

PENSION FUND

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON
BOROUGH OF HARINGEY

[TO BE INSERTED AT END OF AUDIT]

PENSION FUND

2019/20	Pension Fund Account	Note	2018/19
£000			£000
	Deals with members, employers and others directly involved in the fund		
46,945	Contributions	7	44,194
4,788	Transfers in from other pension funds	8	3,738
51,733			47,932
(51,457)	Benefits	9	(49,774)
(4,555)	Payments to and on account of leavers	10	(44,409)
(56,012)			(94,183)
(4,279)	Net withdrawals from dealings with members		(46,250)
(7,670)	Management expenses	11	(7,448)
(11,949)	Net withdrawals including fund management expenses		(53,698)
	Returns on Investments:		
12,083	Investment Income	12	7,236
(7)	Taxes on income	13	(11)
(56,311)	Profit and losses on disposal of investments and changes in market value of investments	14a	73,337
(44,235)	Net return on investments		80,562
(56,184)	Net increase/decrease in the net assets available for benefits during the year		26,864
1,382,767	Opening net assets of the scheme		1,355,903
1,326,583	Closing net assets of the scheme		1,382,767

31/03/20	Net Asset Statement	Note	31/03/19
£000			£000
	Long Term Investments		
150	London CIV	1	150
150			150
	Current Investments		
1,311,199	Investment assets	14	1,365,784
17,314	Cash deposits	14	18,384
1,328,513			1,384,168
1,283	Current assets	21	822
(3,363)	Current liabilities	22	(2,373)
1,326,583	Net assets of the fund available to fund benefits at the period end		1,382,767

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial present value of promised benefits is disclosed at note 20.

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Notes to the Haringey Pension Fund Accounts for the year ended 31st March 2020

1. Description of the fund and effect of any changes during the period

Introduction

Haringey Local Government Pension Fund is part of the Local Government Pension Scheme and is administered by Haringey Council. The Council is the reporting entity for this pension fund. However, the Fund is separately managed by the Council acting in its role as Administering Authority and its accounts are separate from the Council's accounts. The following description of the fund is for summary only. For more detail, reference should be made to Haringey Annual Pension Fund Report and Accounts.

The financial statements have been prepared in accordance with the Public Service Pensions Act 2013 (as amended) and Local Government Pension Scheme Regulations and with the guidelines set out in the *Code of Practice on Local Authority Accounting in the UK 2019/20*, which is based on International Financial Reporting Standards as amended for the UK public sector. 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

The Net Asset Statement sets out the assets and liabilities (except

liabilities to pay retirement benefits) for the Fund as at 31st March 2020.

Investments and Statement of Investment Principles

The Pension Fund's investment strategy is formulated within the parameters of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Pensions Committee and Board is responsible for setting investment strategy with the aid of independent advice from the Pension Fund's advisers. Day to day investment decisions are delegated to fund managers.

The strategy is set out in detail in the Investment Strategy Statement (ISS), which is published in the Pension Fund Annual Report. The ISS is regularly updated to reflect any changes made to investment management arrangements and reports the extent of compliance with the Myners principles of investment. All investments are externally managed, with the exception of a small allocation of cash required for the payment of benefits, which is managed internally. The Fund made no significant changes to its Investment Strategy in 2019/20.

Fund administration and membership

At 31st March 2020, there were 6,091 (2019: 6,445) active fund memberships with employees contributing to the Fund and 7,905 (2019: 7,794) pensioner and dependent memberships with individuals receiving benefits. There were also 9,027 (2019: 8,733) deferred pensioner memberships. Some individuals have multiple memberships due to having had multiple contracts of employment with fund employers.

Employees in the following organisations, in addition to Council staff

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contribute to and accordingly benefit from the fund.

Transferee Admission Bodies:

- Cofely Workplace Limited
- Fusion Lifestyle
- Veolia Environmental Services (UK) PLC
- Lunchtime UK Limited (five school contracts)
- ABM (two school contracts)
- Caterlink
- Absolutely Catering
- Cooperscroft Care Home
- K M Cleaning
- London Academy of Excellence Tottenham (formerly known as Tottenham UTC)
- Amey Community Limited
- Pabulum (nine school contracts)
- Hillcrest Cleaning (two school contracts)
- Ategi Ltd
- Hertfordshire Catering Ltd
- Haringey Education Partnership
- Olive Dining (five school contracts)
- ISS Mediclean
- Braybourne
- Schools Office Services
- Birkin Cleaning Services
- NVIRO Ltd

Community Admission Bodies:

- Alexandra Palace Trading Co Limited
- Haringey Citizens Advice Bureau

Scheduled Bodies:

- Homes for Haringey
- Greig City Academy
- Fortismere School

- Alexandra Park Academy
- Woodside Academy
- Eden Free School
- Harris Academy Coleraine
- Harris Academy Philip Lane
- AET Trinity Primary
- AET Noel Park
- Haringey 6th Form Centre
- St Paul's & All Hallows Infant Academy
- St Paul's & All Hallows Junior Academy
- St Michael's Academy
- St Ann CE Academy
- Holy Trinity CE Academy
- Heartlands High School
- St Thomas More RC Academy
- Brook House Primary
- Millbrook Primary School
- Harris Academy Tottenham
- The Octagon
- Dukes Aldridge Academy
- The Grove School
- LDBS Central

Scheduled bodies are public bodies required by law to participate in the LGPS. Admitted bodies are in the LGPS either because services have been outsourced or because they have sufficient links with the Council to be regarded as having a community interest.

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Description of the Fund

The Fund is a defined benefit scheme and was established on 1st April 1965 to provide retirement pensions and lump sum allowances, survivor dependants' and death benefits to all eligible employees of Haringey Council. Certain other organisations also participate in the Fund and details of these are set out above. The Fund's income is derived contributions from employees, contributions from employing organisations and income from investments.

Haringey Council in its role as Administering Authority has delegated responsibility for administering the Pension Scheme to the Pensions Committee and Board. Details of the individuals who served on the Pensions Committee and Board during 2019/20 are shown below.

The terms of reference for Pensions Committee and Board are set out in the Council's constitution. The Committee and Board consists of six elected Councillors and four employer and employee representatives, (one of which was vacant in 2019/20). Councillors are selected by their respective political groups and their appointment is confirmed at a meeting of the full Council. Councillors are not appointed for a fixed term but the membership is reviewed regularly, normally annually, by the political groups. The membership of the Committee and Board during the 2019/20 year was:

Cllr Matt White	- Chair
Cllr John Bevan	- Vice Chair
Cllr Dr James Chiriyankandath	- Member
Cllr Noah Tucker	- Member
Cllr Viv Ross	- Member
Cllr Paul Dennison	- Member
Randy Plowright	- Employee representative
Ishmael Owarish	- Employee representative
Keith Brown	- Employer representative

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 31st 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.

3. Significant accounting policies

The principal accounting policies of the Fund are set out below.

Contributions

Employer and employee contributions are included on an accruals basis relating to wages and salaries payable for the financial year. Employers' capital cost payments are also accounted for on an accruals basis relating to the period in which the liability arises.

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

Transfers in and out

Transfers in and out are accounted for on a cash basis whenever the transfer value is paid or received.

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Investment income

Interest on cash and short term deposits is accounted for on an accruals basis. Distributions from equity and bond pooled funds are recognised on the date of payment. Distributions from property unit trusts are shown on an accruals basis by reference to the ex-dividend date. Income retained within pooled funds is accounted for as part of the change in the market value of investments posted to the fund account. Interest is recognised on an effective interest rate basis.

Benefits

Benefits are shown on an accruals basis relating to the date on which they become payable.

Taxation

The Fund is exempt from UK income tax on interest received and 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 an expense as it arises.

Management expenses

Administrative, governance and oversight expenses are shown on an accruals basis. A proportion of relevant Council officers' time, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters. Up front charges paid to HMRC in respect of scheme members breaching the Pensions Lifetime allowance are disclosed under administrative expenses.

Fund managers' fees are based on the market values of the portfolios under management. Where managers invest in in-house investment vehicles, e.g. unit trusts where management fees are covered in the price of the units, the market value of such holdings are deducted from the portfolio value before calculating chargeable fees. All the

investment management expenses are shown on an accruals basis.

Financial assets and liabilities

Financial assets and liabilities are included in the net assets statement and carried at fair value or amortised cost on the reporting date. A financial asset or liability is recognised in the net assets statement on the date the fund became party to the contractual acquisition of the asset or party to the liability. From this date any gains or losses from changes in the fair value of the asset or liability are recognised by the Fund. Investment assets are included at fair value in accordance with IFRS 13. See note 16 for further detail including the valuation methodology for different investments.

The value of these holdings is based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers adjusted for draw-downs paid and distributions received in the period from the date of the private equity financial statements to 31st March 2020.

The valuation of securities denominated in overseas currencies is calculated by using the overseas bid or mid price current at the year-end date and the exchange rate for the appropriate currency at the year-end to express the value as a sterling equivalent.

Foreign currency transaction

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

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Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in a three month period or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value. These are used in the day-to-day cash management of the Fund.

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 and a roll forward approximation is applied in the intervening years. This is done in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26 and CIPFA guidance, the Fund has opted to disclose the actuarial present value of promised retirement benefits as an annex to the financial statements, however a brief summary of this is also included as note 20 in these accounts.

Additional Voluntary Contributions (“AVCs”)

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

Further details about the AVC arrangements are disclosed in note 23 to the financial statements.

4. Critical judgements in applying accounting policies

The 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 19. 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.

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

Items	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of promised retirement benefits	Estimation of the liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, Pension increase and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - 0.5% decrease in the discount rate would result in a increase in the pension liability of £169m (9%) - 0.5% increase in assumed salary earnings would increase the value of the liabilities by approximately £11m (1%) - 0.5% increase in assumed pension inflation would increase the value of liabilities by approximately £161m (9%)
Private Equity	The figure for "Investments at fair value" is based on the latest Net Asset Valuation (NAV) information received from global partners prior to the Fund's accounting records closing for the quarter. Some of this information is at 31 December 2019. Given the significant stock market declines in the first quarter of the year, specific adjustment has been made against the value of the underlying investments. The provision has been based on a combination of: (i) December audited accounting information subsequently received; (ii) global partners' estimates of valuation movements; and (iii) changes in relevant public market indices.	The total private equity investments in the financial statements are £113m. There is a risk that this may be over or understated. Further detail is shown in Note 16 regarding the sensitivity of this valuation.
Pooled Property Funds	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data. Due to the impact of COVID-19, most of the holdings in this Fund include material valuation uncertainty clauses that have been used as the basis for valuing the affected holdings.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 10% ie an increase or decrease of £14m, on carrying values of £140m.

Items	Uncertainties	Effect if actual results differ from assumptions
McCloud Ruling	The McCloud case relates to age discrimination in the judges public sector pension scheme, and this ruling is applicable to all other public sector schemes, including the LGPS and Haringey Pension Fund. When the public service pension schemes moved from final salary benefit structures to career average revalued earnings (CARE), members approaching retirement were given protected benefits, which has been challenged due to the differential treatment based on the age of members in the scheme. The Government's appeal of this ruling was rejected by the Courts. This will increase the liabilities of the Fund, potentially increasing the costs for employers in the future. The impact of McCloud is now forecast to be much less than initial estimates, but the precise size and scale of such liabilities are as yet unknown. The MHCLG have consulted on its proposed remedy to the McCloud issue which would be to remove the requirement that a member to have been within ten years of their normal pension age on 1st April 2012. An estimate for the impact of McCloud is included within the actuarial disclosures within these accounts.	There is a risk that the estimate of the McCloud additional liabilities may be over or understated in these accounts. The value of the additional liability relating to the McCloud ruling in these accounts is £8m.

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Effect of Coronavirus pandemic on investment valuations	The valuations of the Fund's level 3 investments in private equity and property may be affected by the Coronavirus pandemic. The ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. The Fund's private equity investments are usually valued in the accounts based on the 31st December valuations, with adjustments for cashflows and foreign exchange movements that have taken place between December and March. However, given the significant market distortions that took place in March 2020, in this set of accounts, Pantheon's private equity valuations have been reviewed and revised downwards taking into account public market movements, this has resulted in a downwards movement in the valuations of private equity investments of £5.4m. The Fund's property valuations are difficult to ascertain as professional valuers have not been actively valuing assets at the end of March 2020. Valuations have been rolled forward from February 2020 valuations in the majority of cases.	There is a risk that valuations may be over or understated. Further detail is shown in Note 16 regarding the sensitivity of these valuations.
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6. Events after the reporting date

There were no significant events which occurred after the reporting date.

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7. Contributions receivable

2019/20		2018/19
£000	By category	£000
10,122	Employee contributions	9,619
	Employer contributions	
25,526	- Normal contributions	24,392
10,503	- Deficit recovery contributions	9,488
794	- Augmentation contributions	695
36,823	Total employers' contributions	34,575
46,945	Total	44,194

2019/20		2018/19
£000	By authority	£000
36,678	- Administering authority	33,789
9,351	- Scheduled bodies	9,549
917	- Admitted bodies	856
46,945	Total	44,194

8. Transfers in from other pension funds

There were transfers in to the Pension Fund during 2019/20 of £4.788 million (£3.738 million in 2018/19) and these all related to individuals.

9. Benefits payable

2019/20		2018/19
£000	By category	£000
42,122	- Pensions	40,446
7,372	- Commutation and lump sum retirement benefits	7,916
1,963	- Lump sum death benefits	1,412
51,457	Total	49,774

2019/20		2018/19
£000	By authority	£000
46,842	- Administering authority	45,473
3,331	- Scheduled bodies	3,069
1,284	- Admitted bodies	1,232
51,457	Total	49,774

10. Payments to and on account of leavers

2019/20		2018/19
£000		£000
175	Refunds to members leaving service	91
0	Bulk Transfers	40,436
4,380	Individual transfers	3,881
4,555	Total	44,408

In 2018/19 one of the Fund's employers, the College of Haringey, Enfield and North East London (CoNEL) left the fund following a merger with another college. This is the £40.4m bulk transfer shown in the 2018/19 year above.

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11. Management expenses

2019/20		2018/19	
£000		£000	
794	Administrative costs	1,306	
6,509	Investment management expenses	5,814	
367	Oversight and governance costs	328	
7,670	Total	7,448	

This analysis of the costs of managing the Haringey Pension Fund during the period has been prepared in accordance with CIPFA guidance. The oversight and governance costs category includes £24k for external audit fees in 2019/20 (£16k in 2018/19).

11a. Investment Management Expenses

2019/20		2018/19	
£000		£000	
6,036	Management Fees	5,590	
0	Performance Related Fees	0	
42	Custody fees	71	
431	Transaction Fees	153	
6,509	Total	5,814	

12. Investment income

2019/20		2018/19	
£000		£000	
12,044	Pooled investments - unit trusts and other managed funds	7,200	
39	Interest on cash deposits	36	
12,083	Total	7,236	

13. Taxes on income

The income tax shown on the face of the Pension Fund Account relates to withholding tax (pooled).

14. Investments

14a. Reconciliation of movements in investment assets and liabilities

The changes in market value during the year comprise 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.

2019/20	Value at 31st March 2019	Purchases at cost	Sales proceeds	Changes in market value	Value at 31st March 2020
	£000	£000	£000	£000	£000
Pooled investment vehicles	1,360,742	87,663	(80,908)	(56,348)	1,311,150
Cash deposits	18,384	59,023	(60,129)	36	17,314
Other investment assets/ liabilities*	5,043	15	(5,010)	1	49
Total	1,384,168	146,702	(146,048)	(56,311)	1,328,513

* excludes £150k seed investment in the London Collective Investment Vehicle

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2018/19	Value at 1st April 2018	Purchases at cost	Sales proceeds	Changes in market value	Value at 31st March 2019
	£000	£000	£000	£000	£000
Pooled investment vehicles	1,283,646	153,682	(149,748)	73,162	1,360,742
Cash deposits	73,879	49,025	(104,755)	235	18,384
Other investment assets	(36)	5,140	(1)	(60)	5,043
Total	1,357,489	207,847	(254,504)	73,337	1,384,168

14b. Analysis of investments

31/03/2020	By category	31/03/2019
£000		£000
150	Equities UK	150
	Unquoted	
	Pooled Investment Vehicles (UK)	
	Quoted	
140,867	Unit Trust - Property	96,717
217,520	Unit Trust - Fixed Income	195,856
42,261	Debt Infrastructure	43,611
400,648		336,184
	Pooled Investment Vehicles (Overseas)	
	Quoted	
132,914	Absolute Return Fund	157,309
568,610	Unit Trust - Equity	655,352
96,013	Multi Asset Credit	126,536
797,537		939,197
	Pooled Investment Vehicles (Overseas)	
	Unquoted	
113,014	Private Equity	90,403
113,014		90,403
	Cash Deposits	
13,344	Sterling	14,367
3,969	Foreign Currency	4,017
17,314		18,384
1,328,663	Total Investments	1,384,318

14c. Analysis by Fund Managers

31/03/2020		By fund manager	31/03/2019	
£000	%		£000	%
0	0.00	Capital International	5	0.0
786,127	59.2	Legal and General	854,075	61.7
97,260	7.3	CBRE Global Investors	99,657	7.2
42,260	3.2	Allianz Global Investors	44,216	3.2
96,013	7.2	CQS	126,935	9.2
71,031	5.3	Pantheon	67,718	4.9
26,743	2.0	BlackRock	22,488	1.6
132,914	10.0	Ruffer	158,286	11.4
15,952	1.2	CIP	3,538	0.3
47,865	3.6	Aviva	0	0.0
12,348	0.9	In house cash deposits	7,250	0.5
1,328,513	100.0	Total	1,384,168	100.0

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The following investments represent more than 5% of the investment assets of the scheme.

31/03/2020		Name of holding	31/03/2019	
£000	%		£000	%
86,999	6.5%	Legal & General World Emerging Equity Index	99,382	7.2%
0	0.0%	Legal & General Index Linked Gilts	195,855	14.1%
245,870	18.5%	Legal & General Low Carbon Index	281,914	20.4%
132,914	10.0%	London CIV Ruffer Subfund	152,887	11.0%
96,013	7.2%	CQS Multi Asset Credit Fund	126,267	9.1%
235,740	17.7%	RAFI Multi Factor Global	274,055	19.8%

15. Analysis of derivatives

The Fund does not hold any derivatives at 31st March 2020.

16. Fair Value Hierarchy

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

Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled equity and (unitised insurance policies)	Level 2	Published bid market price at end of the accounting period	NAV per share	Not Required
Pooled multi asset credit fund (other managed funds)	Level 2	Published bid market price at end of the accounting period	NAV per share	Not Required
Pooled multi asset absolute return fund (other managed funds)	Level 2	Published bid market price at end of the accounting period	NAV per share	Not Required
Infrastructure Debt (other managed funds)	Level 2	Most recent valuation	NAV published, cashflow transactions, i.e. distributions or capital calls	Not Required

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Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled UK property unit trusts	Level 3	Most recent published NAV updated for cashflow transactions to the end of the accounting period	NAV published, cashflow transactions, i.e. distributions or capital calls	Valuations could be affected by material events between the date of the financial statements fund's own reporting date, and by differences between audited and unaudited accounts. Valuations of underlying property assets.

Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Private Equity	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange movements to the end of the accounting period. The Market approach may be used in some circumstances for the valuation of underlying assets by the fund manager.	Cashflow transactions, i.e. distributions or capital calls, foreign exchange movements. Audited financial statements for underlying assets, which may include market approach valuations: taking into account actual observed transactions for the underlying assets or similar assets to help value the assets of each partnership.	Valuations could be affected by material events between the date of the financial statements provided and the pension fund's own reporting date, and by differences between audited and unaudited accounts

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Sensitivity of assets valued at level 3

Having analysed historical data, current market trends and information received regarding the valuation techniques of the fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Asset	Assessed Valuation Range +/-	Valuation as at 31/03/2020	Value on Increase	Value on Decrease
		£000	£000	£000
Pooled UK property unit trusts	2%	140,867	143,685	138,050
Private Equity	5%	113,014	118,665	107,363
		253,882	262,350	245,414

16a. Fair Value Hierarchy

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

Level 1

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

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. The figures below do not include the cash holdings of the fund.

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Values as at 31/03/20	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets / liabilities at fair value through profit and loss	49	1,057,268	253,881	1,311,198
Total	49	1,057,268	253,881	1,311,198

Values as at 31/03/19	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	5,042	1,168,623	187,119	1,360,784
Total	5,042	1,168,623	187,119	1,360,784

16b. Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2 during the year.

16c. Reconciliation of fair value measurements within level 3

2019/20	Value at 1st April 2019	Purchases in the year	Sales in the year	Unrealised gains (losses)	Realised gains (losses)	Value at 31st March 2020
	£000	£000	£000	£000	£000	£000
Pooled UK	96,718	57,341	0	(12,895)	(296)	140,868
Private Equity	90,401	27,682	(11,778)	(1,430)	8,137	113,012
Total	187,119	85,023	(11,778)	(14,325)	7,841	253,880

17. Financial Instruments

17a. Classification of financial instruments

Most the Fund's financial assets and liabilities are classified as "fair value through profit and loss". This means that the assets can be exchanged between parties at a market price. The Accounting Policies describe how fair value is measured. Assets which have fixed payments and are not quoted in an active market are classified as "financial assets at amortised cost". The only financial assets in this class held by the Fund are cash deposits and debtors. Creditors to the Fund are classified as financial liabilities at amortised cost because they are not held for trading.

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31/03/2020	Name of holding	31/03/2019
Carrying Value		Carrying Value
£000		£000
	Financial assets or liabilities at fair value through profit or loss	
150	- Long term investments	150
1,311,150	- Pooled investment vehicles	1,355,742
48	- Other investment balances	5,042
<u>1,311,349</u>		<u>1,360,934</u>
	Financial assets at amortised cost	
17,314	- Cash deposits	18,384
1,283	- Debtors	822
<u>18,597</u>		<u>19,206</u>
	Financial liabilities at amortised cost	
(3,174)	- Creditors	(2,373)
(189)	- Cash overdrawn	0
<u>(3,363)</u>		<u>(2,373)</u>
<u>1,326,583</u>	Net Assets	<u>1,377,767</u>

The carrying values shown above are the same as the fair value for each line.

17b. Net gains and losses on financial instruments

2019/20		2018/19
£000		£000
	Financial Assets	
(56,348)	Fair value through profit or loss	73,162
<u>37</u>	Financial assets and liabilities at amortised cost	<u>175</u>
<u>(56,311)</u>		<u>73,337</u>

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

18. Nature and extent of risks arising from Financial Instruments

The Pension Fund's investment objective is to achieve a return on Fund assets, which is sufficient, over the long term, to fully meet the cost of benefits and to ensure stability of employer's contribution rates. Achieving the investment objectives requires a high allocation to growth assets in order to improve the funding level, although this leads to a potential higher volatility of future funding levels and therefore contribution rates.

a) Management of risk

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

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The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide an audited internal controls report regularly to the Council which sets out how they ensure the Fund's assets are safeguarded against loss and misstatement.

The listed equity and index linked portfolios held within pooled investment vehicles, representing 59% of the fund's investment strategy which in line with the Fund's Strategic Asset Allocation, are managed on a passive basis to minimise the volatility of returns compared with market indices and to reduce the fees and governance requirements.

b) Market price risk

The key risk for the Pension Fund is market risk, which is the risk that the values of the investments fluctuate due to changes in market prices. The majority of the Fund is invested in pooled funds with underlying assets which can fluctuate on a daily basis as market prices change e.g. equities and bonds. To demonstrate the impact of this volatility, the table below shows the impact of potential price changes based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years.

As at 31/03/2020	Value	%	Value on increase	Value on decrease
	£000	%	£000	£000
Overseas equities	568,610	8.5	617,104	520,115
UK bonds	217,520	5.2	228,789	206,251
Cash	17,314	0.0	17,314	17,314
Property	140,867	7.0	150,702	131,033
Alternatives	384,202	3.5	397,747	370,656
Total Assets	1,328,513		1,411,656	1,245,369

As at 31/03/2019	Value	%	Value on increase	Value on decrease
	£000	%	£000	£000
Overseas equities	655,352	15.1	754,100	556,604
UK bonds	195,856	11.1	217,682	174,028
Cash	18,384	0.0	18,384	18,384
Property	96,786	4.2	100,725	92,632
Alternatives	417,860	8.7	454,368	381,350
Total Assets	1,384,238		1,545,259	1,222,998

A number of controls have been put in place to minimise this risk. A key method to reduce risk is to diversify the Pension Fund's investments. This is achieved through the setting of a benchmark, which incorporates a wide range of asset classes and geographical areas. Nine investment managers have been appointed to further diversify the Pension Fund's investments and lower risk. Funds had been invested with nine of these fund managers as at 31st March 2020.

In addition to diversification, parameters have been set for the investment managers to work within to ensure that the risk of volatility and deviation from the benchmark are within controlled levels.

Investment values and performance of the fund managers is measured on a quarterly basis through reporting to Pensions Committee and Board.

c) Exchange rate risk

The Pension Fund holds assets in currencies other than sterling, which made up 59% of the Fund value on 31st March 2020, equivalent to £782 million (2018/19: £877 million). These arise from passive pooled equities, private equity, property and cash. Foreign currency exposures are hedged in the equity asset class only, via the purchase of units in hedged versions of index tracking funds.

The main non-sterling currency exposures at 31st March 2020 was

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the US dollar. Other major exposures were the Euro, other European, Asian and emerging market country currencies.

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

As at 31/03/2020	Value	% change	Value on increase	Value on decrease
	£000	%	£000	£000
Overseas equities	568,610	10.0	625,471	511,749
Multi-sector credit	96,013	10.0	105,614	86,412
Private equity	113,014	10.0	124,315	101,713
Cash	3,970	10.0	4,367	3,573
Total Assets	781,606	10.0	859,767	703,447

As at 31/03/2019	Value	% change	Value on increase	Value on decrease
	£000	%	£000	£000
Overseas equities	655,352	10.0	720,887	589,817
Multi-sector credit	126,935	10.0	139,629	114,242
Private equity	90,403	10.0	99,443	81,363
Cash	4,017	10.0	4,419	3,615
Total Assets	876,707	10.0	964,378	789,037

The cash balances managed internally are only permitted to be in sterling.

d) Interest Rate risk

Movements in interest rates affect the income earned by the Fund and can have an impact on the value of net assets. To demonstrate this risk, the table below shows the impact on income earned of a 1% increase and decrease in interest rates.

	Interest earned 2019/20	Interest rate if 1% higher	Interest rate if 1% lower
	£000	£000	£000
Cash deposits	39	96	(17)
Total	39	96	(17)

	Interest earned 2018/19	Interest rate if 1% higher	Interest rate if 1% lower
	£000	£000	£000
Cash deposits	36	178	(107)
Total	36	178	(107)

e) Credit risk and counterparty risk

Credit risk is the risk a counterparty fails to fulfil a transaction it has committed to entering into. This risk is particularly relevant to the Council's non-sovereign bonds (including those held in pooled funds) and cash investments.

The Investment Management Agreements the Council has signed with the external fund managers set out limits on the types of bonds the fund managers can purchase for the Fund in order to limit the possibility of default. The table below shows the split of the bond investments by credit rating at 31st March 2020 and 31st March 2019. The majority of bonds (2020: £218 million, 2019 £196m) are UK Government index linked, with the balance being corporate bonds. The UK Government has an AA credit rating.

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	Market value 31/03/2020	AA	A	BBB	Below BBB
	£000	%	%	%	%
Bond exposure in pooled investment vehicles	313,533	69	3	2	26
Total / Weighted Average	313,533	69	3	2	26

	Market value 31/03/2019	AA	A	BBB	Below BBB
	£000	%	%	%	%
Bond exposure in pooled investment vehicles	322,790	61	3	2	34
Total / Weighted Average	322,790	61	3	2	34

The cash that the Council manages internally on behalf of the Pension Fund is invested in line with the Council's Treasury Management Strategy, which sets out very strict limits on the counterparties which can be used and the amounts that can be invested with them. The amount of cash held by fund managers is kept to a minimum and when held for a period of time is invested in the custodian bank's AAAM rated money market fund. The table below details the credit ratings of the institutions the cash was held with.

31/03/2020			31/03/2019		
Exposure	Credit rating		Exposure	Credit rating	
£000			£000		
10,707	AA-	Northern Trust	11,133	AA-	
2	A	Barclays Bank Plc	5	A	
6,605	AAAm	Money Market Funds	7,245	AAAm	
17,314			18,384		

The limits for cash is kept under constant review to be able to respond quickly to changes in the creditworthiness of counterparties which may increase risk.

f) Liquidity risk

Liquidity risk is the risk that monies are not available to meet the Pension Fund's obligation to pay pension benefits on time. Maintaining a level of internally managed cash balances enables the Pension Fund to ensure liquidity is not an issue. All of the internally managed cash held on 31st March 2020 was in money market funds and bank accounts with the main bank or custodian, ensuring cash is available as required. Monitoring of the cashflow position daily assists with maintaining this position.

The majority of the Council's non cash investments are in pooled funds whose underlying holdings are listed equities or bonds. These funds have regular (at least monthly) trade dates, which ensure it is possible to realise the investments easily if necessary.

19. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31st March 2019. Based on the current regulations, the next valuation

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will take place as at 31st March 2022, (this valuation will be finalised prior to 31st March 2023).

The key elements of the funding policy are:

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

The market value of the Fund at the time of the last triennial valuation as at 31st March 2019 was £1,384 million. Against this sum liabilities were identified of £1,378 million equivalent to a small funding surplus of £6 million (2016 valuation: deficit £277m). The movement in the actuarial deficit between 2016 and the last valuation in 2019 is analysed below:

Reason for change	£m
Contributions greater than cost of accrual	12
Net transfers into/out of the Fund	(2)
Other cashflows	(4)
Interest on benefits already accrued	(164)
Membership Experience versus expectations	18
Investment returns higher than expected	395
Change in inflation assumptions	(38)
Change in actuarial assumptions	65
Total	282

The aim is to achieve and maintain 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investments returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding is less than 100% of the funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2019 actuarial valuation, the fund was assessed as 100% funded (79% at the 31st March 2016 valuation). This corresponds to a surplus of £6m (2016 valuation: deficit of £277m) at that time.

Contribution increases or decreases may be phased in over the three-year period ending 31 March 2023 for scheme employers, or changes may take immediate effect from 1 April 2020. The actuary agreed that the Council's contribution rate could decrease by 1.5% over a three year period from April 2020, from 26.4% of pensionable salaries to 24.9%. The actuary specified a minimum level of contributions in monetary terms to cover the past service deficit.

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Individual employer's rates will vary depending on the demographic and actuarial factors particular to each employer in the Fund. Full details of contribution rates payable can be found in the 2019 actuarial valuation report.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

Future assumed rates	31-Mar-16 31-Mar-19	
	%	%
Discount rate (annual nominal return rate)	4.0	4.2
Pay increase (annual change)*	2.8	3.3
Pay increase - Pension (annual change)	2.1	2.3
Retail Price Index (RPI)	3.2	3.3

*An allowance is also made for promotional pay increases.

20. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions from those used for funding purposes. The actuary has also used valued ill health and death benefits in line with IAS 19.

31/03/20		31/03/19	
£000		£000	
(1,815,000)	Present Value of promised retirement benefits	(2,088,000)	
1,326,583	Fair Value of scheme assets	1,383,000	
(488,417)	Net Liability	(705,000)	

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Please see Annex 1 to these accounts for more information.

21. Current assets

31/03/20		31/03/19	
£000		£000	
	Debtors		
157	- Contributions due - employees	95	
1,008	- Contributions due - employers	639	
118	- Sundry debtors	88	
1,283	Total	822	

The below is an analysis of debtors.

31/03/20		31/03/19	
£000		£000	
49	Central government bodies	33	
72	Public corporations and trading funds	40	
1,162	Other entities and individuals	749	
1,283	Total	822	

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22. Current liabilities

The below is an analysis of creditors.

31/03/20		31/03/19
£000		£000
(2,945)	Sundry creditors	(1,922)
(417)	Benefits payable	(451)
(3,363)	Total	(2,373)

23. Additional Voluntary Contributions ("AVCs")

Separately invested AVCs are held with the Equitable Life Assurance Society, Prudential Assurance, and Clerical Medical in a combination of With Profits, Unit Linked and Building Society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

Movements by provider are summarised below:

2019/20	Utmost Life and Pensions/Equitable Life Assurance Society	2018/19
£000		£000
204	Value as at 6 April	231
0	Contributions received	0
(11)	Retirement benefits and changes	(36)
8	Changes in market value	9
201	Value as at 5 April	204
0	Equitable with profits	83
0	Equitable with deposit account fund	0
201	Equitable unit linked	121
201	Total	204
1	Number of active members	1
25	Number of members with preserved benefits	28

2019/20	Prudential Assurance	2018/19
£000		£000
1,020	Value as at 1 April	856
196	Contributions received	168
(166)	Retirement benefits and changes	(32)
73	Changes in market value	28
1,123	Value as at 31 March	1,020
574	Prudential with profits cash accumulation	564
264	Prudential deposit fund	210
285	Prudential unit linked	246
1,123	Total	1,020

2019/20	Clerical and Medical	2018/19
£000		£000
31	Value as at 1 April	28
2	Contributions received	2
(5)	Changes in market value	1
28	Value as at 31 March	31
6	Clerical Medical with profits	6
22	Clerical Medical unit linked	25
28	Total	31
2	Number of active members	2
2	Number of members with preserved benefits	2

24. Agency Services

There were no agency services provided by the fund in the year.

25. Related party transactions

Haringey Council

In 2019/20 the Pension Fund paid £0.649m to the Council for administration and legal services (£0.651 million in 2018/19). As at 31st March 2020 an amount of £0.477m was due from the Council to the Fund (£0.161 million in 2018/19).

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Governance

During 2019/20 no Council members who served on the Pensions Committee and Board were also members of Haringey Pension Fund. Two of the employer and employee representatives for the Committee and Board were fund members. Committee and Board members are required to declare their interests at the beginning of each Committee meeting and as necessary during the discussion of individual items of business at Committee meetings if it becomes clear that a conflict of interest has arisen.

Key Management Personnel

The key management personnel for the fund is the Section 151 Officer for Haringey Council. The Council recharges the pension fund for a portion of this officer's costs. The Section 151 Officer was a permanent member of staff who was a member of the fund.

31/03/20	Key Management Personnel	31/03/19
£000		£000
24	Short - term benefits	10
6	Post-employment benefits	3
30		13

26. Contingent liabilities and contractual commitments

The Fund had outstanding commitments to invest of £124.9m (£69.2m with Pantheon – Private Equity, £9.0m with Blackrock, and £21.7m with Copenhagen Infrastructure Partners and £25.0m with Aviva Property at 31st March 2020 (2019: £182.4m). The commitments relate to outstanding call payments due in relation to the private equity, renewable energy infrastructure and property portfolios.

27. Contingent assets

Twelve admitted body employers in the Haringey Pension Fund hold insurance bonds in the value of £1.7m to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

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Annex 1 to the Financial Statements

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 to provide the necessary information for the London Borough of Haringey 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

Present value of Promised Retirement Benefits	Year ended 31/03/2020 (£m)	Year ended 31/03/2019 (£m)
Active members	601	877
Deferred pensioners	505	568
Pensioners	709	643
Total	1,815	2,088

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

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estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £156m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £39m.

Financial assumptions

Year ended	31 Mar 2020 % p.a.	31 Mar 2019 % p.a.
Inflation/Pensions Increase Rate	1.9	2.5
Salary Increase Rate	2.9	3.1
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%. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.5 years	23.7 years
Future Pensioners	22.7 years	25.3 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:

Change in assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	9	169
0.5% increase in salary increase rate	1	11
0.5% increase in pensions increase rate	9	161

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 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.



Douglas Green FFA

7 May 2020

For and on behalf of Hymans Robertson LLP