

**Pension Fund Accounts**

**for the year ended**

**31 March 2024**

**London Borough of Barking and Dagenham**

**Pension Fund Accounts**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **2022/23** | **2023/24** |
|  |  | **£000** | **£000** |
| **Dealings with members, employers and others directly involved in the scheme** | |  |  |
| Contributions | **8** | 51,706 | **54,031** |
| Transfers in from other pension funds | **9** | 2,681 | **6,216** |
|  |  | 54,387 | **60,247** |
|  |  |  |  |
| Benefits | **10** | (43,926) | **(49,762)** |
| Payments to and on account of leavers | **11** | (7,633) | **(5,998)** |
|  |  | (51,559) | **(55,760)** |
|  |  |  |  |
| **Net additions from dealings with members** |  | 2,828 | **4,487** |
|  |  |  |  |
| Management expenses | **12** | (6,578) | **(5,828)** |
| **Net Additions/(Withdrawals) including Fund Management Expenses** |  | (3,751) | **(1,341)** |
|  |  |  |  |
| **Returns on Investments** |  |  |  |
| Investment Income | **13** | 26,080 | **31,683** |
| Taxes on Income |  | - | **-** |
| Profit (losses) on disposal of investments and changes in the market value of investments | **14** | (46,683) | **121,232** |
| **Net returns on investments** |  | (20,603) | **152,915** |
|  |  |  |  |
| **Net increase (decrease) in the net assets available for benefits during the year** |  | (24,354) | **151,574** |

**Net Assets Statement as at 31 March 2024**

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** | 2022/23 | **2023/24** |
|  |  | £000 | **£000** |
| **Investment Assets** | **17** | 1,311,868 | **1,447,108** |
| **Investment Liabilities** | **17** |  |  |
| **Current Assets** | **18** | 22,850 | **20,422** |
| **Current Liabilities** | **18** | (20,065) | **(1,304)** |
| **Net asset of the fund available to fund benefits at the end of the reporting period** |  | 1,314,653 | **1,466,226** |

**Notes to the Pension Fund Accounts for the year ended**

**31 March 2024**

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:

1. The LGPS Regulations 2013 (as amended)
2. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
3. 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.

2023/24 had a positive return for the year due to improvements in the macroeconomy following the downturn. With inflation and interest rates on a downward trajectory, 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 11.4%, which was 2.0% lower than the benchmark of 13.4%. Over three years the Fund’s annualised return was 5.1%, which is 3.3% below the Fund’s benchmark return of 8.4%. Over one-year Blackrock provided a negative return of 8.2% and underperformed its benchmark by 7.5%. While, Baillie Gifford, Newton, Abrdn, UBS, Hermes and Insight provided positive returns.

Four employers including Caterlink and Aspens 2 exited the Fund in 2023/24. During the year, the total number of active employers within the Fund was 36.

1. **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 2023/24, 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 | Aspens |
| Barking College | BD Corporate Cleaning Ltd |
| Dorothy Barley Academy | BD Schools Improvement Partnership |
| Eastbury Academy | BD Together |
| Elutec | Be First |
| Goresbrook Free School | BD Trading Partnerships |
| Greatfields Free School | BD Management Services Ltd |
| James Campbell Primary | Lewis and Graves |
| Partnerships Learning | Schools Offices Services Ltd |
| Pathways | Sports Leisure Management |
| Riverside Bridge | The Broadway Theatre |
| Riverside Free School | Town and Country Cleaners |
| Riverside School |  |
| St Margarets |  |
| St Joseph’s Dagenham |  |
| St Joseph’s Barking |  |
| St Theresa’s Dagenham  St Vincents |  |
| Sydney Russell Academy |  |
| Thames View Infants Academy |  |
| Thames View Junior Academy |  |
| University of East London |  |
| Warren Academy |  |
|  |  |
| **Not Active** | **Not Active** |
| Aspens 2 | Abbeyfield Barking Society |
| Caterlink  Caterlink 2  Caterlink 3 | Age UK  B&D Citizen's Advice Bureau  Cleantech |
| Caterlink 4 | Council for Voluntary Service |
| Magistrates Court | Disablement Assoc. of B&D |
| May Gurney | East London E-Learning |
| Pantry Cleaning | London Riverside |
| RM Education | Laing O'Rourke |
|  |  |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | **2022/23** |  | **2023/24** |
| **Number of Employers with active members** | | **40** |  | **36** |
| **Number of Employees in scheme** | |  |  |  |
| **London Borough of Barking and Dagenham** | |  |  |  |
|  | Active members | 4,593 |  | **4,718** |
|  | Pensioners | 4,962 |  | **5,080** |
|  | Deferred pensioners | 5,188 |  | **5,186** |
|  | Undecided and other members | 153 |  | **100** |
|  |  | 14,896 |  | **15,084** |
| **Admitted and Scheduled Bodies** | |  |  |  |
|  | Active members | 1,411 |  | **1,423** |
|  | Pensioners | 1,430 |  | **1,471** |
|  | Deferred pensioners | 1,835 |  | **1,854** |
|  | Undecided and other members | 60 |  | **30** |
|  |  | 4,736 |  | **4,778** |

1. **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 2023/24 financial year and its position as at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2023/24. The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2024. 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. The vast majority of employers in the pension scheme are scheduled bodies that have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet is ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the event that investments need to be sold, 90.3% of the Fund’s investments can be converted into cash within 3 months.

**3.1 Contributions (see Note 8)**

Primary contributions 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. Contributions rates from members are set in accordance with the LGPS Regulations 2007.

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 14)**

1. 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. financial assets at amortised cost, are calculated using the effective interest basis.
2. 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.
3. 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 15)**

1. Quoted investments are valued at bid price at the close of business on 31 March 2024;
2. Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
3. 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;
4. Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2024. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
5. 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.

**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 21)**

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.

1. **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.

There were no such critical judgements made in 2023/24.

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 and the Russian invasion of Ukraine. Unquoted investments are valued by the investment managers. The total financial instruments held by the Fund at **Level 3 were £276.6m.**

1. **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.

|  |  |  |
| --- | --- | --- |
| **Item** | **Uncertainties** | **Effect if actual results differ from assumptions** |
| Actuarial present value of promised retirement benefits | Actuarial present value of promised retirement benefits depends on several complex assumptions and judgements from the RPI inflation, the assumed salary changes, discount rate, mortality rate and others. These assumptions are applied by the pension funds actuary in consultation with the fund to whom they provide expert advice. The effects of changes in the assumptions used on the net pension liability can be measured. | * A 0.1% increase in discount rate would increase future pension liabilities by c. £22m * A 0.1% increase in long term salary would increase future pension liabilities by c. £1m * A 0.1% increase in pension increases and deferred revaluation would increase future pension liabilities by c. £22m |
| Level 3 unquoted investments | All investments are measured at fair value and by necessity, unquoted investments involve a degree of estimation. Notes 15 and 22 provide information about valuation methodology and the assumptions made in deriving the estimates. | * The fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out the consequent potential impact on the closing value of investments held at 31 March 2024. The assess valuation range is 10% for property holdings and 15% for infrastructure, private equity and hedge funds. |

1. **Additional Voluntary Contributions (AVC)**

Additional Voluntary Contributions (AVCs) administered by the Prudential were made by LBBD 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 **£3.2m** (2022/23 £3.3m).

1. **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.

1. **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 2024. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations.

Currently employer contribution rates range from 18.2% to 34.4%.

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, Barnett Waddingham, 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 2024 was 21.2%.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | |  | **2022/23** |  | **2023/24** | |
|  | |  | **£000** |  | **£000** | |
|  | **Employees Contribution** |  | 11,650 |  | | **12,342** |
|  | Employers Contribution: |  |  |  | |  |
|  | Normal |  | 32,191 |  | | **38,903** |
|  | Deficit Recovery |  | 7,826 |  | | **2,609** |
|  | **Total employers contributions** |  | 40,017 |  | | **41,512** |
|  | Pension Strain |  | 39 |  | | **177** |
|  | **Total contributions from members** |  | 51,706 |  | | **54,031** |
|  | |  |  |
| **Type of Employer** | |  |  |
|  | Administering Authority |  | 39,617 |  | | **41,218** |
|  | Scheduled Bodies |  | 9,655 |  | | **10,674** |
|  | Admitted Bodies |  | 2,434 |  | | **2,139** |
|  | **Total Contributions** |  | 51,706 |  | | **54,031** |

1. **Transfers in from other pension funds**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2022/23** |  | **2023/24** |
|  | **£000** |  | **£000** |
| **Individual Transfers** | 2,681 |  | **6,216** |
| **Group Transfers** | - |  | **-** |
|  | 2,681 |  | **6,216** |

1. **Benefits**

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022/23** | | | |  | | **2023/24** | | | |
|  | Council | Admitted Bodies | Scheduled Bodies | Total | |  | **Council** | **Admitted Bodies** | **Scheduled Bodies** | **Total** |
|  | £000 | £000 | £000 | £000 | | **£000** | **£000** | **£000** | **£000** |
| **Pensions** | 30,508 | 259 | 7,091 | 37,858 | | **33,640** | **370** | **7,686** | **41,697** |
| **Lump sums** | 4,007 | 188 | 1,005 | 5,200 | | **5,381** | **364** | **1,425** | **7,170** |
| **Death grants** | 667 | 45 | 156 | 868 | | **811** | **14** | **69** | **895** |
|  | 35,182 | 491 | 8,253 | 43,926 | | **39,833** | **749** | **9,180** | **49,762** |

1. **Payments to and on account of leavers**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | **2022/23** |  | **2023/24** |
|  | | £000 |  | **£000** |
| Individual Transfers | | 7,235 |  | **5,739** |
| Refunds | | 398 |  | **259** |
|  | | 7,633 |  | **5,998** |
|  | |  |  |  |
| 1. **Management Expenses** | |  |  |  |
|  | | **2022/23** |  | **2023/24** |
|  | | £000 |  | **£000** |
| Administration Costs | | 767 |  | **794** |
| Management Fees | | 4,182 |  | **4,769** |
| Audit Fees | | 56 |  | **33** |
| Oversight and Governance Costs | 214 | |  | **190** |
| Pooling Expenses | | 1,359 |  | **42** |
|  | | 6,578 |  | **5,828** |
| 1. **Investment Income** | | 2022/23 |  | **2023/24** |
|  | | £000 |  | **£000** |
| Fixed Interest Securities | | 427 |  | **453** |
| Equity Dividends | | 22,223 |  | **27,179** |
| Pooled Property Income | | 2,104 |  | **2,337** |
| Interest - Manager's Cash | | 1,309 |  | **1,313** |
| Interest - LBBD balance | | 9 |  | **396** |
| Other Income | | 8 |  | **5** |
|  | | 26,080 |  | **31,683** |

1. **Investments:** The movement in the opening and closing market value of investments during the year were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investment Assets** |  |  |  | Market Value as at 31 March 2023 | **Market Value as at 31 March 2024** |
|  |  |  |  | £'000 | **£'000** |
|  |  |  |  |  |  |
| Bonds |  |  |  | 98,667 | **119,346** |
| Equities |  |  |  | 480,541 | **552,057** |
| Pooled Investments |  |  |  |  |  |
| Fixed Income |  |  |  |  | **74,269** |
| Absolute Return |  |  |  | 442,437 | **415,161** |
| Alternatives |  |  |  | 38,513 | **34,653** |
| Private Equity |  |  |  | 89,808 | **107,474** |
| Infrastructure |  |  |  | 96,926 | **86,574** |
| Property |  |  |  | 50,088 | **47,850** |
| Derivatives-forward currency contracts |  |  |  | 821 | **-** |
| Cash and Cash Equivalents |  |  |  | 13,572 | **7,426** |
| Pending Trade Sale |  |  |  | 344 | **2,148** |
| Other- LCIV |  |  |  | 150 | **150** |
| **Total Investment Assets** |  |  |  | 1,311,047 | **1,447,108** |
|  |  |  |
|  |  |  |  |  |  |
| Futures |  |  |  | 821 |  |
| **Total Investment Liabilities** |  |  |  | 821 | - |
|  |  |  |
| **Net Investment Assets** |  |  |  | 1,311,868 | **1,447,108** |

**15a. Reconciliation of movements in investments and derivatives**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **31/03/2023** | **Purchases** | **Sales** | **Fair Value** | **31/03/2024** |
|  | **£000** | **£000** | **£000** | **£000** | **£000** |
| Bonds | 98,667 | 12,282 |  | 8,397 | **119,346** |
| Equities | 480,541 | 751 | (20,000) | 90,764 | **552,056** |
| Pooled Investments | 442,437 | 89,541 | (70,000) | 27,452 | **489,430** |
| Infrastructure | 96,926 |  | (2,478) | (7,874) | **86,574** |
| Alternatives | 38,513 | 3,970 | (9,735) | 1,905 | **34,653** |
| Private Equity | 89,808 | 26,678 | (11,681) | 2,669 | **107,474** |
| Property | 50,088 | 3,460 |  | (5,698) | **47,850** |
|  |  |  |  |  |  |
| Derivative forwards | 821 | 1,264 | (5,932) | 3,847 | **-** |
| currency |  |  |  |  |  |
|  |  |  |  |  |  |
| Cash and cash equivalents | 13,572 | (6,916) | 2,800 | (61) | **7,426** |
| Pending Trade Sales | 344 | 1,794 |  | 10 | **2,148** |
| Other- LCIV | 150 |  |  |  | **150** |
| Net Investment asset | **1,311,868** | **133,209** | **(114,548)** | **121,412** | **1,447,108** |

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 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: Pimco | Active | Global Credit |
| 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 2024 was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fund by Investment Manager** | **2022/23** | | **2023/24** | |
| £'000 | % | **£'000** | **%** |
| **Investments managed by the London CIV** |  |  |  |  |
| London CIV Cash | 150 | 0.0% | **150** | **0.0%** |
| London CIV- Newton, Pyrford and Baillie Gifford | 442,437 | 33.7% | **415,161** | **28.3%** |
| London CIV - Pimco | - | - | **74,269** | **5.0%** |
|  |  |  |  |  |
| **Investments managed outside the London CIV** |  |  |  |  |
| Abrdn Asset Management | 129,142 | 9.8% | **142,127** | **9.7%** |
| BlackRock | 50,088 | 3.8% | **47,850** | **3.3%** |
| Hermes | 96,926 | 7.4% | **86,574** | **5.9%** |
| Kempen | 218,687 | 16.6% | **224,133** | **15.3%** |
| Other Cash Balances | 35,231 | 2.7% | **9,417** | **0.6%** |
| Short Term Investment | - | 0.0% | **16,900** | **1.2%** |
| Short Term Loan | (19,000) | -1.4% | **-** | **0.0%** |
| Insight | 67,849 | 5.2% | **75,771** | **5.2%** |
| UBS Passive Bonds | 30,818 | 2.3% | **43,575** | **3.0%** |
| UBS Passive Equity | 261,854 | 19.9% | **327,923** | **22.4%** |
| Pending Trade Sales | 344 | 0.0% | **2,148** | **0.1%** |
| Other Investments – Tax Recoverable | 9 | 0.0% | **9** | **0.0%** |
| **Total** | 1,314,536 | 100.0% | **1,466,007** | **100.0%** |

1. **Cash and cash equivalents**

The cash balance held at 31 March 2024 is made up as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash balances held by** | | 2022/23 |  | **2023/24** |
| **Investment Managers** | | £000 |  | **£000** |
| Aberdeen Asset Management |  | 13,572 |  | **7,425** |
| BlackRock |  | - |  | **1** |
| In-house Cash |  | 21,659 |  | **1,991** |
| **Total Cash** |  | 35,231 |  | **9,417** |

1. **Securities**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2022/23 |  | **2023/24** |
|  | £000's |  | **£000's** |
| **Investment Assets** |  |  |  |
| Bonds | 98,667 |  | **119,346** |
| Equities | 480,541 |  | **552,057** |
| Pooled Investments |  |  |  |
| Fixed Income |  |  | **74,269** |
| Absolute Return | 442,437 |  | **415,161** |
| Alternatives | 38,513 |  | **34,653** |
| Private Equity | 89,808 |  | **107,474** |
| Infrastructure | 96,926 |  | **86,574** |
| Property | 50,088 |  | **47,850** |
| Other investment - LCIV | 150 |  | **150** |
| **Cash and cash equivalents** | 13,572 |  | **7,426** |
| **Pending Trade Sales** | 344 |  | **2,148** |
| **Total Investment Assets** | 1,311,046 |  | **1,447,108** |
|  |  |  |  |
|  |  |  |  |
| **Investment Liabilities** |  |  |  |
| **Futures** | 821 |  | **-** |
| **Total Investment Liabilities** | 821 |  | **-** |
|  |  |  |  |
| **Current Assets:** Debtors | 22,850 |  | **20,422** |
| **Current Liabilities:** Creditors | (20,065) |  | **(1,304)** |
| **Total Net Assets** | 1,314,653 |  | **1,466,226** |
|  |  |  |  |

1. **Debtors and Creditors**

The following amounts were debtors or creditors for the Fund at 31 March 2024:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | 2022/23 |  | **2023/24** |
| **Current Assets** |  | £000 |  | **£000** |
|  |  |  |  |  |
| Contributions due – employees |  | 197 |  | **203** |
| Contributions due - employers |  | 661 |  | **711** |
| Sundry debtors |  | 333 |  | **17,517** |
| **Total** |  | 1,191 |  | **18,431** |
| Cash Balances |  | 21,659 |  | **1,991** |
| **Current Asset Total** |  | 22,850 |  | **20,422** |
|  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |
| Sundry Creditor |  | 20,065 |  | **1,304** |
| **Total Creditors** |  | 20,065 |  | **1,304** |

1. **Holdings**

All holdings within the Fund at 31 March 2024 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 2024 the following pooled funds and LLPs were over 5% of the scheme’s net assets:

|  |  |  |
| --- | --- | --- |
| **Security** | **Market Value as at 31 March 2024** | **% of Total Fund** |
|  | **£000** | **%** |
| Insight | 75,771 | 5.2% |
| UBS Passive Equity | 327,923 | 22.4% |
| Kempen | 224,133 | 15.3% |
| London CIV – Pyrford/Newton | 415,161 | 28.3% |
| Hermes | 86,574 | 5.9% |

1. **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>

1. **Actuarial position**

**Actuarial assumptions**

In line with LGPS Regulations, a full actuarial valuation is carried out every 3 years. The purpose of this is to ensure the long term solvency of the fund and that it is able to meet its liabilities to past and present contributors. Employer contribution rates are set in this process for the forthcoming triennial period. The 2022 triennial review of the Fund took place as at 31 March 2022 by Barnett Waddingham the funds actuary 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;
* Market value of the scheme’s assets at the date of the valuation were £1,317 million;
* The past service liabilities at the rate of the valuation were £1,306 Million; and
* The resulting funding level was 101% (90% as at 31 March 2019).

Some of the key financial assumptions adopted by the actuary for the valuation of members’ benefits at the 2022 valuation are set out below:

|  |  |  |
| --- | --- | --- |
| Financial Assumptions | 2019 Valuation | **2022 Valuation** |
|  | £m | **£m** |
| Discount Rate | 4.0% | **4.3%** |
| Pension increases (CPI) | 2.3% | **2.9%** |
| Salary increases | 3.0% | **3.9%** |

**Funding level and position**

The table below shows the detailed funding level for the 2022 valuation:

|  |  |  |
| --- | --- | --- |
| **Employer contribution rates** | As at 31 March | |
|  | 2019 | **2022** |
| Primary Rate (net Employer Future Service Cost) | 19.8% | **21.2%** |
| Secondary Rate (Past Service Adjustment – 14-year spread) | 3.0% | **0.8%** |
| **Total Contribution Rate** | 22.8% | **22%** |

Full details of the individual employers contribution rates payable can be found in the Rates and Adjustment Certificate in the 2022 actuarial valuation report.

1. **Actuarial Present Value of Promised Retirement Benefits**

The fund’s actuary Barnett Waddingham also undertakes a valuation of the pension fund liabilities on an IAS 19 basis every year using the same base data as the funding valuation rolled forward to the current financial year but taking account of changes in membership numbers and updating assumptions to the current year.

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.

|  |  |  |
| --- | --- | --- |
|  | As at 31 March 2023 | **As at 31 March 2024** |
|  | £m | **£m** |
| Present Value of Promised Retirement Benefits | 1,311 | **1,345** |
| Fair Value of Scheme Assets (bid value) | 1,315 | **1,474** |
| Net Asset/(Liability) | (4) | **(129)** |

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.

**Financial Assumptions**

The key financial assumptions used are:

|  |  |  |
| --- | --- | --- |
| Financial Assumptions | As at 31 March 2023 | **As at 31 March 2024** |
|  | £m | **£m** |
| Discount Rate | 4.80% | **4.90%** |
| Pension increases (CPI) | 2.85% | **2.90%** |
| RPI inflation | 3.20% | **3.20%** |
| Salary increases | 3.85% | **3.90%** |

**Demographic Assumptions**

Barnett Waddingham have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2022, except for an update of the CMI projection model. The CMI 2021 model was used as at 31 March 2023 and the CMI 2022 model was used as at the 31 March 2024 valuation.

The assumed life expectancies are set out in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Longevity Assumptions** | As at 31 March 2023 | | **As at 31 March 2024** | |
| Life expectancy from age 65 (years) | Male | Female | **Male** | **Female** |
| Retiring today | 20.9 | 23.6 | **20.6** | **23.4** |
| Retiring in 20 years | 22.2 | 25.2 | **21.9** | **24.9** |

1. **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 2023/24.

**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 £680.1m**

**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 491.7m.**

**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 £276.6m.**

**Asset Valuation Hierarchy and Basis of Valuation**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description of asset** | **Valuation hierarchy** | **Basis of valuation** | **Observable and unobservable inputs** |
| Fixed Income | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required |
| Equities | Level 1 | Market value based on current yields | Not required |
| Absolute Return | Level 1 | Closing bid value on published exchanges | Not required |
| Pending Trade Sale | Level 2 | Quoted prices in inactive market | Sales Value |
| Property | Level 3 | Closing single price where single price published | NAV-based pricing set on a forward pricing basis |
| 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 |
| Private Equity | Level 3 | EV / EBITDA as their valuation methodology, using a basket of public and transaction comparables. | EV / EBITDA |
| 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. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Quoted market price** | **Using observable inputs** | **With significant unobservable inputs** |  |
|  |  | | |  |
|  | **Level 1 Level 2 Level 3** | | | **Total** |
|  |  | | |  |
| **Values at 31 March 2024** | **£000** | **£000** | **£000** | **£000** |
| **Bonds** | **119,346** |  |  | **119,346** |
| **Equities** | **552,057** |  |  | **552,057** |
| **Property Unit Trusts** |  |  | **47,850** | **47,850** |
| **Pooled Investments** |  | **489,430** |  | **489,430** |
| **Private Equity** |  |  | **107,474** | **107,474** |
| **Cash and cash equivalents** | **7,426** |  |  | **7,426** |
| **Alternatives** |  |  | **34,658** | **34,658** |
| **Infrastructure** |  |  | **86,574** | **86,574** |
| **Other investments- LCIV** |  | **150** |  | **150** |
| **Pending Trade Sales** |  | **2,148** |  | **2,148** |
| **Total Financial Assets** | **678,828** | **491,728** | **276,556** | **1,447,111** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Quoted market price | Using observable inputs | With significant unobservable inputs |  |
|  |  | | |  |
|  | Level 1 Level 2 Level 3 | | | Total |
|  |  | | |  |
| Values at 31 March 2023 | £000 | £000 | £000 | £000 |
| Bonds | 98,667 |  |  | 98,667 |
| Equities | 480,541 |  |  | 480,541 |
| Property Unit Trusts |  |  | 50,088 | 50,088 |
| Pooled Investments |  | 442,437 |  | 442,437 |
| Private Equity |  |  | 89,808 | 89,808 |
| Cash and cash equivalents | 13,572 |  |  | 13,572 |
| Alternatives |  |  | 38,513 | 38,513 |
| Infrastructure |  |  | 96,926 | 96,926 |
| Other investments- LCIV |  | 150 |  | 150 |
| Pending Trade Sales |  | 344 |  | 344 |
| Total Financial Assets | 592,780 | 442,931 | 275,335 | 1,311,048 |

**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 2024.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description of asset** | **Assessed valuation range** | **Value at 31 March 2024** | **Value on Increase** | **Value on Decrease** |
|  | **%** | **£000s** | **£000s** | **£000s** |
| Property Unit Trust | 10 | 47,850 | 52,635 | 43,065 |
| Other Investment - Infrastructure | 15 | 86,574 | 99,560 | 73,588 |
| Other Investment - Private Equity | 15 | 107,474 | 123,595 | 91,353 |
| Other Investment - Hedge Funds | 15 | 31,941 | 36,732 | 27,150 |
|  |  | 273,839 | 312,522 | 235,156 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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 22 above) produce different price results.

**22a. Reconciliation of fair value measurements within level 3**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Private Equity** | **Infrastructure** | **Other- Hedge Fund** | **Other- Property** | **Total** |
|  | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Market Value 1 April 2023 | 89,808 | 96,926 | 36,473 | 50,088 | **273,295** |
| Transfers into Level 3 | - | - | - | - | **-** |
| Transfers out of Level 3 | - | - | - | - | **-** |
| Purchases during the year | 26,678 | - | 3,360 | 3,845 | **33,882** |
| Sales during the year | (11,681) | (2,478) | (9,733) |  | **(23,893)** |
| Unrealised gains/losses | (3,039) | (7,874) | 1,983 | (6,082) | **(15,012)** |
| Realised gains/losses | 5,708 |  | (141) |  | **5,567** |
| **Market Value 31 March 2024** | **107,474** | **86,574** | **31,941** | **47,850** | **273,839** |
|  |  |  |  |  |  |
|  | **Private Equity** | **Infrastructure** | **Other- Hedge Fund** | **Other- Property** | **Total** |
|  | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Market Value 1 April 2022 | 76,427 | 104,150 | 40,002 | 62,413 | **282,992** |
| Transfers into Level 3 |  |  |  |  |  |
| Transfers out of Level 3 |  |  |  |  |  |
| Purchases during the year | 18,552 |  | 12,580 | 1,685 | **32,817** |
| Sales during the year | (5,445) | (3,173) | (20,434) | (3,049) | **(32,100)** |
| Unrealised gains/losses | (2,188) | (4,050) | 1,345 | (14,010) | **(18,903)** |
| Realised gains/losses | 2,461 |  | 2,980 | 3,049 | **8,490** |
| **Market Value 31 March 2023** | **89,808** | **96,926** | **36,473** | **50,088** | **273,295** |

1. **Events after the Reporting Period**

None

1. **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 **£539.6k** (2022/23: £651.5k) are charged by the Council. There is also a short-term investment from the Pension Fund to the Council of **£16.9m** (2022/23: £19.0m short term loan).

The Council is also the single largest employer of members of the Fund and contributed **£31.5m** to the Fund in 2023/24 (2022/23 £30.4m). All monies owing to and due from the Fund were paid in year.

The Members of the Committee do not receive fees in relation to their specific responsibilities as Members of the Committee. Of the Committee members there are no active members of the LGPS and one deferred member.

1. **Contingent Asset and liabilities**

As at 31 March 2024 there were no contingent assets but there is one potential contingent liability detailed below.

**The Virgin Media Case**

The Court of Appeal has upheld the High Court's decision in Virgin Media Ltd v NTL Pension Trustees II Ltd and Others ("the Virgin Media case"), so the Virgin Media issues remain for defined benefit ("DB") pension schemes. The Government Actuary’s Department and HM Treasury are currently investigating the consequences of the legal case on the LGPS. At this point in time there remains insufficient information to assess the potential impact on Pension Funds.

1. **Compensation of key management personnel**

Compensation of key management personnel, including the Head of Investments, Pension Fund Accountant and Senior Treasury Accountant, charged to the Fund are provided below:

|  |  |  |
| --- | --- | --- |
|  | 2022/23 | **2023/24** |
|  | £000 | **£000** |
| Short Term employee benefits | 135.6 | **125.1** |
| **Total** | 135.6 | **125.1** |

1. **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.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Financial assets** | Fair value through profit and loss | Financial assets as at amortised cost | Financial liabilities at amortised cost |  | **Fair value through profit and loss** | **Financial assets as at amortised cost** | **Financial liabilities at amortised cost** |
|  | 2022/23 | | | **2023/24** | | |
|  | £000 | £000 | £000 | **£000** | **£000** | **£000** |
| Bonds | 98,667 |  |  | **119,346** |  |  |
| Equities | 480,541 |  |  | **552,057** |  |  |
| Property Unit Trusts | 50,088 |  |  | **47,850** |  |  |
| Pooled Investments | 442,437 |  |  | **489,430** |  |  |
| Private Equity | 89,808 |  |  | **107,474** |  |  |
| Cash and cash equivalents |  | 13,572 |  |  | **7,426** |  |
| Alternatives | 38,513 |  |  | **34,653** |  |  |
| Infrastructure | 96,926 |  |  | **86,574** |  |  |
| Other investments | 150 |  |  | **150** |  |  |
| Pending Trade Sales |  | 344 |  |  | **2,148** |  |
| **Total Financial Assets** | 1,297,131 | 13,916 | - | **1,437,534** | **9,574** | **-** |
| **Financial Assets** - Debtors |  | 22,850 |  |  | **20,422** |  |
| **Financial liabilities -** Creditors |  |  | (20,065) |  |  | **(1,304)** |
| Futures | 821 |  |  |  |  |  |  |
| **Total Net Assets** | 1,297,952 | 36,767 | (20,065) |  | **1,437,534** | **29,996** | **(1,304)** |

Carrying value of financial liabilities are equal to the fair value.

1. **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 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 2023/24 reporting period.

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Class** | **One Year Expected Volatility (%)** | **Asset Class** | **One Year Expected Volatility (%)** |
| Equities | 12.1 | Alternatives | 6.6 |
| Bonds | 6.6 | Cash | 1.0 |
| Property | 7.9 |  |  |

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 2024** | **% Change** | **Value on Increase** | **Value on Decrease** |
| **£000** | **£000** | **£000** |
| **Bonds** | **119,346** | **6.6** | **127,223** | **111,469** |
| **Equities** | **552,057** | **12.1** | **618,855** | **485,258** |
| **Property Unit Trust** | **47,850** | **7.9** | **51,630** | **44,070** |
| **Pooled Investments** | **489,430** | **6.6** | **521,732** | **457,127** |
| **Private Equity** | **107,474** | **6.6** | **114,567** | **100,381** |
| **Other Investments** | **123,533** | **6.6** | **131,687** | **115,380** |
| **Cash and cash equivalents** | **9,417** | **1.0** | **9,511** | **9,323** |
| **Total** | **1,449,107** |  | **1,575,205** | **1,323,008** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Asset Type | Value as at 31 March 2023 | % Change | Value on Increase | Value on Decrease |
| £000 | £000 | £000 |
| Bonds | 98,667 | 5.7 | 104,291 | 93,043 |
| Equities | 480,541 | 13.9 | 547,337 | 413,746 |
| Property Unit Trust | 50,088 | 7.5 | 53,845 | 46,331 |
| Pooled Investments | 442,437 | 6.8 | 472,523 | 412,352 |
| Private Equity | 89,808 | 6.8 | 95,915 | 83,701 |
| Other Investments | 136,763 | 6.8 | 146,063 | 127,463 |
| Cash and cash equivalents | 35,231 | 1.8 | 35,865 | 34,597 |
| Total | 1,333,535 |  | 1,455,839 | 1,211,233 |

**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 2023 and 31 March 2024 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 2023 |  | **As at 31 March 2024** |
|  | £000 |  | **£000** |
| Cash and cash equivalent | 35,231 |  | **9,417** |
| Bonds | 98,667 |  | **119,346** |
| **Total** | 133,898 |  | **128,763** |

**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 2024** | **Change in year in the net assets available to pay benefits** | |
|  |  | **+100 BPS** | **-100 BPS** |
|  | **£000** | **£000** | **£000** |
| Cash and cash equivalent | 9,417 | 94 | (94) |
| Bonds | 119,346 | 1,193 | (1,193) |
| **Total** | **128,763** | **1,287** | **(1,287)** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset type** | **Carrying amount as at 31 March 2023** | **Change in year in the net assets available to pay benefits** | |
|  |  | +100 BPS | -100 BPS |
| Cash and cash equivalent | 35,231 | 352 | (352) |
| Bonds | 98,667 | 987 | (987) |
| **Total** | **133,898** | **1,339** | **(1,339)** |

**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. The following table summarises the Fund’s currency exposure at 31 March 2024:

**USD EUR TOTAL**

**£m £m £m**

Overseas Unit Trusts 339.80 252.70 592.50

Overseas PE/Infra/Private debt 68.20 54.50 122.70

**Total 715.20**

**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 2024 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 the Annual Treasury Management Strategy Statement.