



Draft Pension Fund Accounts

for the year ended

31 March 2018

London Borough of Barking and Dagenham Pension Fund Account

	Note	2016/17 £000	2017/18 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	7	45,556	44,781
Transfers in from other pension funds	8	4,293	2,761
		49,849	47,542
Benefits	9	(39,929)	(38,240)
Payments to and on account of leavers	10	(3,030)	(4,216)
Administrative expenses	11	(780)	(723)
		(43,739)	(43,179)
Net additions for dealings with members		6,110	4,363
Returns on Investments			
Investment Income	12	6,039	18,618
Taxes on income		-	
Profit (losses) on disposal of investments and changes in the market value of investments	14	135,756	31,893
Investment management expenses	13	(3,689)	(3,985)
Net returns on investments		138,106	46,526
Net increase (decrease) in the net assets available for benefits during the year		144,216	50,889

Net Assets Statement as at 31 March 2018

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	2016/17 £000	2017/18 £000
Investment Assets	15	915,817	967,696
Current Assets	16	1,584	1,590
Current Liabilities	16	(594)	(910)
		916,807	968,376

Notes to the Pension Fund Accounts for the year ended 31 March 2018

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 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 Fund’s financial statements is to provide information about the financial position, performance and financial adaptability of the Fund 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 Panel, which is a Committee of LBBD.

Overall 2017/18 was another good year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.3%, 0.3% higher than its benchmark of 5.0%. Taking net pension contributions into account, the Fund increased in size by 5.6%. Over three years the Fund has returned an annualised return of 7.9%, which 0.4% below the Fund’s benchmark return of 8.3%.

Two new employers, Be First and SLM, joined the scheme as admitted bodies. A further two academies, James Campbell Primary and St Margarets joined the scheme as new scheduled body employers. The total number of active and closed employers within the Fund was 37 as at year end.

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 2017/18, 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.

a) 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.
- 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.

	2016/17	2017/18
Number of Employers with active members	30	27
Number of Employees in scheme		
London Borough of Barking and Dagenham		
Active members	5,071	4,754
Pensioners	4,332	4,361
Deferred pensioners	4,401	4,468
Undecided and other members	398	425
	<u>14,202</u>	<u>14,008</u>
Admitted and Scheduled Bodies		
Active members	1,406	1,558
Pensioners	1,151	1,309
Deferred pensioners	1,271	1,335
Undecided and other members	69	60
	<u>3,897</u>	<u>4,262</u>

A list of the Fund's scheduled and admitted employers are provided below:

Scheduled Bodies	Admitted Bodies
LBBDD	<i>Abbeyfield Barking Society (not active)</i>
Barking College	<i>Age UK (not active)</i>
Dorothy Barely Academy	Aspens
Eastbury Academy	B&D Citizen's Advice Bureau
Elutec	Be First – From October 2018
Goresbrook Free School	<i>CGL (not active)</i>
Greatfields Free School	Cleantech
James Campbell Primary	<i>Council for Voluntary Service (not active)</i>
<i>Magistrates Court (not active)</i>	<i>Disablement Assoc. of B&D (not active)</i>
Partnerships Learning	<i>East London E-Learning (not active)</i>
Riverside Bridge	Elevate East London LLP
Riverside Free School	Laing O'Rourke
Riverside School	<i>London Riverside (not active)</i>
St Margarets	<i>May Gurney (not active)</i>
Sydney Russell	<i>RM Education (not active)</i>
Thames View Infants Academy	Schools Offices Services Ltd
Thames View Junior Academy	SLM – From August 2017
University of East London	The Broadway Theatre
Warren Academy	

b) Benefits

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

	Service pre-1 April 2008	Service post 31 March 2008
Pension:	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum:	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 2017/18 financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2017/18.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2018. Such items are reported separately in the Actuary's Report provided in Note 19 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.

3.1 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the 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 (see Note 8).

3.2 Investment income

- 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.

3.3 Investments in the Net Assets Statement at market value on the following basis:

- i) Quoted investments are valued at bid price at the close of business on 31 March 2018;
- 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 2018. 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.

3.4 Administration

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 LBBB's policy.

3.5 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.

3.6 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. These are disclosed in Note 13.

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 Derivatives

The Fund has a limited use of derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The Fund has no direct holdings in exchange traded or over-the-counter options, although some of these trading tools are used within a number of the Fund's pooled investments.

3.9 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.

3.10 Present Value of Liabilities

These accruals 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.

3.11 Actuarial present value of promised retirement benefits

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

As permitted under 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 (Note 19).

3.12 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 2, 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. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 2017/18 for which there is a significant risk of material adjustment in the forthcoming financial years.

6. Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBB employees during the year amounted to **£338k** (2016/17 £356k). 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 **£4.3m** (2016/17 £4.6m).

7. 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 2018. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. Currently employer contribution rates range from 14.0% to 33.1%.

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 2018 was 23.5%.

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

Contributions	2016/17 £000	2017/18 £000
Members normal contributions		
Council	6,667	6,941
Admitted bodies	310	434
Scheduled bodies	2,386	2,118
Total contributions from members	9,363	9,493
Employers normal contributions		
Council	24,622	23,837
Admitted bodies	982	1,439
Scheduled bodies	8,961	8,021
Additional retirement contribution		
Capitalised Redundancy costs	1,628	1,991
Total contributions from employers	36,193	35,288
Total Contributions	45,556	44,781

8. Transfers in from other pension funds

	2016/17 £000	2017/18 £000
Individual Transfers	3,992	2,761
Group Transfers*	301	0
	4,293	2,761

9. Benefits

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

	2016/17				2017/18			
	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000
Pensions	25,040	347	4,485	29,872	26,152	389	5,084	31,625
Lump sums	7,650	235	901	8,786	3,229	37	2,110	5,376
Death grants	860	19	392	1,271	835	-	404	1,239
Interest	-	-	-	-	-	-	-	-
	<u>33,550</u>	<u>601</u>	<u>5,778</u>	<u>39,929</u>	<u>30,216</u>	<u>426</u>	<u>7,598</u>	<u>38,240</u>

10. Payments to and on account of leavers

	2016/17 £000	2017/18 £000
Individual Transfers	2,858	3,966
Refunds	172	250
	<u>3,030</u>	<u>4,216</u>

11. Administrative expenses

	2016/17 £000	2017/18 £000
Administration and Processing	526	473
Audit Fee	21	21
Actuarial Fees	78	66
Legal and Other Professional Fees	37	39
ICT Costs	118	124
	<u>780</u>	<u>723</u>

12. Investment Income

	2016/17 £000	2017/18 £000
Fixed Interest Securities	636	423
Equity Dividends	3,092	16,123
Pooled Property Income	2,153	1,875
Interest - Manager's Cash	2	1
Interest - LBBB balance	95	31
Other Income	61	165
	<u>6,039</u>	<u>18,618</u>

13. Investment management expenses

	2016/17 £000	2017/18 £000
Management Fees	3,084	3,351
Custody Fees	45	28
Interest Costs	560	606
	<u>3,689</u>	<u>3,985</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 31/03/2017 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2018 £000
Pooled Unit Trusts	715,607	43,634	(300)	19,327	-	778,268
Property Unit Trusts	61,208	-	(1,498)	3,952	-	63,662
Pooled Alternatives	51,285	31,926	(27,653)	(70)	-	55,488
Infrastructure	75,761	-	(14,463)	5,779	-	67,077
Other Investments	2,607	-	(1,812)	7	-	802
Derivative Contracts						
Futures	424	198,879	(201,731)	2,828	-	400
Cash Deposits						
Custodian	2,928	-	-	70	(1,925)	1,073
In-House	5,288	-	-	-	(4,656)	632
Total	915,108	274,439	(247,457)	31,893	(6,581)	967,402

	Value 31/03/2016 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2017 £000
Pooled Unit Trusts	453,627	360,858	(229,784)	130,906	-	715,607
Property Unit Trusts	56,246	5,000	(570)	532	-	61,208
Pooled Absolute Return	130,335	61	(129,779)	(617)	-	0
Pooled Alternatives	52,496	28,904	(34,655)	4,540	-	51,285
Infrastructure	60,458	15,061	(4,635)	4,877	-	75,761
Other Investments	5,878	0	(3,276)	5	-	2,607
Derivative Contracts						
Futures	(314)	184,137	(179,151)	(4,248)	-	424
Cash Deposits						
Custodian	3,516	-	-	(239)	(349)	2,928
In-House	8,899	-	-	-	(3,611)	5,288
Total	771,141	594,021	(581,850)	135,756	(3,960)	915,108

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 principle asset classes. The managers as at 31 March 2018 are highlighted below:

Investment Manager	Mandate	Investment Area
Aberdeen Asset Management	Active	Diversified Alternatives
BNY Standish	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 2018 was as follows:

Fund by Investment Manager	2016/17		2017/18	
	£000	£000	£000	%
Aberdeen Asset Management	51,710	5.7%	55,889	5.8%
BlackRock	36,702	4.0%	39,031	4.0%
Hermes	75,762	8.3%	67,078	6.9%
Kempen	151,211	16.5%	153,324	15.8%
Other Cash Balances	8,217	0.9%	1,707	0.2%
Prudential/M&G	2,458	0.3%	653	0.1%
RREEF	1,846	0.2%	348	0.0%
Schroders	22,660	2.5%	24,283	2.5%
Standish	65,486	7.2%	66,403	6.9%
UBS Passive Bonds	35,817	3.9%	35,990	3.7%
UBS Passive Equity	159,968	17.5%	171,957	17.9%
London CIV	150	0.0%	150	0.0%
London CIV - Baillie Gifford	164,629	18.0%	186,184	19.2%
London CIV - Pyrford	82,308	9.0%	99,780	10.3%
London CIV - Newton	56,184	6.1%	64,625	6.7%
	915,108	100.0%	967,402	100.0%

15. Securities

	2016/17 £000's	2017/18 £000's
Investment Assets		
Pooled funds - UK		
UK fixed Income Unit Trust	35,818	35,990
UK Equity Unit Trust	324,746	358,291
UK Absolute Return	138,492	164,405
UK Property Unit Trust	24,506	24,631
UK Unit Trust	2,458	653
Pooled funds - Overseas		
Overseas Fixed Income Unit Trust	65,486	66,403
Overseas Equity Unit Trust	151,211	153,324
Overseas Property Unit Trust	36,701	39,031
Other Investment - Infrastructure	75,762	67,078
Other Investment - Private Equity	10,956	22,720
Other Investment - Hedge Funds	40,331	32,770
Other Investment – Tax Recoverable	709	294
Cash	8,217	1,707
Futures	424	400
Total Investment Assets	<u>915,817</u>	<u>967,696</u>
Current Assets: Debtors	1,290	1,590
Current Liabilities: Creditors	(594)	(910)
Total Net Assets	<u>916,513</u>	<u>968,376</u>

16. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2018:

	2016/17 £000	2017/18 £000
Debtors		
Other Investment Balances		
Tax recoverable	709	294
Current Assets		
Other local authorities	1,202	1,130
Other entities and individuals	382	460
Total Current Assets	<u>1,584</u>	<u>1,590</u>
Total Debtors	<u>2,292</u>	<u>1,884</u>
Current Liabilities		
Other local authorities	393	725
Other entities and individuals	202	185
Total Creditors	<u>594</u>	<u>910</u>

17. Cash

The cash balance held at 31 March 2018 is made up as follows:

Cash balances held by Investment Managers	2016/17 £000	2017/18 £000
Aberdeen Asset Management	1,433	928
Prudential / M&G	1,071	0
Schroders	177	26
BlackRock	228	74
Other balances	20	46
In-house Cash	5,288	633
Total Cash	8,217	1,707

18. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Panel on 15 March 2017 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>

19. Actuarial position

Actuarial assumptions

The 2016 triennial review of the Fund took place as at 31 March 2016 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 reduced from 20 years in 2013 to 17 years in 2016;
- The key financial assumptions adopted at this valuation are:
 - Future levels of price inflation are based on the Consumer Price Index (CPI);
 - Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
 - The resulting discount rate of 4.1% (4.7% as at 31 March 2013).
- Market value of the scheme's assets at the date of the valuation were £772 million;
- The past service liabilities at the rate of the valuation were £1,001 Million;
- The resulting funding level was 77.2% (70.6% as at 31 March 2013); 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

Longevity Assumptions	2013	2013	2016	2016
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	21.8	24.0	22.0	24.7
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.1	26.5	24.0	26.4

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2016 valuation are set out below:

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.7%*	1.9%*
Discount rate	4.7%	4.1%
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
Benefit increase assumption (CPI)	2.5%	2.1%
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.6%)*
Salary increase assumption	3.8%	2.6%

*Adjustments are applied arithmetically in 2013 and geometrically in 2016

Funding level and position

The table below shows the detailed funding level for the 2016 valuation:

Employer contribution rates	As at 31 March	
	2013	2016
Primary Rate (net Employer Future Service Cost)	18.7%	18.2%
Secondary Rate (Past Service Adjustment – 17 year spread)	12.7%	6.8%
Total Contribution Rate	31.4%	25.0%

The Primary rate above includes an allowance for administration expenses of 0.4% of pay. The employee average contribution rate is 6.7% of pay. The table below shows the funding position as at 31 March 2016.

Past Service Funding Position at 31 March	As at 31	As at 31
	March 2013	March 2016
Past Service Liabilities	£m	£m
Employees	(316)	(324)
Deferred Pensioners	(180)	(221)
Pensioners	(406)	(456)
	(902)	(1,001)
Market Value of Assets	636	772
Funding Deficit	(266)	(228)
Funding Level	70.6%	77.2%
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 **£1,487m** as at 31 March 2018 (31 March 2017: £1,445m). 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.

Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2017/18 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
LBBB	24.5	B&D Citizen's Advice Bureau	33.1
Barking College	27.5	Cleantech	28.1
Dorothy Barely Academy	17.9	Elevate East London LLP	21.3
Elutec	22.4	Laing O'Rourke	14.0
Eastbury Academy	23.6	Schools Offices Services Ltd	24.4
Goresbrook Free School	10.8	The Broadway Theatre	30.6
Greatfields Free School	22.5		
Partnership Learning	26.6		
Riverside Bridge	20.3		
Riverside Free School	15.9		
Riverside School	19.6		
Sydney Russell	25.7		
Thames View Infants Academy	22.3		
Thames View Junior Academy	22.8		
University of East London	28.1		
Warren Academy	23.2		

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

20. 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 **£658.2k** (2016/17: £548.0k) are charged by the Council.

21. Contingent liabilities

As at 31 March 2018 there were no contingent liabilities.

22. Contingent assets

As at 31 March 2018 the Fund did not hold any contingent assets.

23. Holdings

All holdings within the Fund as at 31 March 2018 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2017 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2018 £000	% of Total Fund %
London CIV - Baillie Gifford	186,184	19.2%
UBS Passive Equity	171,957	17.9%
Kempen	153,324	15.8%
London CIV - Pyrford	99,780	10.3%
Hermes	67,078	6.9%
Standish	66,403	6.9%
London CIV - Newton	64,625	6.7%

24. 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.

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. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

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 £780.8m**

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. For the Fund these investments includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The Fund did not hold any Level 2 investments as at 31 March 2018.

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 are 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 £186.6m**.

25. Events after the Reporting Period

None

26. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Panel, the Chief Operating Officer, the Director of Finance, the Group Manager for Treasury and Pensions and the Treasury Manager, charged to the Fund are provided below:

	2016/17 £000	2017/18 £000
Short Term employee benefits	220.2	243.0
Total	220.2	243.0

27. 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.

	Fair Value through profit and loss	Loan and receiv- ables 2016/17	Financial liabilities at amortised cost	Designate d as fair value through profit and loss	Loan and receiv- ables 2017/18	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial assets						
Pooled Fixed Income				102,393	-	-
Unit Trusts	101,304	-	-			
Equities	475,957	-	-	511,615	-	-
Property Unit Trusts	61,208	-	-	63,663	-	-
Cash	-	8,217	-		1,707	-
Other investments	269,132	-	-	288,318	-	-
Total Financial Assets	907,601	8,217	-	965,989	1,707	-
Financial Assets						
Debtors	-	1,584	-	-	1,590	-
Financial liabilities						
Creditors	-	-	(594)	-	-	(910)
Borrowings	-	-	-	-	-	-
Total Net Assets	907,601	9,801	(594)	965,989	3,297	(910)

28. 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 meets 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 additions, 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 Panel. 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 is monitored by reviewing the Fund's asset allocation; and
- Specific risk exposure is limited by applying maximum exposures to individual investments.

Fund equity managers may use futures contracts and exchange traded option contracts to manage market risk on equity 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. Riskier 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 2017/18 reporting period. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in 2016/17.

Asset Class	One Year Expected Volatility (%)	Asset Class	One Year Expected Volatility (%)
Global Pooled Inc UK	10.01	Alternatives	3.92
Total Bonds	4.52	Cash	0.01
Property	2.32		

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):

Asset Type	Value as at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	102,393	4.52	107,021	97,765
Pooled Equity Investments	511,615	10.01	562,828	460,402
Pooled Property	63,662	2.32	65,139	62,185
Pooled Absolute Return	164,405	3.92	170,850	157,960
Infrastructure	67,078	3.92	69,707	64,449
Other Investments	56,837	3.92	59,065	54,609

Cash	1,707	0.01	1,707	1,707
Total	967,697		1,036,317	899,077

Asset Type	Value as at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	101,303	4.52	105,882	96,724
Pooled Equity Investments	614,265	10.01	675,753	552,777
Pooled Property	61,208	2.32	62,628	59,788
Infrastructure	75,708	3.92	78,676	72,740
Other Investments	54,878	3.92	57,029	52,727
Cash	8,217	0.01	8,218	8,216
Total	915,579		988,186	842,972

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 2016 and 31 March 2017 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 2017 £000	As at 31 March 2018 £000
Cash and cash equivalent	8,217	1,707
Fixed interest securities	101,304	102,393
Total	109,521	104,100

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 is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points 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 2017	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	1,707	17	(17)
Fixed interest securities	102,393	1,024	(1,024)
Total	104,100	1,041	(1,041)

Asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	8,217	82	(82)
Fixed interest securities	101,304	1,013	(1,013)
Total	109,521	1,095	(1,095)

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 Panel 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 LBBB 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 2018 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.

London Borough of Barking and Dagenham

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 **£748.0k** (2017/18 £780.0k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. For 2017/18 the administration costs included one off costs for move to electronic record keeping and additional costs were incurred for the triennial valuation. The Council is also the single largest employer of members of the Fund and contributed **£23.8m** to the Fund in 2017/18 (2016/17: £24.6m). All monies owing to and due from the Fund were paid in year.