  |  **8,647**  |

**NOTE 12: INVESTMENT INCOME**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |  | **2019/20** |
| **£'000** |  |  | **£'000** |
|  |  |  |  |
|  3,986  | Equity Dividends | 6,412  |
|  4,796  | Pooled investments - unit trust and other managed funds | 5,699  |
|  (29) | Interest on cash deposits | (24) |
|  93  | Other |  | 30  |
|  **8,846**  | **Total**  |  |  **12,117**  |

**NOTE 13a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**





**NOTE 13b: ANALYSIS OF INVESTMENT ASSETS**

|  |  |  |
| --- | --- | --- |
| **2018/19** | **INVESTMENTS**  | **2019/20** |
| **£'000** |  | **£'000** |
|   | **Long term investments** |   |
|   |  |   |
| 150 | London CIV | 150 |
|   |  |   |
| 325,634 | CIV2 - Global equities  | 345,054 |
|   |  |   |
|   | **Other pooled investments** |   |
| 279,866 | Equities UK quoted | 321,320 |
| 82,619 | Property | 84,170 |
| 362,485.00 |  | 405,490 |
|   |  |   |
|   | **Other externally managed funds** |   |
| 632 | Property | 275 |
| 102,536 | Bonds | 0 |
| 154 | Hedge Funds | 119 |
| 109,704 | Infrastructure | 98,541 |
| 3,635 | Social Impact | 3,505 |
| 17,382 | **Cash and money market instruments** | 2,170 |
| 234,043 |  | 104,610 |
|   |  |   |
| **922,312** |   | **855,304** |

**NOTE 13c: INVESTMENTS ANALYSED BY FUND MANAGER**



**Purchases and sales of Investments**

During the year, the fund purchased investment assets totaling £194.0 million (£418.0 million in 2018/19) and sold investment assets at a value of £150 million (£419 million in 2018/19). During the year a total of £1.7 million was drawn down as part of commitments to the Global Infrastructure Partners Infrastructure Funds, there were no drawdowns to Capital Dynamics Clean energy Funds and £0.6 million to Impact Ventures UK fund. Purchases also included £59.6m in assets managed by the London CIV and acquisition of a new mandate in equity protection managed by Legal and General of £130.0m. Purchases of £3.9 million were made to cash and cash equivalents to Money Market Funds. The sale of investments comprised the returned capital/divestment from wind up of assets, from Capital Dynamics Clean Energy £0.7 million, Global Infrastructure Partners Funds £4.7 million, The fund disposed £79.0m of pooled equity assets managed by AXA Investment Managers and wholly disinvested assets of £102m in the pooled fixed interest mandate managed by Wellington Management Fund. Sale transactions in cash and cash equivalents from Money Market Funds was £16.9m. All other purchases and sales relate to transactions made by the Investment Managers within the portfolios under their management.

**NOTE 14: FAIR VALUE**

**Basis of valuation**



**NOTE 14a: SENSITIVITY OF ASSETS VALUED AT LEVEL 3**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Level 3 Assets** | **Valuation range +/-** | **Values at 31 March 2020** | **Valuation Increase** | **Valuation decrease** |
|   |  | **£'000** | **£'000** |   |
| **Financial assets** |  |  |  |   |
| Property | 1.20% |  57,062  |  57,747  |  56,377  |
|   |  |  |  |   |
| Hedge Funds | 8.30% |  119  |  129  |  109  |
|   |  |  |  |   |
| Infrastructure | 8.30% |  98,541  |  106,720  |  90,362  |
|   |  |  |  |   |
| Social Impact Funds | 8.30% |  3,505  |  3,796  |  3,214  |
|   |  |  |  |   |
| CIV - unquoted equity | 8.30% | 150  | 162  | 138  |
| **Total financial assets** |   |  **159,377**  |  **168,554**  |  **150,200**  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Level 3 Assets** | **Valuation range +/-** | **Values at 31 March 2019** | **Valuation Increase** | **Valuation decrease** |
|   |  | **£'000** | **£'000** |   |
| **Financial assets** |  |  |  |   |
| Property | 1.40% |  55,211  |  55,984  |  54,438  |
|   |  |  |  |   |
| Hedge Funds | 10.20% |  154  |  170  |  138  |
|   |  |  |  |   |
| Infrastructure | 10.20% |  109,704  |  120,894  |  98,514  |
|   |  |  |  |   |
| Social Impact Funds | 10.20% |  3,635  |  4,006  |  3,264  |
|   |  |  |  |   |
| CIV - unquoted equity | 10.20% |  150  |  165  |  135  |
|   |  |  |  |   |
| **Total financial assets** |   |  **168,854**  |  **181,219**  |  **156,489**  |

**NOTE 14b: FAIR VALUE HIERARCHY**

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

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

**Level 2** Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

**Level 3** Assets and liabilities at level 3 are those where at least one input that could have 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.





**NOTE 14c: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**





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

**NOTE 15a: CLASSIFICATION OF FINANCIAL INSTRUMENTS**



**NOTE 15b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

|  |  |  |  |
| --- | --- | --- | --- |
| **2018/19** |  |   | **2019/20** |
| **£'000** |  |   | **£'000** |
|   | **Financial assets** |   |
|  64,454  | Designated at fair value through profit and loss |  54,311  |
|  **64,454** |   |   |  **54,311** |

**NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

**Risk and risk management**

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. Promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall Pension Fund risk management programme. Responsibility for the fund's risk management strategy rests with the Pension Fund committee. Risk Management policies are established to identify and analyse the risk faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis, and manage any identified risks in two ways:

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

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

**Other price risk – sensitivity analysis**

In consultation with the fund's performance advisers, the fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period, assuming that all other variables, in particular foreign exchange rates and interest rates remain the same:





**Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the pension fund and its investment advisers in accordance with the fund's investment strategy.

**Interest rate - risk sensitivity analysis**

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

Given the minimum exposure of the funds assets at present no further analysis has been provided as this would be of minimal benefit.

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund's currency rate risk is routinely monitored by the pension fund and its investment advisers in accordance with the fund's investment strategy.

**Credit risk**

Credit risk represents the risk that the counterparty to a financial transaction 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. The selection of high-quality counterparts, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner. The fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. In addition, the pension fund invests a percentage of its funds in the money markets to provide liquidity on cash balances. Money market funds chosen are in line with the Council's Treasury Management Strategy and all have a AAA rating from leading ratings agency, as shown below. The pension fund bank account is also held in line with Council's selection for its main bank account provider.

**Liquidity risk**

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The fund's cash holding under its treasury management arrangements as at 31 March 2020 was £5.9m (31 March 2019 £20.2m).

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash.

As at March 2020, the value of liquid assets was £668.6 million, which represented 78.2% of the total fund assets (31 March 2019 £725.4 million, which represented 78.8% of the total fund assets).

**Refinancing risk**

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavorable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of this investment strategy.

**NOTE 17: FUNDING ARRANGEMENTS**

**ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY**

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough of Waltham Forest Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund’s assets of £924 million represented 80% of the Fund’s past service liabilities of £1,158 million (the “Solvency Funding Target”) at the valuation date. The deficit at the valuation was therefore £234 million.

The valuation also showed that a Primary contribution rate of 15.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 17 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) is an addition of approximately £14.5m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (including ill-health retirements for certain employers) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

|  | **For past service liabilities ( Solvency Funding Target)** | **For future service liabilities (Primary rate of contribution)** |
| --- | --- | --- |
| Rate of return on investments (discount rate) | 4.35% per annum | 4.9% per annum |
| Rate of pay increases (long term)\* | 3.9% per annum | 3.9% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 2.4% per annum | 2.4% per annum |

\* allowance was made for lower short-term increases to reflect public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

**The McCloud Judgment**

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service solvency liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.3% of Pensionable Pay per annum. To the extent that employers have opted to pay additional contributions over 2020/23 in relation to the McCloud judgment, these emerge in the Secondary Contribution Rate figures quoted above.

**Impact of Covid 19**

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

**Note 17a: Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund’s promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

|  | **31 March 2019** | **31 March 2020** |
| --- | --- | --- |
| Rate of return on investments (discount rate) | 2.4% per annum | 2.4% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.2% per annum | 2.1% per annum |
| Rate of pay increases\* | 3.7% per annum | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.3% per annum | 2.2% per annum |

\* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund’s promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £1,590 million excluding the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£39 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£36million (this includes any increase in IAS 26 liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation and the McCloud Judgment – see comments elsewhere in this statement).  There was also a decrease in liabilities of £35 million due to “actuarial gains” (i.e the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total IAS 26 value of the Fund’s promised retirement benefits as at 31 March 2020 is therefore £1,630 million.

**GMP Indexation**

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then we estimate that this would increase the Fund liabilities by about £5 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

**John Livesey James Hunter**

**Fellow of the Institute and Fellow of the Institute and**

**Faculty of Actuaries Faculty of Actuaries**

**Mercer Limited**

**July 2020**

**NOTE 18: CURRENT ASSETS**

Analysis of debtors outstanding at 31 March 2020:

|  |  |  |
| --- | --- | --- |
| **2018/19** |   | **2019/20** |
| **£'000** |   | **£'000** |
|   |  |   |
|   | Other entities and individuals:- |   |
| 2,849  | Cash not forming part of investment balances | 3,674  |
| 5,347  |  Pension contributions | 5,692  |
|  **8,196**  |   |  **9,366**  |

**NOTE 19: CURRENT LIABILITIES**

Analysis of creditors outstanding at 31 March 2020:

|  |  |  |
| --- | --- | --- |
| **2018/19** |   | **2019/20** |
| **£'000** |   | **£'000** |
|   |  |   |
| 454  | Due to the administering authority | 1,500  |
| 26  | Other entities and individuals | 641  |
|  **480**  |   |  **2,141**  |

**NOTE 20: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

During 2019/20, members paid £17,037 contributions to their personal AVCs (£27,245 in 2018/19) and the value of their investments was £675,005 at 31 March 2020 (£689,799 at 31 March 2019).

**NOTE 21: RELATED PARTY TRANSACTIONS**

There is a strong relationship between the Council and the Pension Fund. The Pension Fund is administered by the Council for which it charged £683,600 in 2019/20 (£687,900 in 2018/19).

**Key management personnel**

Members of the Pension Fund committee cannot be apportioned on a reasonable basis and are therefore disclosed in full in the Council's accounts, please refer to Notes 12, 15 and 17 of the Council's accounts. The Strategic Director Finance and Governance holds a key position in the financial management of the Fund, the financial value of this relationship (in accordance with IAS24) is, short term benefits £55,500 in 2019/20 (£55,500 in 2018/19), long term benefits £71,851 in 2019/20 (£70,224 in 2018/19).

**Governance**

There is 1 member of the Pension Fund committee who is in receipt of pension benefits from the Waltham Forest Pension Fund (Cllr. T Wheeler). In addition, committee member Cllr. A. Hemsted is a deferred member of the pension fund.

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

**NOTE 22: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

**Infrastructure funds**

The fund has outstanding commitments in relation to its three infrastructure funds and a Social Impact Fund. As at 31 March 2020 there were £11.098 million of infrastructure commitments outstanding (£11.962 million as at 31 March 2019). The Social Impact fund had outstanding commitments of £0.5 million as at 31 March 2020 (£1.4 million as at 31 March 2019). These commitments are drawn down in tranches over time as and when the managers request them. All commitments to the funds property investments have been fully funded. These outstanding commitments are not required to be included in the Pension Fund accounts.

**NOTE 23: FURTHER INFORMATION**

Copies of the Pension Fund Annual Accounts, Annual Report, Investment Strategy Statement, Funding Strategy Statement, Pension Fund Valuation 2019 are published on the Council's website: [www.walthamforest.gov.uk](http://www.walthamforest.gov.uk).