



# **Draft Pension Fund Accounts**

**for the year ended**

**31 March 2023**

## London Borough of Barking and Dagenham Pension Fund Account

	Note	2021/22 £000	2022/23 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>			
Contributions	8	47,558	51,706
Transfers in from other pension funds	9	3,612	2,681
		51,170	54,387
Benefits	10	(42,635)	(43,914)
Payments to and on account of leavers	11	(4,427)	(7,633)
		(47,062)	(51,547)
<b>Net additions from dealings with members</b>		4,108	2,840
Management expenses	12	(7,480)	(6,578)
<b>Net Additions/(Withdrawals) including Fund Management Expenses</b>		(3,372)	(3,738)
<b>Returns on Investments</b>			
Investment Income	13	16,838	26,080
Profit (losses) on disposal of investments and changes in the market value of investments	14	64,040	(46,730)
<b>Net returns on investments</b>		80,877	(20,603)
<b>Net increase in the net assets available for benefits during the year</b>		77,505	(24,389)

### Net Assets Statement as at 31 March 2023

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

	Note	2021/22 £000	2022/23 £000
<b>Investment Assets</b>	16	1,382,672	1,333,536
<b>Investment Liabilities</b>	16		
<b>Current Assets</b>	17	1,229	1,203
<b>Current Liabilities</b>	17	(44,847)	(20,065)
<b>Net asset of the fund available to fund benefits at the end of the reporting period</b>		1,339,064	1,314,675

## **Notes to the Pension Fund Accounts for the year ended 31 March 2023**

### **1. Introduction**

The Barking and Dagenham Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Barking and Dagenham (“LBBD”). The Council is the reporting entity for this Fund. The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- i. The LGPS Regulations 2013 (as amended)
- ii. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- iii. The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as “members”. The benefits include not only retirement pensions, but also widow’s pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund’s investments.

The objective of the financial statements is to provide information about the fund’s financial position and performance and show the results of the Council’s stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund’s Pension Committee, which is a Committee of LBBD. 2022/23 had a negative return for the year due to the economic downturn following Russia’s invasion of Ukraine. With rising inflation and interest rates and the forecasted recession in the UK economy, this has impacted the performance of the fund’s investments. The overall investment return for the fund over the year, net of fund manager fees and custodian costs was -1.5%, which was 2.7% lower than the benchmark of 1.2%. Over three years the Fund’s annualised return was 10.2%, which is 0.4% below the Fund’s benchmark return of 10.6%. Over one-year Blackrock provided a negative return of 15.9% and underperformed its benchmark by 1.5%. Baillie Gifford, Newton, Abrdn and UBS also provided negative returns. While Hermes and Kempen provided positive returns.

Two employers, Citizens Advice Bureau and Cleantech, exited the Fund in 2022/23. During the year, the total number of active employers within the Fund was 40.

### **2. Format of the Pension Fund Statement of Accounts**

The day-to-day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2019/20, which can be obtained from the Council’s website: <http://www.lbbdpensionfund.org>.

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: [www.legislation.gov.uk](http://www.legislation.gov.uk).

## Membership

All local government employees (except casual employees and teachers) are automatically enrolled into the Scheme. However, membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- 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.

A list of the Fund's scheduled and admitted employers are provided below. Not Active employers do not have any current members but have either deferred or pensioners. The obligations and assets for these employers have been absorbed by the Council.

Scheduled Bodies	Admitted Bodies
LBBD Barking College Dorothy Barley Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Pathways Riverside Bridge Riverside Free School Riverside School St Margarets St Joseph's Dagenham St Joseph's Barking St Theresa's Dagenham Sydney Russell Academy Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy	Aspens Aspens 2 Aspens 3 BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partnerships BD Management Services Caterlink Caterlink 2 Caterlink 3 Caterlink 4 Lewis and Graves Pantry Catering Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners
<p><b>Not Active</b> Magistrates Court</p>	<p><b>Not Active</b>                      Abbeyfield Barking Society                      Age UK                      B&amp;D Citizen's Advice Bureau                      Cleantech                      Council for Voluntary Service                      Disablement Assoc. of B&amp;D                      East London E-Learning                      London Riverside                      Laing O'Rourke                      May Gurney                      RM Education</p>

A breakdown of the Fund's members by employer type and by member type is included in the table below:

	2021/22	2022/23
<b>Number of Employers with active members</b>	<b>42</b>	<b>40</b>
<b>Number of Employees in scheme</b>		
<b>London Borough of Barking and Dagenham</b>		
Active members	4,496	<b>4,593</b>
Pensioners	4,718	<b>4,962</b>
Deferred pensioners	5,040	<b>5,188</b>
Undecided and other members	126	<b>153</b>
	<u>14,380</u>	<u><b>14,896</b></u>
<b>Admitted and Scheduled Bodies</b>		
Active members	1,444	<b>1,411</b>
Pensioners	1,038	<b>1,430</b>
Deferred pensioners	1,754	<b>1,835</b>
Undecided and other members	77	<b>60</b>
	<u>4,313</u>	<u><b>4,736</b></u>

#### a) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service as summarised below:

	<b>Service pre-1 April 2008</b>	<b>Service post 31 March 2008</b>
<b>Pension:</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum:</b>	Automatic lump sum of 3 x salary. In addition part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The benefits payable in respect of service from 1 April 2014 are based on career average devalued earnings and the number of years of eligible service. The accrual rate is 1/49 and the benefits are index-linked to keep pace with inflation. From 1 April 2011, the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

### 3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2022/23 financial year and its position as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2022/23. The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2023. Such items are reported separately in the Actuary's Report provided in Note 20 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis. The Pension Fund Accounts have been prepared on a going concern basis.

### **3.1 Contributions (see Note 8)**

Primary contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Secondary contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

### **3.2 Transfers to and from other schemes (see Note 9)**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts based on the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### **3.3 Investment income (see Note 13)**

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

### **3.4 Net Assets Statement at market value is produced on the following basis (see note 14)**

- i) Quoted investments are valued at bid price at the close of business on 31 March 2023;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;

- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2023. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

### **3.5 Management expenses (see note 12)**

#### Administration Expenses

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBD's policy.

#### Investment management expenses

All investment management expenses are accounted for on an accrual basis.

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore, investment management fees increase / decrease as the value of these investments change.

The Fund does not include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

Most the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism.

The Council has made a prepayment of employer pension contributions to the Fund for two years totalling £40m. The interest costs associated with this prepayment are included as an investment management expense.

### **3.6 Taxation**

The Fund is a registered public-sector service scheme under section 1(1) of schedule 36 of the Finance act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceed of investments sold.

Taxation agreements exist between Britain and other countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. Non-recoverable deductions are classified as withholding tax.

Value Added Tax is recoverable on all Fund activities by the administering authority.

### **3.7 Foreign currency transactions**

Dividends, interest, 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.

### **3.8 Cash and cash equivalents**

Cash comprises cash in-hand and on-demand deposits.

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

### **3.9 Present Value of Liabilities**

These accounts do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

### **3.10 Actuarial present value of promised retirement benefits (see note 20)**

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 IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement

### **3.11 Contingent assets and liabilities**

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

## **4. Critical Judgements in applying accounting policies**

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

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary and is included in Note 20 but is not included in the net asset statement. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

### Unquoted investments

Determining the fair value of unquoted investments (unquoted equity investments and hedge fund or funds) can be subjective. They are inherently based on forward-looking estimates and judgements involving many factors including the impact of market volatility following the COVID-19 outbreak. Unquoted investments are valued by the investment managers. The total financial instruments held by the Fund at **Level 3 were £273.3m.**



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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2022/23 for which there is a significant risk of material adjustment in the forthcoming financial years.

All investments are measured at fair value and by necessity, unquoted investments involve a degree of estimation. Notes 14 and 21 provide information about valuation methodology and the assumptions made in deriving the estimates.

## **6. Additional Voluntary Contributions (AVC)**

Additional Voluntary Contributions (AVCs) administered by the Prudential were made by LBBB employees during the year. In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

AVCs were valued by Prudential at a market value of **£3.3m** (2021/22 £3.4m).

## **7. Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are included in Note 12.

## **8. Contributions**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations.

Currently employer contribution rates range from 18.1% to 43.0%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

The Council uses a mechanism to stabilise the contribution rates. This was agreed following the actuary, Hymans Robertson, completing a stochastic modelling of the long-term funding position. Eligibility for stabilisation is dependent on reasonable consistency in an employer's membership profile. The primary contribution rate for the financial year ending 31 March 2023 was 23%.

Contributions shown in the revenue statement may be categorised as follows:

<b>Contributions</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Members normal contributions</b>	<b>£000</b>	<b>£000</b>
Council	8,342	9,173
Admitted bodies	482	475
Scheduled bodies	1,909	2,002
<b>Total contributions from members</b>	<b>10,733</b>	<b>11,650</b>
<b>Employers contributions</b>		
Council - Normal	22,703	24,335
Council - Deficit Recovery	4,442	6,084
Admitted bodies - Normal	1,941	1,863
Admitted bodies- Deficit Recovery	98	96
Scheduled bodies - Normal	5,732	5,993
Scheduled bodies- Deficit Recovery	1,674	1,646
Pension Strain	235	39
<b>Total contributions from employers</b>	<b>36,825</b>	<b>40,055</b>
<b>Total Contributions</b>	<b>47,558</b>	<b>51,706</b>

#### 9. Transfers in from other pension funds

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
<b>Individual Transfers</b>	3,612	2,681
	<b>3,612</b>	<b>2,681</b>

#### 10. Benefits

Benefits payable and refunds of contributions have been brought into the accounts based on all valid claims approved during the year.

	<b>2021/22</b>				<b>2022/23</b>			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Pensions</b>	29,506	229	6,428	36,163	30,508	259	7,079	37,846
<b>Lump sums</b>	3,769	369	712	4,850	4,007	188	1,005	5,200
<b>Death grants</b>	953	-	364	1,317	667	45	156	868
	<b>34,228</b>	<b>584</b>	<b>7,521</b>	<b>42,330</b>	<b>35,182</b>	<b>491</b>	<b>8,240</b>	<b>43,914</b>

#### 11. Payments to and on account of leavers

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Individual Transfers	4,427	7,235
Refunds	305	398
	<b>4,732</b>	<b>7,633</b>

#### 12. Management Expenses

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Administration and Processing	676	767
Management Fees	4,839	4,182
Custody Fees	57	56
Oversight and Governance Fees	240	214
Other Costs	1,668	1,359
	<b>7,480</b>	<b>6,578</b>

### 13. Investment Income

	2021/22	2022/23
	£000	£000
Fixed Interest Securities	442	427
Equity Dividends	13,294	22,223
Pooled Property Income	2,275	2,104
Interest - Manager's Cash	825	1,309
Interest - LBBB balance	1	9
Other Income	1	8
	<u>16,838</u>	<u>26,080</u>

**14. Investments:** The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	Value 31/03/2022 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2023 £000
Pooled Unit Trusts	1,070,285	38,712	(57,849)	(29,503)		1,021,645
Property Unit Trusts	62,413	1,685	(3,049)	(10,962)		50,088
Pooled Alternatives	128,840	33,274	(39,704)	5,911		128,321
Infrastructure	104,150	(3,173)		(4,050)		96,926
Other Investments	150					150
Derivative Contracts						
Futures	(505)	20,194	(10,856)	(8,011)		821
Cash Deposits						
Custodian	13,699	(56)	4,859	3	(4,933)	13,572
In-House	113				21,545	21,659
Short-Term Loan	(24,150)				5,150	(19,000)
Pending Trade Sales	3,527		(3,166)	(17)		344
Other Investments	9					9
<b>Total</b>	<b>1,358,531</b>	<b>90,636</b>	<b>(109,765)</b>	<b>(46,629)</b>	<b>21,763</b>	<b>1,314,535</b>

	Value 31/03/2021 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2022 £000
Pooled Unit Trusts	1,041,546	6,676		22,063		1,070,285
Property Unit Trusts	60,250	13,371	(31,823)	20,615		62,413
Pooled Alternatives	96,192	53,124	(42,155)	21,668		128,840
Infrastructure	99,190	649		4,311		104,150
Other Investments	150					150
Derivative Contracts						
Futures	287	5,527	(1,674)	(4,645)		(505)
Cash Deposits						
Custodian	14,327	-	1,868	0	(2,492)	13,699
In-House	39				74	113
Short Term Loan	(29,200)				5,050	(24,150)
Pending Trade Sales	0		3,518	8		3,526
Other Investments	9					9
<b>Total</b>	<b>1,282,790</b>	<b>79,346</b>	<b>(70,266)</b>	<b>64,020</b>	<b>2,633</b>	<b>1,358,531</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund. The Fund employs specialist investment managers with mandates corresponding to the principal asset classes. A list of the Fund's Fund Manager, their mandate and the asset type are outlined in the table below:

Investment Manager	Mandate	Asset Type
Abrdn Asset Management	Active	Diversified Alternatives
Insight	Active	Global Credit
London CIV: Baillie Gifford	Active	Global Equity (Pooled)
London CIV: Pyrford	Active	Absolute Return
London CIV: Newton	Active	Absolute Return
London CIV: Other	Passive	None
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Prudential/M&G	Active	Alternatives - UK Companies Financing
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2023 was as follows:

Fund by Investment Manager	2021/22		2022/23	
	£'000	%	£'000	%
Abrdn Asset Management	128,335	9.6%	<b>129,142</b>	<b>9.8%</b>
BlackRock	59,357	4.4%	<b>50,088</b>	<b>3.8%</b>
Hermes	104,150	7.7%	<b>96,926</b>	<b>7.4%</b>
Kempen	204,309	15.0%	<b>218,687</b>	<b>16.6%</b>
Other Cash Balances	13,812	1.0%	<b>35,231</b>	<b>2.7%</b>
Short Term Investment	(24,150)	-1.8%	<b>(19,000)</b>	<b>-1.4%</b>
RREEF	0	0.0%	<b>0</b>	<b>0.0%</b>
Schroders	3,056	0.2%	<b>0</b>	<b>0.0%</b>
Insight	66,227	4.9%	<b>67,849</b>	<b>5.2%</b>
UBS Passive Bonds	36,808	2.7%	<b>30,818</b>	<b>2.3%</b>
UBS Passive Equity	274,912	20.2%	<b>261,854</b>	<b>19.9%</b>
London CIV	150	0.0%	<b>150</b>	<b>0.0%</b>
London CIV - Baillie Gifford	291,693	21.4%	<b>0</b>	<b>0.0%</b>
London CIV - Newton / Pyrford	196,336	14.4%	<b>442,437</b>	<b>33.7%</b>
Pending Trade Sales	3,527	0.3%	<b>344</b>	<b>0.0%</b>
Other Investments – Tax Recoverable	9	0.0%	<b>9</b>	<b>0.0%</b>
<b>Total</b>	<b>1,358,531</b>	<b>100.0%</b>	<b>1,314,536</b>	<b>100.0%</b>
Current Assets	1,229	0.1%	<b>1,203</b>	<b>0.1%</b>
Current Liabilities	(20,697)	-1.5%	<b>(1,065)</b>	<b>-0.1%</b>

## 15. Cash

The cash balance held at 31 March 2023 is made up as follows:

<b>Cash balances held by Investment Managers</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Aberdeen Asset Management	13,444	13,572
Schroders	19	-
BlackRock	183	-
Other balances	53	-
In-house Cash	113	21,659
<b>Total Cash</b>	<b>13,812</b>	<b>35,231</b>

## 16. Securities

<b>Investment Assets</b>	<b>2021/22 £000's</b>	<b>2022/23 £000's</b>
<b>Pooled funds - UK</b>		
UK fixed Income Unit Trust	36,808	30,818
UK Equity Unit Trust	566,755	262,004
UK Absolute Return	196,336	442,437
UK Property Unit Trust	3,056	-
<b>Pooled funds - Overseas</b>		
Overseas Fixed Income Unit Trust	76,556	67,849
Overseas Equity Unit Trust	206,391	220,727
Overseas Property Unit Trust	59,357	50,088
Other Investment - Infrastructure	104,150	96,926
Other Investment - Private Equity	76,427	89,808
Other Investment - Hedge Funds	40,002	36,473
Other Investment – Tax Recoverable	9	9
<b>Cash</b>	<b>13,812</b>	<b>35,231</b>
<b>Pending Trade Sales</b>	<b>3,527</b>	<b>344</b>
<b>Futures</b>	<b>-</b>	<b>-</b>
<b>Total Investment Assets</b>	<b>1,383,186</b>	<b>1,332,715</b>
<b>Investment Liabilities</b>		
<b>Futures</b>	<b>(505)</b>	<b>821</b>
<b>Total Investment Liabilities</b>	<b>(505)</b>	<b>821</b>
<b>Current Assets: Debtors</b>	<b>1,229</b>	<b>1,203</b>
<b>Current Liabilities: Creditors</b>	<b>(44,847)</b>	<b>(20,065)</b>
<b>Total Net Assets</b>	<b>1,339,063</b>	<b>1,314,674</b>

## 17. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2023:

	2021/22 £000	2022/23 £000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Pending Trade Sales	3,518	353
<b>Current Assets</b>		
Other local authorities	426	645
Other entities and individuals	803	559
Total Current Assets	1,229	1,203
<b>Total Debtors</b>	<u>4,747</u>	<u>1,556</u>
<b>Creditors: Investment Liabilities</b>		
Futures	-	-
<b>Current Liabilities</b>		
Other local authorities	410	203
LBBB Prepayment	20,000	-
Other entities and individuals	287	862
Short Term Loan from LBBB	24,150	19,000
<b>Total Current Liabilities</b>	<u>44,847</u>	<u>20,065</u>
<b>Total Creditors</b>	<u>44,847</u>	<u>20,065</u>

## 18. Holdings

All holdings within the Fund at 31 March 2023 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. At 31 March 2023 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2023 £000	% of Total Fund %
Insight	67,849	5.2%
UBS Passive Equity	261,854	19.9%
Kempen	218,687	16.6%
London CIV – Pyrford/Newton	442,437	33.7%
Hermes	96,926	7.4%

## 19. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Committee on 16 December 2020 and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Investment Strategy Statement. Copies can be obtained from the Council's Pension website: <http://www.lbbdpensionfund.org>

## 20. Actuarial position

### Actuarial assumptions

The 2019 triennial review of the Fund took place as at 31 March 2019 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period remained 17 years in 2019;
- The key financial assumptions adopted at this valuation are:
  - Future levels of price inflation are based on the Consumer Price Index (CPI);
  - The resulting discount rate of 4.0% (4.1% as at 31 March 2016).
- Market value of the scheme's assets at the date of the valuation were £1,022 million;
- The past service liabilities at the rate of the valuation were £1,141 Million;
- The resulting funding level was 90% (77% as at 31 March 2016); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date:

<b>Longevity Assumptions</b>	2016	2016	<b>2019</b>	<b>2019</b>
at 31 March	Male	Female	<b>Male</b>	<b>Female</b>
Ave. future life expectancy (in years for a pensioner)	22.0	24.7	<b>21.3</b>	<b>23.4</b>
Ave. future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at valuation date	24.0	26.4	<b>22.3</b>	<b>24.9</b>

Some of the key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2019 valuation are set out below:

<b>Financial Assumptions (p.a.)</b>	<b>31 March 2016</b>	<b>31 March 2019</b>
<b>Benefit increases and CARE revaluation (CPI)</b>	2.1%	2.3%
<b>Salary increases</b>	2.6%**	3.0%**

\*CPI plus 0.4%

\*\*CPI plus 0.7%

### Present value of funded obligation

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be **£1,978m** as at 31 March 2021 (31 March 2020: £1,501m). This figure is used for statutory accounting purposes by the Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. Additional prudence has built into funding plans to allow for the McCloud ruling so the gross pension liability of £1,978m takes this into account.

As a result of the Government's introduction of a single-tier state pension (STP), there is currently uncertainty around who funds certain elements of increases on Guaranteed Minimum Pensions (GMP) for members reaching State Pension Age after 6 April 2016. As part of the introduction of STP, the Government confirmed that public service pension schemes, including the LGPS, will be responsible for funding all increases on GMP as an 'interim solution' so this has been factored into the liabilities.

### Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2022/23 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
Barking College	22.3	Aspens	31.5
Dorothy Barely Academy	19.8	Aspens 2	29.6
Eastbury Academy	20.1	B&D Citizen's Advice Bureau	43.0
Elutec	20.8	BD Corporate Cleaning	27.8
Goresbrook Free School	18.1	BD Schools Improvement P'ship	27.7
Greatfields Free School	19.0	BD Together	27.8
James Cambell Academy	22.2	BD Management Services	27.8
LBBDD	22.0	BD Trading Partnership	27.8
Partnership Learning	19.9	Be First	27.0
Pathways	23.7	Cleantech	29.8
Riverside Bridge	19.4	Caterlink	34.0
Riverside Free School	19.3	Caterlink 2	26.4
Riverside Primary School	19.4	Caterlink 3	26.9
St Joseph's Dagenham	26.0	Caterlink 4	28.9
St Joseph's Barking	24.6	Lewis and Graves	34.5
St Margarets Academy	20.8	Pantry Catering	31.5
St Theresa's Dagenham	28.7	Schools Offices Services Ltd	26.9
Sydney Russell	20.1	Sports Leisure Management	21.0
Thames View Infants Acad.	20.5	The Broadway Theatre	29.5
Thames View Junior Acad.	20.7	Town and Country Cleaners	27.7
University of East London	34.4		
Warren Academy	20.1		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

### Funding level and position

The table below shows the detailed funding level for the 2019 valuation:

Employer contribution rates	As at 31 March	
	2016	2019
Primary Rate (net Employer Future Service Cost)	18.2%	<b>19.8%</b>
Secondary Rate (Past Service Adjustment – 17-year spread)	6.8%	<b>3.0%</b>
<b>Total Contribution Rate</b>	25.0%	<b>22.8%</b>

The Primary rate above includes an allowance for administration expenses of 0.5% of pay. The employee average contribution rate is 6.6% of pay. The table below shows the funding position as at 31 March 2019.



<b>Past Service Funding Position at 31 March</b>	As at 31 March 2016	As at 31 March 2019
<b>Past Service Liabilities</b>	£m	£m
Employees	(324)	(323)
Deferred Pensioners	(221)	(287)
Pensioners	(456)	(531)
	<hr/>	<hr/>
	(1,001)	(1,141)
Market Value of Assets	772	1,022
<b>Funding Deficit</b>	<hr/>	<hr/>
	(228)	(119)
<b>Funding Level</b>	<hr/>	<hr/>
	77%	90%

## 21. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. There were no transfers between levels during 2022/23.

### 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, quoted index linked securities and unit trusts.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the Fund at **Level 1 were £1,059.1m**

### Level 2

Financial instruments 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 use inputs that are based significantly on observable market data. Pending trade sales from the funds pooled alternative manager has been classified as Level 2. The total financial instruments held by the fund at **Level 2 was £1.2m.**

### Level 3

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure is based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £273.3m.**

### Asset Valuation Hierarchy and Basis of Valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs
Fixed Income Unit Trusts	Level 1	Published bid market price ruling on the final day of the accounting period	Not required
Equity Unit Trust	Level 1	Market value based on current yields	Not required
Absolute Return Funds	Level 1	Closing bid value on published exchanges	Not required
Property Unit Trust	Level 3	Closing single price where single price published	NAV-based pricing set on a forward pricing basis
Other Investment - Infrastructure	Level 3	Enterprise value (EV) / Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) as their valuation methodology, using a basket of public and transaction comparables.	EV / EBITDA
Other Investment - Private Equity	Level 3	EV / EBITDA as their valuation methodology, using a basket of public and transaction comparables.	EV / EBITDA
Other Investment - Hedge Funds	Level 3	Underlying assets publicly traded securities (equities, bonds) where pricing is readily available from providers i.e. Bloomberg or Reuters.	Valuations affected by any changes to value of the financial instrument being hedged against.

### Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, 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 2023.

Description of asset	Assessed valuation range	Value at 31 March 2023	Value on Increase	Value on Decrease
	%	£000s	£000s	£000s
Property Unit Trust	10	50,088	55,097	45,079
Other Investment - Infrastructure	15	96,926	111,465	82,387
Other Investment - Private Equity	15	89,808	103,279	76,337
Other Investment - Hedge Funds	15	36,473	41,944	31,002
		273,295	311,785	234,805

The potential movement of 10% for Property Unit Trusts represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 21 above) produce different price results.

## 22. Events after the Reporting Period

None

## 23. Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council. Pension administration and investment management costs of **£651.5k** (2021/22: £667.6k) are charged by the Council.

## 24. Contingent Asset and liabilities

As at 31 March 2023 there were no contingent assets or liabilities.

## 25. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Committee, the Managing Director, the Director of Finance, the Investment Fund Manager, Pension Fund Accountant and Senior Treasury Accountant, charged to the Fund are provided below:

	2021/22 £000	2022/23 £000
Short Term employee benefits	147.2	135.6
<b>Total</b>	<b>147.2</b>	<b>135.6</b>

## 26. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

	Designated as fair value through profit and loss £000	Loans and receivables 2021/22 £000	Financial liabilities at amortised cost £000	Designated as fair value through profit and loss £000	Loans and receivables 2022/23 £000	Financial liabilities at amortised cost £000
<b>Financial assets</b>						
Pooled Fixed Income Unit Trusts	113,364			98,667		
Equities	773,146			482,731		
Property Unit Trusts	62,413			50,088		
Cash		13,812			35,231	
Other investments	416,419			666,475		
Pending Trade Sales		3,527			344	
<b>Total Financial Assets</b>	<b>1,365,342</b>	<b>17,339</b>		<b>1,297,961</b>	<b>35,575</b>	
<b>Financial Assets - Debtors</b>			1,229			1,203
<b>Financial liabilities - Creditors</b>			(44,847)			(20,065)
<b>Total Net Assets</b>	<b>1,365,342</b>	<b>17,339</b>	<b>(43,618)</b>	<b>1,297,961</b>	<b>35,575</b>	<b>(18,862)</b>

## 27. Nature and extent of risks arising from Financial Instruments.

The Fund activities expose it to a variety of financial risks, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meet its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

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 Council 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 Fund's Committee. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### **Risk and risk management**

#### **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from 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, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- Fund's exposure to market risk monitored by reviewing the Fund's asset allocation.
- Specific risk exposure limited by applying maximum exposure to individual investment.

#### **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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

### Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. Risk assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on Funds' asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2022/23 reporting period.

<b>Asset Class</b>	<b>One Year Expected Volatility (%)</b>	<b>Asset Class</b>	<b>One Year Expected Volatility (%)</b>
Global Pooled Inc UK	13.9	Alternatives	6.8
Total Bonds	5.7	Cash	1.8
Property	7.5		

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one-year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

<b>Asset Type</b>	<b>Value as at 31 March 2023</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£000</b>		<b>£000</b>	<b>£000</b>
<b>Pooled Fixed Interest Securities</b>	<b>98,667</b>	<b>5.7</b>	<b>104,291</b>	<b>93,043</b>
<b>Pooled Equity Investments</b>	<b>482,731</b>	<b>13.9</b>	<b>549,831</b>	<b>415,632</b>
<b>Pooled Property</b>	<b>50,088</b>	<b>7.5</b>	<b>53,845</b>	<b>46,331</b>
<b>Pooled Absolute Return</b>	<b>442,437</b>	<b>6.8</b>	<b>472,523</b>	<b>412,352</b>
<b>Infrastructure</b>	<b>96,926</b>	<b>6.8</b>	<b>103,517</b>	<b>90,335</b>
<b>Other Investments</b>	<b>127,455</b>	<b>6.8</b>	<b>136,122</b>	<b>118,788</b>
<b>Cash</b>	<b>35,231</b>	<b>1.8</b>	<b>35,865</b>	<b>34,597</b>
<b>Total</b>	<b>1,333,535</b>		<b>1,455,994</b>	<b>1,211,078</b>

<b>Asset Type</b>	<b>Value as at 31 March 2022</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£000</b>		<b>£000</b>	<b>£000</b>
Pooled Fixed Interest Securities	113,364	5.1	119,146	107,582
Pooled Equity Investments	773,146	15.2	890,664	655,628
Pooled Property	62,413	4.4	65,159	59,667
Pooled Absolute Return	196,336	5.0	206,153	186,519
Infrastructure	104,150	5.0	109,357	98,942
Other Investments	119,460	5.0	125,433	113,487
Cash	13,812	1.2	13,978	13,647
<b>Total</b>	<b>1,382,681</b>		<b>1,529,890</b>	<b>1,235,472</b>

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest movements as at 31 March 2022 and 31 March 2023 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March	As at 31 March
	2022	2023
	£000	£000
Cash and cash equivalent	13,812	35,231
Fixed interest securities	113,364	98,667
<b>Total</b>	<b>127,176</b>	<b>133,898</b>

## Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100-basis point (BPS) movement in interest rates in 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 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2023	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	35,231	352	(352)
Fixed interest securities	98,667	987	(987)
<b>Total</b>	<b>133,898</b>	<b>1,339</b>	<b>(1,339)</b>

Asset type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Cash and cash equivalent	13,812	138	(138)
Fixed interest securities	113,364	1,134	(1,134)
<b>Total</b>	<b>127,176</b>	<b>1,272</b>	<b>(1,272)</b>

## **Currency risk**

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

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

## **Liquidity risk**

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

The Pension Committee Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBD needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long-term shortfall in net income into the Fund, investment income will be used to cover the shortfall. All financial liabilities at 31 March 2023 are due within one year.

## **Refinancing risk**

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they meet the council's credit

criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

## **28. London Borough of Barking and Dagenham (LBBD)**

The Fund is administered by LBBD. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred administration and investment management costs of **£651.5k** (2021/22 £667.6k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£30.4m** to the Fund in 2022/23 (2021/22 £27.1m). All monies owing to and due from the Fund were paid in year.