

Statement of Accounts 2017/18

The Pension Fund Account

2016/17 £'000		Notes	2017/18 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(79,317)	Contributions	7	(74,901)
<u>(4,719)</u>	Transfers in from other pension funds	8	<u>(8,079)</u>
(84,036)			(82,980)
55,354	Benefits	9	52,533
5,335	Payments to and on account of leavers	10	5,754
<u>498</u>	Group Transfers out to other Pension Schemes	10	<u>0</u>
61,187			58,287
(22,849)	Net (additions)/withdrawals from dealings with members		(24,693)
5,869	Management Expenses	11	8,729
	Returns on investments		
(14,423)	Investment income	12	(15,683)
(187,447)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(52,664)
<u>54</u>	Taxes on Income		<u>81</u>
(201,816)	Net returns on investments		(68,266)
(218,796)	Net (increase)/decrease in the Fund during the year		(84,230)
1,172,283	Opening net assets of the Scheme		1,391,079
1,391,079	Closing net assets of the Scheme		1,475,309

The Net Assets Statement for the year ended 31 March 2018

2016/17 £'000		Notes	2017/18 £'000
1,350,383	Investment Assets	13a	1,414,799
150	Long-Term Investment		150
<u>11,096</u>	Cash Deposits	13a	<u>33,132</u>
1,361,629			1,448,081
(3,037)	Investment Liabilities	13a	(8,217)
1,358,592	Net Value of Investment Assets	13a	1,439,864
35,343	Current Assets	18	39,162
<u>(2,856)</u>	Current Liabilities	19	<u>(3,717)</u>
32,487			35,445
1,391,079	Net Assets of the Fund available to fund benefits at the period end		1,475,309

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

The Hackney Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Hackney.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2017/18, the Pension Fund website <http://hackney.xpmemberservices.com/Home.aspx> and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended).
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Hackney ('the Council') to provide pensions and other benefits for pensionable employees of the London Borough of Hackney and for the employees of admitted and scheduled bodies eligible to participate in the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pensions Committee with the Group Director of Finance and Corporate Resources being given delegated authority for the day to day operations of the Fund.

b) Membership

All local government employees (except casual employees, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered 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 Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.
- 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. As

at 31 March 2018 there are 35 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2018	31 March 2017
Number of Employers with active members	35	36
Number of Employees in scheme		
Council	6288	7221
Scheduled bodies	561	505
Admitted bodies	87	97
Total	6936	7823
Number of pensioners		
Council	6106	5926
Scheduled bodies	33	22
Admitted bodies	22	21
Ceased Employers	472	472
Total	6633	6441
Deferred members		
Council	7723	7532
Scheduled bodies	522	417
Admitted bodies	68	51
Ceased Employers	1031	1031
Total	9344	9031

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2016 with the next valuation due to take place at 31 March 2019. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2017/18 or within the Actuarial valuation on the Pension Fund Website:- <http://hackney.xpmemberservices.com/Home.aspx>

d) Benefits

Prior to 1 April 2014, pension benefits under LGPS were based on final pensionable pay and length of service.

April 2014, saw the implementation of LGPS 2014, a new Career Average Revalued Earnings (CARE) Scheme, based on a 1/49th accrual rate with retirement ages now linked to an individual member's state pension age. On average, contribution rates for employees have remained at 6.5%, however the contribution bands have widened and are now 5.5% to 12.5% at the top end. The new Scheme has also introduced the option for flexibility over contributions, i.e. a lower contribution for lower benefits, referred to as the 50/50 Scheme. It has not been possible to quantify the impact of these changes, although they have been designed to bring the future service costs of the Scheme down.

Details of the schemes are summarised below:

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 Career Average Revalued Earnings Salary
	Automatic lump sum of 3 x pensionable salary.	No automatic lump sum.	No automatic lump sum.
Lump Sum	In addition, 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.	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.	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.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the scheme guides which can be found at <http://hackney.xpmemberservices.com/>.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS 19) basis, is disclosed in Note 17 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contributions income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employer's augmentation contributions and 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.

b) Transfers to and from 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 Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

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

Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate 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 year is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

- Changes in the net market value of investments are recognised as unrealised profits/losses during the year.
- Realised profit/losses are recognised upon the sale of investments during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include those known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public 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 proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

The Council discloses its pension fund management expenses in accordance with the CIPFA guidance: *Accounting for Local Government Pension Scheme Management Expenses*

i) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) Investment management expenses

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

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

Where an investment manager's invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, there were no fees based on such estimates (2016/17: no fees estimated). A similar procedure is used for custodian fees, and in 2017/18 there were no fees payable (2016/17: no fees estimated).

The Fund requests that non-invoiced investment management fees (plus other associated costs such as transaction costs) are disclosed via the LGPS Transparency Code template. Where cost information is not readily available for the year ending 31st March (e.g. for pooled funds using different accounting dates), an estimate will be made using the most recent information available.

Net Assets Statement

g) Financial assets

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

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of de-listed securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.
- Investments in unquoted pooled funds are valued based on the Fund's share of the net asset value or a single price advised by the fund manager. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- The Fund has no holdings in private equity funds or unquoted listed partnerships.

iv) Pooled investment vehicles

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.

v) Limited partnerships, freehold and leasehold property

The Fund has no direct holdings in limited partnerships, freehold and leasehold property.

h) Foreign currency transactions

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

i) Derivatives

The Fund uses 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 measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts are included in any change in the market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises of cash-in-hand and deposits payable on demand and includes amounts held by the Fund's external managers.

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

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

m) Additional Voluntary Contributions (AVCs)

The Hackney Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC approved provider. AVCs are paid by members to the AVC provider and are used specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Pension fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

Valuation of Financial instruments carried at fair value – Level 2

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

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in Statement of Accounts 2017-18 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

Change in assumptions at 31 March 2018	Approximate % increase	Approximate monetary
---	-------------------------------	-----------------------------

	to Employer Liability	amount (£m)
0.5% decrease in 'real discount rate'	10%	219
0.5% increase in the 'salary increase rate'	1%	28
0.5% increase in the 'pension increase rate'	9%	187

- In order to quantify the impact of a change in the financial assumptions used, the Fund's actuary has calculated and compared the value of scheme liabilities as at 31 March 2018 on varying bases. The approach taken is consistent with that adopted for IAS19.
- The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, it has been estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%.
- In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2018 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category	2017/18	2016/17
	£'000	£'000
Employers' Contributions split by:		
Normal Funding	(26,442)	(35,479)
Deficit Funding	(36,295)	(31,683)
Members' Contributions	(12,164)	(12,155)
Total	(74,901)	(79,317)

By Employer	2017/18	2016/17
	£'000	£'000
London Borough of Hackney	(71,274)	(75,639)
Scheduled Bodies	(2,980)	(2,984)
Admitted Bodies	(647)	(694)
Total	(74,901)	(79,317)

8. TRANSFERS IN

	2017/18	2016/17
	£'000	£'000
Individual Transfers	(8,079)	(4,719)
Total	(8,079)	(4,719)

9. BENEFITS PAYABLE

By Category	2017/18	2016/17
	£'000	£'000
Pensions	42,565	41,807
Commutation and Lump Sum Retirement Benefits	8,796	12,276
Lump Sum Death Benefits	1,172	1,271
Total	52,533	55,354

By Employer	2017/18	2016/17
	£'000	£'000
London Borough of Hackney	47,343	49,952
Scheduled Bodies	2,553	2,725
Admitted Bodies	2,637	2,677
Total	52,533	55,354

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18	2016/17
	£'000	£'000
Refunds to Members leaving service	174	201
Payments for Members joining state scheme	-	-
Group Transfers	-	498
Individual Transfers	5,580	5,134
Total	5,754	5,833

11. MANAGEMENT EXPENSES

	2017/18	2016/17
	£'000	£'000
Administrative Costs	826	539
Investment Management Expenses*	7,248	4,590
Oversight and Governance Costs	655	740

Total	8,729	5,869
--------------	--------------	--------------

The investment management expenses disclosed above include non-invoiced transaction and other costs paid/payable to the Fund's investment managers of £4,582k (£837k in 16/17). The substantial rise in additional costs has resulted from the introduction of the LGPS Cost Management Template, which a number of the Fund's investment managers now use. The introduction of the template is helping to ensure more accurate fee disclosures by managers, with greater detail provided with regards to transaction costs. Audit Fees of £21k (£21k in 2016-17) were incurred and are included in Oversight and Governance Costs in the above table.

Investment Management Expenses*	2017/18	2016/17
	£'000	£'000
Management Fees	7,208	4,554
Custody and Banking Fees	40	36
Total	7,248	4,590

12. INVESTMENT INCOME

	2017/18	2016/17
	£'000	£'000
Fixed Interest Securities	(4,423)	(4,554)
Equity Dividends	(9,968)	(9,192)
Index Linked Securities	(386)	(406)
Pooled Investment Income	0	0
Interest on Cash Deposits	(102)	(61)
Other Income	(804)	(210)
Total	(15,683)	(14,423)

2017-18 Investment Income is inclusive of withholding tax £81k compared to £54k in 2016-17.

13. INVESTMENTS

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is below:

Investment type	Market value 31 March 2018 £'000	Market value 31 March 2017 £'000
Investment Assets:		
Fixed Interest Securities		
	UK	
	Public Sector - quoted	58,250
	Corporate - quoted	36,547
	Overseas	
	Public Sector – quoted	10,493
	Corporate - quoted	47,611
	152,901	150,333
Index Linked Securities		
	UK	
	Public Sector - quoted	62,780
	Corporate - quoted	-
	Overseas	
	Public Sector – quoted	-
	Corporate - quoted	-
	62,780	59,670
Equities		
	UK - quoted	33,668
	Overseas - quoted	407,664
	441,332	432,957
Pooled Investments		
	Corporate Fixed Interest	17,186
	UK Equities Index Tracker	330,881
	Global Multi-Asset	66,883
	Global Emerging Market Equities	78,130
	Global Real Return	101,857
	Property	155,106
	750,043	698,030
Other Investments		
	Derivative Contracts:	
	Forward Currency	909
	Futures	173
	Cash deposits	33,132
	Other Investment balances	6,811
	41,025	20,639
Total investment assets	1,448,081	1,361,629
Investment Liabilities:		
	Derivative Contracts: Forward Currency	(841)
	Futures	(542)
	Other investment balances	(6,834)
	(8,217)	(3,037)
Net Investment Assets	1,439,864	1,358,592

b. Investments analysed by fund managers

As at 31 March 2018 the Fund's investments are managed by eight principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principals (SIP). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000	% of total fund	Value £'000	% of total fund
	2017/18	2017/18	2016/17	2016/17
Lazard (Global Equities)	235,053	16.3%	218,273	16.1%
Wellington (Global Equities)	234,649	16.3%	224,195	16.5%
UBS (UK Equity Index)	330,881	23.0%	324,760	23.9%
BMO (Fixed Interest)	233,195	16.2%	228,767	16.8%
Threadneedle (Property)	155,106	10.8%	141,118	10.4%
GMO (Global Real Return)	101,857	7.1%	86,762	6.4%
RBC (Global Emerging Markets Equities)	78,130	5.4%	72,133	5.3%
Invesco (Global Multi Asset)	66,883	4.6%	56,655	4.2%
Other Net Investments	4,110	0.3%	5,928	0.4%
Total	1,439,864	100%	1,358,592	100%

c. Reconciliation of movements in investments and derivatives

For each asset class, the opening position is reconciled with closing position as set out in the tables below.

Investment type	Market Value 31/03/2017 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31/03/2018 £'000
Fixed Interest Securities	150,333	167,138	(163,770)	(800)	152,901
Index Linked Securities	59,670	30,910	(28,134)	335	62,780
Equities	432,956	131,678	(126,132)	2,829	441,332
Pooled Investment Vehicles	698,030	24,367	(4,120)	31,765	750,043
Derivative Contracts					
Forward Currency Contracts	3,932	7,605	(26,695)	15,227	68
Futures	249	2,461	(2,164)	(915)	(369)
	1,345,170	364,159	(351,015)	48,441	1,406,755
Other Investment balances:					
Cash Deposits	11,095				33,132
Receivable for Sales	1,898				3,755
Investment Income due	3,349				3,056
Payable for Purchases	(2,920)				(6,834)
Net Investment Assets	1,358,592				1,439,864

The change in market value of £48,440k is £4,224k lower than the change in market value on the Fund Account of £52,664k, as a result of the netting off of indirect manager fees.

Investment type	Market Value 1/04/2016 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31/03/2017 £'000
Fixed Interest Securities	126,506	209,041	(192,814)	7,600	150,333
Index Linked Securities	53,262	51,138	(55,445)	10,715	59,670
Equities	344,937	109,618	(120,122)	98,523	432,956
Pooled Investment Vehicles	595,153	30,814	(16,615)	88,678	698,030
Derivative Contracts					
Forward Currency Contracts	(133)	41,462	(16,016)	(21,381)	3,932
Futures	0	1,753	(2,971)	1,467	249
	1,119,725	443,826	(403,983)	185,602	1,345,170
Other Investment balances:					
Cash Deposits	21,444			(149)	11,095
Receivable for Sales	1,745				1,898
Investment Income due	2,931				3,349
Payable for Purchases	(2,000)				(2,920)
Net Investment Assets	1,143,845			185,453	1,358,592

Derivative payments and receipts correspond to the sterling equivalent amount of forward foreign exchange and futures contracts settled during the year. Further disclosure regarding derivative contracts can be found below.

d. Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk to the Fund. Derivatives may also be used to gain exposure to an asset class more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. Consequently the Fund has a passive currency programme in place managed by the custodian HSBC (pertaining to Lazard) and the investment fund Wellington. The purpose of both Mandates is to reduce the Fund's exposure to fluctuations in exchange rates.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2018 is given below. All forward contracts held by fund managers are exchange traded.

Open forward currency contracts

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
One to six months	GBP	74,053	USD	(103,086)	630
	GBP	15,727	EUR	(17,710)	191
	GBP	6,164	JPY	(911,000)	56
	GBP	6,068	EUR	(6,897)	16
	GBP	6,068	EUR	(6,897)	16
Total Assets					909
Liabilities					
Up to one month	GBP	10,467	EUR	(11,947)	(13)
	GBP	8,377	USD	(11,907)	(104)
	GBP	57,814	USD	(82,155)	(701)
	GBP	7,054	JPY	(1,052,467)	(3)
One to six months	GBP	1,740	USD	(2,452)	(6)
	GBP	1,739	USD	(2,452)	(7)
	GBP	1,739	USD	(2,452)	(7)
Total Liabilities					(841)
Net Forward Contracts 2017/18					68

LONDON BOROUGH OF HACKNEY PENSION FUND ANNUAL REPORT AND ACCOUNTS 2017/18

APPENDIX 2

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		£'000	£'000
Assets					
Up to one month	GBP	988	AUD	(1,609)	7
	GBP	4,352	USD	(5,430)	12
	GBP	4,356	USD	(5,430)	16
	GBP	2,629	NZD	(4,666)	24
	GBP	11,207	EUR	(12,980)	98
	GBP	11,207	EUR	(12,980)	98
One to six months	GBP	7,285	EUR	(8,347)	130
	GBP	67,209	USD	(82,155)	1,652
	GBP	5,231	JPY	(726,000)	14
	GBP	11,528	EUR	(13,265)	160
	GBP	67,945	USD	(82,964)	1,732
	GBP	97,800	GBP	(701)	2
Total Assets					3,945
Liabilities					
Up to one month	GBP				
	GBP				
One to six months	GBP	4,620	JPY	(644,763)	(14)
	GBP				
	GBP				
	GBP				
	GBP				
Total Liabilities					(14)
Net Forward Contracts 2016/17					3,931

e. Investments exceeding 5% of net assets

The following pooled investments represent more than 5% of the net assets of the fund:

Security	Market Value 31 March 2018	% of total fund	Market Value 31 March 2017	% of total fund
	£'000		£'000	
UBS UK Equities Index Tracker Fund	330,881	23.0%	324,760	23.99%
Threadneedle Property Fund (TPEN)	129,505	9.53%	116,745	8.62%
GMO (Global Real Return)	101,857	7.1%	86,762	6.41%

f. Stock Lending

The Fund did not undertake any direct stock lending activity during the year, but acknowledges that within pooled investments fund managers may participate in this activity.

14. FINANCIAL INSTRUMENTS

a. Classification of 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 by category. No financial assets were reclassified during the accounting period.

Investment type	2017/2018			2016/2017		
	Designated as Fair Value through Profit & Loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised costs £'000	Designated as Fair Value through Profit & Loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised costs £'000
Financial Assets						
Fixed Interest Securities	152,901			150,333		
Index Linked Securities	62,780			59,670		
Equities	441,304			432,957		
Pooled Investments	750,072			698,030		
Derivative Contracts	1082			4,296		
Cash		57,799			38,134	
Other Investment Balances	9,627			5,247		
Debtors		11,678			8,305	
	1,417,766	69,477		1,350,533	46,439	
Financial Liabilities						
Derivative Contracts	(1,383)			(116)		
Other Investment Balances	(6,834)			(2,920)		
Creditors			(3,717)			(2,856)
	(8,217)		(3,717)	(3,036)		(2,856)
Total	1,409,549	69,477	(3,717)	1,347,497	46,439	(2,856)
Grand Total		1,475,309			1,391,079	

b. Net gains and losses on financial instruments

The majority of the financial assets and liabilities are classed at fair value. The following table summarises the net gains and losses as profit or losses associated with, the disposal of and changes in, the market value of investments and recognised within the Pension Fund account as 'Returns on Investments'.

	31 March 2018	31 March 2017
	£'000	£'000
Fair Value through Profit and Loss	48,440	185,453
Loans and Receivables	-	-
Financial Liabilities measured at amortised cost	-	-
Total	48,440	185,453

c. Fair Value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company, however in most instances the carrying value will equate to the fair value.

	31 March 2018		31 March 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	1,417,766	1,417,766	1,350,533	1,350,533
Loans and Receivables	69,477	69,477	46,439	46,439
Total Financial Assets	1,487,243	1,487,243	1,396,972	1,396,972
Financial Liabilities				
Fair Value through Profit and Loss	(8,217)	(8,217)	(3,037)	(3,037)
Financial Liabilities measured at amortised cost	(3,717)	(3,717)	(2,856)	(2,856)
Total Financial Liabilities	(11,934)	(11,934)	(5,893)	(5,893)
Grand Total	1,475,309	1,475,309	1,391,079	1,391,079

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

Level 2

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

Level 3

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	451,104	966,524	138
Loans & Receivables	69,477		-
Total Financial Assets	520,581	966,524	138
Financial Liabilities			
Fair Value through Profit and Loss	(7,376)	(841)	-
Financial Liabilities measured at amortised cost		(3,717)	-
Total Financial Liabilities	(7,376)	(4,558)	-
Net Financial Assets	513,205	961,966	138
	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	438,174	912,205	154
Loans & Receivables	46,439		-
Total Financial Assets	484,613	912,205	154
Financial Liabilities			
Fair Value through Profit and Loss	(3,037)		-
Financial Liabilities measured at amortised cost		(2,856)	-
Total Financial Liabilities	(3,037)	(2,856)	-
Net Financial Assets	481,576	909,349	154

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will be insufficient to meet its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Investment Strategy Statement (ISS) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pensions Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council's pensions operations. Measures to control and manage risks are also included within the risk register. Policies and the Risk Register are reviewed by Pensions Committee and also by Officers on a frequent basis.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund's investment portfolio are set out in Note 13.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

Other Price Risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The Pensions Committee regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 13.

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 will depend largely on the funds’ asset allocations.

Asset class	1 year expected volatility (%)	% of Fund
UK Equities	16.8	25.2
Global Equities (ex UK)	17.9	28.7
Emerging Market Equities	25.3	5.4
Property	14.3	10.8
Corporate Bonds (short term)	4.1	3.5
Corporate Bonds (medium term)	10.2	2.6
Corporate Bonds (long term)	12.6	1.1
UK Fixed Gilts (medium term)	9.5	1.4
UK Fixed Gilts (long term)	12.7	3.1
UK Index Linked Gilts (medium term)	7.2	1.7
UK Index Linked Gilts (long term)	9.20	2.6
Cash	0.5	2.1
Diversified Growth Fund	12.6	11.7
Total fund volatility	10.7	100

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using the Economic Scenario Service, a proprietary stochastic asset model maintained by Hymans Robertson LLP. The model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The overall fund volatility has been calculated based on the asset valuations provided by the Fund’s custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2018. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2018		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,439,864	10.7	1,593,929	1,285,799
	1,439,864	10.7	1,593,929	1,285,799

31 March 2017		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,358,592	10.5	1,501,244	1,215,940
Total assets available to pay benefits	1,358,592	10.5	1,501,244	1,215,940

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged.

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 of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the 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 benchmark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy as agreed by the Pensions Committee.

The Fund's direct exposure to interest rate movement as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2018	Balance at 31 March 2017
	£'000	£'000
Cash Deposits	33,132	11,096
Cash Balances	27,484	27,039
Fixed Interest Securities	170,089	166,964
Total	230,705	205,099

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 points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects 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 2018 £'000	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps £'000
Cash & Cash Equivalents	33,132	331	(331)
Cash Balances	27,484	275	(275)
Fixed Interest Securities*	170,087	(21,839)	21,839
Total	230,703	(21,233)	21,233

Asset Type	Carrying amount as at 31 March 2017 £'000	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps £'000
Cash & Cash Equivalents	11,096	111	(111)
Cash Balances	27,039	270	(270)
Fixed Interest Securities*	166,964	(21,438)	21,438
Total	205,099	(21,057)	21,057

Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (between 12-13 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (£UK). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling (further details are in Note 13).

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2018 and as at the previous period end:

Currency Exposure – asset type	Asset Value as at 31 March 2018	Asset Value as at 31 March 2017
	£'000	£'000
Equities	407,762	397,461
Fixed Interest Securities	19,487	27,006
Indexed Linked Securities	0	4,802
Pooled Investment Vehicle	0	0
Cash and Deposits	668	1,579
Total	427,917	430,848

Currency Rate Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment consultant, the estimated volatility for individual currency was assessed and used for the following sensitivity analysis.

31 March 2017		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	427,917	10	470,708	385,125
Total change in assets			42,792	42,792

31 March 2017		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	430,848	10	473,933	387,763
Total change in assets			43,085	43,085

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Fund's custodian, HSBC Global Services. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with Lloyds Bank.

The Pensions Committee and senior officers monitor this risk by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

The Fund's holdings under the arrangements described above were held with the following:

Summary	Rating (Fitch)	Balance at 31 March 2018 £'000	Balance at 31 March 2017 £'000
Cash (Current Assets)			
Lloyds Plc	A+	27,484	27,039
Cash Deposits (Investment Assets)			
<i>Cash held outside fund managers and custodian</i>			
Money Market Funds (Various)	AAA	2,817	4,617
<i>Cash held by fund managers and custodian</i>			
Cash	AA-	30,315	6,479
Call Accounts (Various)	AA- to A	-	-
Money Market Funds**	AAA	-	-
Total		60,616	38,135

c) Liquidity Risk

Liquidity risk corresponds to the pension fund's ability to meet its financial obligations when they come due with sufficient and readily available cash resources.

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund has no holdings in private equity, infrastructure or direct property which can be considered 'illiquid'.

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the custodian that are highly liquid and can be used for payables and expenses

such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the Financial Services team.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pensions Committee in collaboration with the Fund's actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

16. FUNDING ARRANGEMENTS

The actuarial valuation of the Pension Fund is carried out every three years, in line with the Local Government Pension Scheme. The purpose is to set employer contribution rates for the forthcoming triennial period. This is carried out by an independent actuary appointed by the Fund and the last valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website <http://hackney.xpmemberservices.com/> and a copy is also included in the Pension Fund Annual Report and Accounts (pages TBC).

The objectives of the Fund's funding policy include the following:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers.
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations.
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2016 valuation was based on a market value of the Fund's assets as at 31 March 2016, which amounted to £1,172 million and revealed a pension deficit of £349 million, representing a funding level of 77.1% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. . The whole fund primary contribution rates applying from 1 April 2017 until 31 March 2020 and based on the 2016 valuation report are as follows:

Year	Employer Contribution rate
2017/2018	15.8%
2018/2019	15.8%
2019/2020	15.8%

The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases. Additional monetary amounts are payable in respect of the past service deficit as follows:.

Year	Deficit contribution amount (£000)
2017/2018	36,295
2018/2019	36,051
2019/2020	35,542

The principal 2016 valuation report assumptions which informed the contributions payable from 1 April 2017 were:

Financial Assumptions based on 2016 Valuation Report

Assumption	Rate	Explanation
Investment return (discount rate)	3.85%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.1% – CPI	
Salary increases*	3.3%	1.2% pa over CPI
Pension increases	In line with CPI	Assumed to be 1.0% less than RPI

*plus an allowance for promotional pay increases. The long term assumption for salary increases is RPI plus 0.2% p.a which translates to CPI plus 1.2% p.a.

Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	22.2	24.2
Future pensioners (assumed current age 45)	23.6	25.7

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of 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. This figure is used for statutory accounting purposes and differs from the assumptions and calculations contained in the triennial Actuarial Valuation (see Note 16), which is used to determine the contribution rates payable by employers.

The actuarial present value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £2,179 million (£2,162 million in 2016/17). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS 19 2018 valuation have been revised from the 2017 valuation report as set out in the table below:

Assumption	2018	2017
Pension increase rate assumption	2.4%	2.4%
Salary increase rate*	3.5%	3.6%
Discount rate	2.7%	2.6%
Inflation rate based on CPI**	2.4%	2.4%

* Also includes an additional allowance for promotional pay increases

** CPI is based on RPI less 1.0% at 31 March 2018

18. CURRENT ASSETS

The following is an analysis of the **non-investment** debtor and cash balances carried on the Net Asset Statement.

	31 March 2018 £'000	31 March 2017 £'000
Debtors:		
Contributions due	5,830	6,162
Sundry debtors	5,848	2,143
Cash Balances	27,484	27,039
Total	39,162	35,344

Analysis of Debtors

	31 March 2018	31 March 2017
	£'000	£'000
Central Government Bodies	190	130
Other Local Authorities	11,439	8114
NHS Bodies	-	-
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	49	61
Total	11,678	8,305

19. CURRENT LIABILITIES

The following is an analysis of the non-investment creditors balance carried on the Net Asset Statement.

Creditors	31 March 2018	31 March 2017
	£'000	£'000
Benefits Payable	(647)	(437)
Sundry Creditors	(3,070)	(2,419)
Total	(3,717)	(2,856)

Analysis of Creditors

	31 March 2018	31 March 2017
	£'000	£'000
Central Government Bodies	(514)	(521)
Other Local Authorities	(286)	(356)
NHS Bodies		
Public Corporations and Trading Funds		
Other Entities and Individuals	(2,917)	(1,979)
Total	(3,717)	(2,856)

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions.

The total value of sums invested in the AVC funds as at 31 March 2018 was £5.323 million (£5.2 million as at 31 March 2017). Contributions received into the AVC facility during the year amounted to £0.21 million (£0.17 million in 2016/17). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

21. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £56.39 million to the Fund in 2017/18 (2016/17: £58.88 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.29 million in 2017/18 (£0.36 million in 2016/17) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

Governance

The following Pensions Committee Members were also deferred members of the Local Government Pension Scheme (LGPS) during the year; Cllr Robert Chapman (Chair), Cllr Feryal Demirci, and Cllr Geoff Taylor.

Jonathan Malins-Smith, Scheme Member Representative, is also a deferred member of the Pension Scheme.

22. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2018 these employees included:

Ian Williams	Group Director of Finance and Corporate Resources
Michael Honeysett	Director, Financial Management
Rachel Cowburn	Head of Pension Fund Investment
Julie Stacey	Head of Pensions Administration
Sam Masters	Group Accountant, Financial Services

All of these employees are also members of the pension scheme. The financial value of their relationship with the Fund (in accordance with IAS 24) is set out below:

	31 March 2018	31 March 2017
	£'000	£'000
Short term benefits	137	154
Long term/post-retirement benefits	21	30
Total	158	184

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hackney.

23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

The Pension Fund has no material contingent assets, liabilities or contractual commitments.

24. IMPAIRMENT LOSSES

During 2017/18 there were no impairment losses to recognise (2016/17: £0k) for possible non-recovery of pension overpayments.