2018/2019

London Borough of Lambeth Pension Fund Statement of Accounts

Despite a challenging year, the fund has weathered the storm with strong returns and an improved funding. Fund assets grew by 4.51% and had net assets of £1,439.4m as at 31 March 2019 with 80% funded at the latest valuation.

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Appendices

1. Statement of Investment Principles
2. Funding Strategy Statement
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Scheme Management and Advisors

Administering Authority:	London Borough of Lambeth
Administrator:	Christina Thompson Chief Financial Officer
Council Officers:	
Hamant Bharadia	Acting Director – Finance and Property
Andrien Meyers	Head of Treasury and Pensions
Saul Omuco	Deputy Head of Treasury and Pensions
Saril Prakash	Trainee Accountant
Linda D'Souza	Interim Head of HR Operations
Linda Osborne	Pensions Manager
Bank:	National Westminster Bank Plc
Legal Advisors:	Council Lawyers
Fund Managers:	
Adam Street Partnership	Aviva Investors
Insight Investment Management	Invesco Perpetual
Churchill Asset Management	MFS Investment Management
RREEF	PAAMCO
London CIV	State Street
AVC Providers:	
Clerical Medical	Equitable Life (Closed to new applicants)
Prudential	
Adviser:	Mercer Ltd. JLT
Custodian:	State Street Global Advisors
Governance:	Aon
Actuary:	Hymans Robertson
Auditor:	MAZZARS LLP,UK

Report from the Pension Committee Chairman

As Chairman of the Lambeth Pension Fund, I am pleased to introduce the Pension Fund's Annual Report and Accounts for 2018-19.

Investment Strategy Review: Following the triennial valuation in 2016 where the funding level improved to 80% from 72.6% in 2013; the Lambeth Pension Fund adopted best practice (similar to that of the private sector) by being one of only a handful of Local Government Pension Scheme (LGPS) Funds to review its investment strategy alongside the Triennial Valuation. Officers of the Fund worked with the Fund's investment adviser to develop recommendations, which were subsequently adopted by the Council. These modify the existing strategy and build on its success. In 2018-19 the Fund has implemented a majority of its new strategy. Key areas are as follows:

- Part termination of the corporate bond mandate and investment in two private debt mandates.
- Part termination of the corporate bond mandate and investment in multi asset credit mandate.
- Started implementation of remaining corporate bond mandate to LDI over the course of the next twelve months.
- Rebalancing overweight Global Equity positions and appointment of a UK Infrastructure/Private Rented Housing mandate.
- Consideration of one global equity mandate into a more responsible investment mandate.
- One further mandate allocated to the LCIV.
- Engagement with the LCIV and our London colleagues on responsible investing.

London Collective Investment Vehicle (CIV): As part of working collaboratively with other LGPS Funds, the Lambeth Pension Fund has signed up to the London CIV. The Pension Fund Committee agreed to work collaboratively with its London neighbours, and approved this arrangement. Currently the Fund has around £610m, or 43% of its investment, managed via the CIV. In 2018/19 The Fund became one of the seed investor with the LCIVs multi asset credit mandate. With LGPS Asset Pooling having officially started in April 2018, it is the Fund's intention to follow Government Regulation and use the CIV as its first point of call.

Fund Performance: In terms of the Fund size and investment returns, 2018/19 has been a challenging year. Even though the value of the Lambeth Pension Fund increased during the year by £63m and showed a net asset value of £1,439.4m as at 31 March 2019, the one year performance to the end of March 2019, showed the Fund returning 4.5% against a benchmark of 6.7%. The investment management costs of the Fund as a percentage of assets under management over the past year is 0.48%, a reasonable costs considering the fund is 100% actively managed.

Governance: A new Pensions Committee has been created with full decision-making powers since April 2015. The new committee is all-encompassing and has responsibility for all Fund matters, including governance, investments, funding, accounting, employer and scheme member engagement, communications, and administration. Best practice within the LGPS is to have a diverse

Committee; the Lambeth Fund has already moved to meet these requirements by electing two employees, and two pensioner representatives to its Committee to sit alongside five elected councillors.

Further all training needs were assessed in accordance with CIPFA knowledge and skills framework, and delivered.

As part of the governance and oversight of the Pension Fund, a regular review and update to the governance framework, policies and procedures is essential to ensure that it is compliant with latest legislation, regulations and good practice. The Lambeth Pension Fund undertook an in-depth review of its governance arrangements in 2017/18. Key areas of focus were on Administration and asset pooling. The Fund continued to implement the recommendations of the review in 2018/19.

The Pensions Act 2013 also requires a mandatory Pension Board to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself, a new Board has been created for that purpose. Cllr Adilypour has reported separately on this within the report.

Responsible Investing: The Fund continues to focus on responsible investment. In addition to giving the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations through the statement of investment principles, the Fund is one of the few funds that ranks the managers with whom it invests on their ethical credentials as well as on their investment returns, using research information from investment consultants. I am proud to say that once again the Fund engaged positively on responsible investment issues in the year, via the Local Authority Pension Fund Forum.

Employers to the Fund: The Fund continues to pro-actively engage with its employers. A number of meetings have taken place with employers where the focus has been on maintaining steady contribution rates.

Publicity: Over the year officers have represented the Fund at various conferences; notably key talks given and panel appearances at the LGC Investments and the Local Authority Pension Fund. Further, the Fund has engaged with various Central Government bodies to discuss and work collaboratively on the government proposal of pooling all 89 LGPS funds into eight investment pools. The Fund's objective of providing a steady and secure benefit to its members is primary in all its decisions.

The outlook for local authority pension funds is uncertain, given not only continuing growth in liabilities and a difficult investment environment, but ongoing government reviews of the pension and investment regulatory framework. However, Lambeth is well placed to meet these challenges. The Fund has already started work on the 2019 valuation and will consider a light touch review on its investment strategy during 2019.

The Fund has made big strides during 2018/19 and in particular with regards to responsible investing. This has been made possible by valuable contributions from many stakeholders; so thanks are due to members of the Pension Committee and Board, both councillors and lay members, officers of the Council, and our advisers. All have approached their responsibilities in recent years with a serious and open minded sense of purpose which ensured that the Fund is better placed than some to face these continuing uncertainties.

Cllr. Iain Simpson
Chairman – Lambeth Pension Committee

Pension Board Chairman's Report

As the Chair of the Lambeth Pension Board I am very pleased to talk about the Board and its fourth year in operation.

Structure and attendance

The Board was established in accordance with Section 5 of the Public Service Pensions Act 2013 and under regulation 106 of the Local Government Pension Scheme Regulations 2013, holding its first meeting on the 08 July 2015. The Board consists of three representatives of the Scheme employers, and three representing Scheme members. The employer representatives are serving Lambeth councillors and the Scheme member representatives consist of a) one person nominated by the Unions as an employee representative, b) one person who is receiving a pension from Lambeth's Pension Fund as a pensioner representative and c) one staff member representative who is also a member of the Lambeth Pension Fund.

Details on the Pension Board's current representatives are held on the Council's website.
https://moderngov.lambeth.gov.uk/mgCommitteeDetails.aspx?ID=733

The Board met on three occasions during the year ending 31 March 2019. Two meetings were quorate and one inquorate, the latter which proceeded on an informal basis.

Functions and Operation of the Board

The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the Local Government Pension Scheme Regulations 2013 (LGPS); and,
- Ensure compliance with relevant laws and regulation.

It therefore has a monitoring remit, rather than being a decision-making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives.

The Board is effectively helping to manage the reputational risk of the Fund and Administering Authority, which are under considerable scrutiny by a number of stakeholders as well as the two main oversight bodies: the Pensions Regulator and the Ministry of Housing, Communities and Local Government (MHCLG).

The Board operates under Terms of Reference which were approved at its inception and are appended here again. The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time accordingly.

Scheme documents

During the last year the Board reviewed scheme policies and a range of key documents covering the items below captured in the work plan.

Training

Each Board member has to be conversant with the details of the Scheme, which translates as having a good working knowledge. The Fund has offered a number of training opportunities for Board members where possible.

Assessment of training needs, and how they are met, will be a standing item on the Board's agenda. Both formal and informal (cascade) training will be considered.

Work plan

In considering the work of the Board to ensure the continued good governance of the scheme, the following key areas have been highlighted and members will prioritise reviews based on information gleaned from quarterly compliance updates.

- Meeting legislative requirement on pooling
- Improving data quality
- Ensuring strength in employer covenants
- Admission and Termination of other employers to the scheme
- Accounts
- Administration
- Audit and Risk Management
- Governance
- Training

All the Pension Board papers and minutes are held on the Council's website
http://moderngov.lambeth.gov.uk/ieListMeetings.aspx?CommitteeId=733,

There will be a degree of flexibility to allow for any additional reviews by either the Scheme Advisory Board or the Pensions Regulator.

As the Chair of the Lambeth Pension Board I would like to thank my Board member colleagues who are committed to volunteering their time and energies towards the role. I would also like to express my thanks to the Pension Committee and the Council's Officers, for their commitment and hard work in maintaining all the administrative aspects of the Fund.

Cllr. Danial Adilypour

Chairman – Lambeth Pension Board

Risk Management

The Fund recognises that its primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The Fund recognises that there are a number of risks that need to be factored into managing the fund and ensuring it can meet its primary objective of providing benefits to its members.

The risks can be categorised as investment, financial, demographic and regulatory risks. These risks have been identified and addressed in the Fund's Investment Strategy Statement and the Funding Strategy Statement.

The Investment Strategy Statement address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return.

In considering the Fund's investment strategy, it must bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund and some of the key risks are considered below:

Solvency Risk and Mismatching Risk

These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk including the London CIV

This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

This is monitored according to the level of cash flows required by the Fund over a specified period. It is managed by holding an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable. As a result the investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

Corporate Governance Risk

This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance. It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

Legislative Risk

This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation. The Committee acknowledge that this risk is unavoidable but will seek to address any required changes to comply with changes in legislation.

Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. Market risk comprises of interest rate risk, inflation and currency risk.

Financial Risks

Action is taken to review performance against the investment strategy on a regular basis in accordance with LGPS regulations. The Fund's financial management framework is the same as that of Lambeth Council. Council Officers monitor the budget, which is set annually as part of the three year forward looking service plan. The financial accounting system is integrated with the Council's, and the segregation of duties and control structure is agreed with and annually reviewed by Internal Audit. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments, and processes are in place to ensure that contributions are reconciled regularly.

The administration risks relate mainly to the obligation to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risk are non-payment or late payment of members' benefits or incorrect calculation of benefits, breach of Data Protection Regulations and failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. Such risks can lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan.

Investment Policy

Following the government intention of LGPS pooling the way the LGPS funds make the investment decision has changed. This changes the way Lambeth approaches its investment strategy.

The Triennial valuation 2016 (where funding levels improved to 80%) saw it introduce a new approach in which it sets its investment strategy at the same time as considering its funding strategy and contribution plan, basing all three on a sophisticated model but crucially applying a practical, qualitative (human) overlay.

Contribution rates and investment strategy were considered in tandem; balancing risk with the need for stability, in terms of certainty with regard to contribution rates. The Council as the largest employer in the Fund (99% of the total Fund) achieved more stability. The cash flow position was also considered at the same time where an in-house exercise was carried out to assess the need for cash.

Being a mature fund and to be better prepared to meet its liability and have sufficient protection on inflation and interest the fund implemented its LDI strategy in late 2016. The strategy was approved by the committee back in 2010 as part strategy review at that time. Due to the unfavourable market condition the strategy wasn't implanted up until now. This portfolio is managed by Fund's existing Bond Manger Insight investment.

In the year the fund added three investment managers, Churchill Asset Management and Permira Credit Solutions as external managers and CQS Credit Multi Asset Fund through the London CIV. With these, the Fund invests its assets through eight external Fund managers in seven different asset classes. During 2018-19, the Fund's net asset value grew by £62.1m and the return on investments was £41.7m. The table below shows the planned asset allocation along with the actual asset allocation for the beginning and end of the financial year.

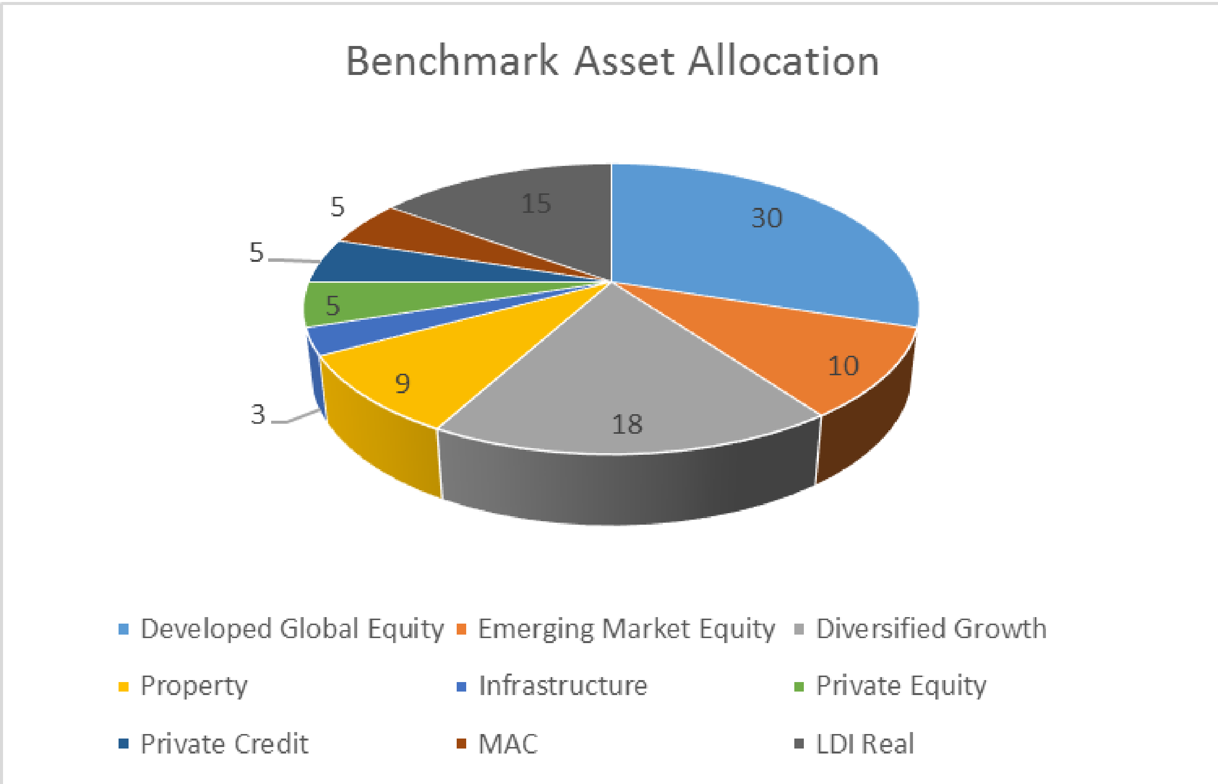
	2019		2018	
Manager	Value (£m)	Actual (%)	Value (£m)	Actual (%)
Adams Street	61.0	4.3	53.5	3.9
Aviva	78.6	5.5	80.0	5.8
LCIV (Baillie Gifford)	263.3	18.4	242.1	17.6
Insight- Bond	240.5	16.8	309.3	22.5
Insight- LDI	54.0	3.8	52.5	3.8
Invesco	145.0	10.1	130.2	9.5
Churchill Asset Management	3.9	0.3		
LCIV (Majedie)	0.0	0.0	76.5	5.6
LCIV (Henderson)	150.0	10.5	75.7	5.5
LCIV (Pyrford)	56.2	3.9	54.4	4.0
LCIV (Ruffer)	60.6	4.2	60.9	4.4
MFS	197.5	13.8	216.3	15.7
PAAMCO	2.8	0.1	2.8	0.2
RREEF	0.3	0.0	0.3	0.0
LCIV MAC Fund	76.1	5.3	0.00	0.00

Cash Account	49.5	3.2	20.9	1.5
Total	**1,439.4**	**100.0**	**1,375.4**	**100.0**

The Council holds Fund managers accountable for decisions on asset allocation within the benchmark under which they operate. In order to follow the recommendations of the Myners' Committee, managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and they are called to a Committee meeting if there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above.

The chart below shows the benchmark allocations by asset classes as at 31 March 2019.



Environmental, Social and Governance

Good corporate management includes assessing, reporting, and addressing material risks associated with corporate governance and environmental and social issues. Companies should have regard to the environmental and social consequences of their activities in all their decisions, because pro-environment and society approaches to business are usually good for the business in the long run. Where the Fund considers that disclosure on these risks is inadequate, the Fund will generally support requests for improved disclosure and this is done via quarterly meetings with mangers.

- Pension Regulation 7(2) (e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.
- The London Borough of Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance contributes to long-term value for our clients. The Fund's investment Strategy Statement (high-level Policies) set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.
- Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section 7 of the Fund's Investment strategy Statement.
- The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.
- The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
- The Fund is a member of the Local Authority Pension Fund Forum), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.
- The Fund will demonstrate action it has taken to show compliance with the Myners principles, where appropriate.

Financial Performance

In 2018-19 the Fund's net assets saw an increase compared to 2017-18 The Fund's asset value increased by £64.2m (4.68%) to stand at £1.43bn at 31 March 2019. The Fund's investments in property performed well over the benchmark for the year, while diversified products failed to meet benchmark results.

Net of fees the Fund has underperformed the benchmark over the one year period and is 0.3% and 0.9% below the benchmark over the three and five year periods to March 2019.

Asset Class	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
Global Equity	12.6	9.9	11.6	11.5	16.5	14.7	13.6	12.3
Emerging Markets Equity	4.6	7.4	-3.3	-0.3	-	-	-	-
Property [(a)]	-3.9	2.0	2.0	8.0	7.9	8.0	6.8	8.0
SPV [(b)]	-3.0	1.5	-22.7	5.8	-	-	-	-
Diversified Growth [(c)]	3.7	1.4	0.1	5.6	0.2	5.2	1.1	5.1
Multi-Asset Credit [(d)]	2.6	1.2	-	-	-	-	-	-
Bonds	3.9	4.1	2.6	3.7	4.7	4.7	5.4	5.4
LDI	1.8	1.7	2.9	2.9	-	-	-	-
Private Debt [(e)]	-1.3	1.0	-	-	-	-	-	-
Total (ex-Adams Street) [(f)]	**5.7**	**5.0**	**4.5**	**6.7**	**8.1**	**8.4**	**6.8**	**7.7**

Figures are based on performance provided by the Investment Managers, London CIV, Mercer estimates and Thomson Reuters Datastream.

(a) *Benchmark return taken as absolute return target of 8% p.a. for performance measurement purposes.*

(b) *Benchmark return taken as 3 Month Sterling LIBOR +5% p.a. for performance measurement purposes.*

(c) *This asset class is composed by Ruffer and Pyrford's absolute return portfolios and Aviva's multi-strategy portfolio.*

(d) *Benchmark return taken as 3 Month Sterling LIBOR +4% p.a. for performance measurement purposes.*

(e) *Figures shown for all periods are calculated by Mercer using a Modified Dietz approach over each period and are based on data provided by Churchill and Thomson Reuters Datastream.*

(f) *Total Scheme returns include quarterly returns for Private Debt calculated by Mercer using a Modified Dietz approach based on data provided by Churchill and Thomson Reuters Datastream. Over the long term returns are chain linked using quarterly Total Scheme returns.*

In 2018-19 the Fund engaged three more managers, one of which was with the LCIV MAC Fund. The total invested on the LCIV platform stands at £606m; with an estimated annual fee saving of £619k.

Following the triennial valuation in 2016 where the funding level improved to 80% from 72.6% in 2013; the Lambeth Pension Fund adopted best practice (similar to that of the private sector) by being one of only a handful of Local Government Pension Scheme (LGPS) Funds to review its investment strategy alongside the Triennial Valuation. Officers of the Fund worked with the Fund's investment adviser to develop recommendations, which were subsequently adopted by the Council. These modify the existing strategy and build on its success.

In 2018-19 the Fund has implemented a majority of its new strategy. Key areas are as follows:

- The termination of its Hedge Fund mandates, with an associated increase in Diversified Growth Funds.
- The termination of the remaining UK Equity with an associated increase in Emerging Market Equity
- Rebalancing overweight Global Equity positions with exposure to UK Infrastructure/Private Rented Housing.
- A Further one mandate allocated to the LCIV but with the termination of the UK Equity mandate.

- As agreed by Committee in its July 2018, both Multi Asset Credit and Private Debt Funds were set up, and invested in one.
- Partial termination of its Corporate Bond holdings and as agreed in July 2018, invested in Multi Asset Credit
- In its March 2019 meeting, the committee heard from RBC's LCIV Sustainable Equity Fund but stayed the decision to invest with the fund given it was invested in an organisation that refined natural gas

The fund's cash flow from dealing with members showed a net outflow in the year. During the year, the Fund received £52.6m in contributions and transfers in and paid out £58.7m in benefits and payments to leavers. This showed a net withdrawals of £6.1m from dealing with members. The total income to the Fund was £80.8m and the total expenditure incurred was £60.5m).

The Fund's contribution income is largely used to pay retirement benefits. In 2018-19 following the triennial valuation as at 31 March 2016 there was a major drop in the deficit contribution paid by Council to the Fund; the reduction of £8m pa is the primary reason for the drop in contributions received by the Fund.. There has been a slight decrease in benefits paid and is projected that in the long run this move will contribute to a reduction in gross pension liability; this is due to the enhanced redundancy offer made by the Council in 2016/17.

The Fund used the distribution from property investments (4.3m) and part of the private equity distribution to meet its cash flow needs. The rest of the investment income was reinvested into the same portfolio in the year to maximise the return on investment.

The table below summarises the Fund's income and expenditure for the past three years to 2018/19;

Description	2018-19 £000	2017-18 £000	2016-17 £000
Income	80,833	91,861	91,217
Expenditure	(60,456)	(59,448)	(63,650)
Surplus for the year	**20,377**	**32,413**	**27,567**

The table below details the Fund's total cash flow in 2018-19

Cash Movement	£'000
Contributions receivable:	
from employers	40,804
from employees	8,883
from employees transferring from other pension funds	2,880
Income earned on investments	28,266
Total inflow	**80,833**
Benefits payable:	
Pension payments	(45,595)
Lump Sum payments due when people retire	(6,453)
Lump Sum death benefits	(1,001)
Payments to and on account of leavers:	
Refunds to employees who leave the scheme	(168)
Payments where employees transfer to other funds	(5,482)
Tax paid on Investment Income	(5)
Administrative and Management expenses borne by the scheme	(1,753)
Total outflow	**(60,456)**
Net cash flow	**20,377**

Fund's Triennial Valuation (based on 2016 valuation)

Assets

The Fund had its last actuarial valuation in March 2016. The Fund's liabilities were 80% funded and this is a 7.4% increase from previous valuation. The next valuation cycle is underway.

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in future expected investment returns, although this has partially been offset by lower than expected pay and benefit growth.

As part of the 2016 triennial valuation the Fund carried out a review of its investment strategy. This is to understand how assets are positioned to meet the funds fully funded status in 20 years.

The Fund's Pension committee which is the decision making body decided to structure an investment strategy which will help to reduce the pressure on the contribution strategy, specifically for the administrating authority and the main employer, which is responsible for 99% of the Fund's liabilities.

On this basis the fund has added new asset classes' emerging market equity, private debt and Multi Asset credit to its portfolio expecting that the returns from these asset classes along with the traditional assets will help to meet the funding requirements.

JLT the Funds strategic investment consultant and actuary Hymans Roberson worked along with the officers to arrive at the above strategy. In 2018-19 the Fund continued to implement this strategy giving priority to investments made available through the LCIV platform.

Liabilities

The continued decrease in the real yield from gilts has served to increase the value of the Fund's liabilities.

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to discount future benefit payments back to the valuation date.

In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

The discount rate is required by the Regulations to incorporate a degree of prudence. The discount rate is therefore set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term.

At the 2016 valuation, the Fund had assets of £1,142m and liabilities of £1,429m. Even though the total liability has increase since last valuation the deficit has reduced from £359m to £287m.

Members' contributions

In the year all non-Lambeth employers paid their pension contributions by the due date therefore the option to levy interest was not exercised. For a number of years Lambeth has participated in the National Fraud Initiative (NFI). Where overpayments have been identified, for example where a pensioner has died, action has been taken to arrange recovery in line with Council policies.

Administrative Management Performance

The Lambeth Pension Fund has an in-house team to manage its administration function. The team of eight staff provides services and manages the records of over 21,000 scheme members and 23 active employers. Key achievements of the team in 2018/19 were the preparation processes for the 2019 actuarial valuation of the fund, the implementation of the pension administration workflow and document generation project and the GMP reconciliation exercise.

The table below details the key administration performance indicators used for the year.

Performance against LGPC Targets 2018/19

Performance indicator (from point at which all required information has been received)	**LGPC Target**	**Achieved %**
Letter detailing transfer *in* quote	10 days	84.0
Letter detailing transfer *out* quote	10 days	79.0
Process and pay refund	5 days	75.0
Letter notifying estimate of retirement benefits	10 days	82.0
Process and pay lump sum retirement grant	5 days	85.0
Calculate and notify deferred benefits	10 days	78.0

The table below shows the movement in membership for the past five years. The increase in pensioner members is largely due to retirements from active membership and deferred pensions becoming due for payment.

Five-year analysis of membership data

Description	**Mar-19**	**Mar-18**	**Mar-17**	**Mar-16**	**Mar-15**
Active	**5,660**	**5,386**	5,586	5,378	5,239
Deferred pensioner	**8,337**	**8,257**	8,285	8,151	8,074
Pensioner	**7,444**	**7,235**	7,071	6,801	6,626
Total	**21,441**	**20,878**	**20,942**	**20,330**	**19,939**

Key documents for Lambeth Pension Fund, including the discretionary policy statement, can be found on the Lambeth Pension Fund website (http://www.lgpslambeth.org/lambeth-pension-fund/) and intranet sites.

The Internal Dispute Resolution Procedure (IDRP) is based on standard guidance for all Local Government Pension Scheme (LGPS) funds. Stage 1 cases are reviewed by the Director: Human Resources & Organisational Development; and Stage 2 cases by the Director of Legal Services & Human Resources. In the financial year 2018/19 there was one new appeal, relating to the date pension benefits are due for pension credit members, (these are people who are entitled to LGPS benefits following a divorce).

The table below shows the Lambeth employers and their members' details as at 31 March 2019

Employer	Active	Deferred	Pensioner
Lambeth Pension	5,143	8,116	7,387
South Bank Academy	33	9	0
Hyde Housing	1	11	18
ExcelCare	1	6	7
Blenhein Gardens	4	4	3
Metra Housing	0	5	1
Research Machines	1	2	0
Lambeth Academy	31	62	7
Evelyn Grace	40	44	1
Stockwell Academy	40	16	5
Oasis Community Learning	25	7	0
Elfrida Rathbone Society	2	0	0
Aspire Wellbeing	0	3	0
ML Community Enterprise	3	0	0
City Height E-ACT	25	8	0
Parallel Learning Trust	51	22	7
Mears Ltd	6	0	4
Kings College London	3	0	0
Veolia	2	1	0
Great North Wood - Rosendale	93	15	0
Great North Wood - Elmgreen	88	6	1
Southbank Engineering	5	0	0
Southwark Diocesan Board of Education	53	0	0
Angell Town RMO	10	0	0
	5,660	**8,337**	**7,444**

Actuarial Report on Funds

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Lambeth Pension Fund (“the Fund”).

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

as a note to the accounts; or

by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund’s funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2019	31 March 2018
Active members (£m)	806	658
Deferred members (£m)	653	586
Pensioners (£m)	715	711
Total (£m)	**2,174**	**1,955**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits. Please note, the above figures make approximate allowance for the effects of the ‘McCloud judgement’ and GMP indexation.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £156m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

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Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.9%	2.8%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.6 years	23.9 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.8 years	26.0 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	179
0.5% p.a. increase in the Salary Increase Rate	1%	24
0.5% p.a. decrease in the Real Discount Rate	10%	214

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

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2019 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Steven Law FFA
23 April 2019

Governance Compliance Statement

This compliance statement is required by the provision of Regulation 55 of the Local Government Pension Scheme (Scheme) Regulations 2013. The provision requires London Borough of Lambeth as the Administering Authority to prepare a written statement setting out where the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

At Lambeth Council the Pension Committee makes the decision on Pension Fund management. The Council has dedicated its responsibility of looking after the Pension Fund to the Pension Committee. This is a formal committee of the Council, subject to the usual rules of political balance and access to information.

The Pensions Committee has full decision-making powers. It has responsibility for all Fund matters including governance, investments, funding, accounting, employer, and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such, a new Board was created.

Both the Committee and Board came into effect on 1 April 2015 and following this year's local elections like all the other committees the Pension committee and the Board now has its new elected members. A separate election was held to appoint the co-opted members (the staff and the pensioner representatives). The new Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board by 1 April 2015.

Delegation of functions

Lambeth Council has delegated its pension fund management to the Pension Committee, 'the Committee'.

In addition and in accordance with the Public Service Pensions Act 2013, Lambeth Council has established a local Pensions Board 'the Board', for the purposes of assisting the administering authority (Lambeth) in the governance of the scheme.

The Committee is advised by the Strategic Director: Finance and Investment and the Fund's investment consultants.

The Strategic Director: Finance and Investment, is responsible for ensuring that the in-house team provides adequate support to both the Committee and the Board. In between the Committee meetings, the fund managers' report to the Strategic Director: Finance and Investment, on investment performance and the implementation of the investment strategy.

The Fund's procedures are subject to audit and scrutiny by both the Council's internal audit team and its external auditor, MAZARS LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

The terms, structure, and operational procedures of the delegation effective from 1 April 2015.

The terms of reference for the Pension Committee are:

The Committee is responsible for ensuring that the Fund is properly operated in accordance with all relevant legislation and best practice as advised by the Pensions Regulator, including both financial and administration matters. This will include, but is not limited to:

a. benefits administration;
b. managing the Discretions policies;
c. resolving Internal Disputes;
d. communications with members;
e. communication and engagement with employers;
f. monitoring Risks;
g. record keeping;
h. publishing of scheme information as required; and,
i. approving the Council's Pension Fund Annual Report and Financial Statements and to consider any reports produced by the Strategic Director of Finance and Investment in accordance with the duty to make arrangements for the proper administration of the financial affairs of the Council's Pension Fund ("the Fund"), but not in respect of the formulation of a plan or strategy which is a function of the Cabinet (and subject to final approval by the Council) or detailed operational matters which are within the purview of the Cabinet and for taking whatever action is necessary to ensure compliance with both the Local Government Pension Scheme Regulations ("the Regulations") (as amended from time to time) and best practice.

The Committee will carry out the duties set out in the Regulations, in relation to the actuarial valuations of the Fund and in relation to any other decisions about the amount the employers need to pay.

The Committee will assess the covenant of scheme employers, ensure that employer contributions are set accordingly and other relevant regulations are adhered to.

The Committee will determine the overall investment strategy in accordance with the Regulations, ensuring that the Fund is invested in suitable types of investments and is sufficiently diversified having regard to its investment objectives. These include:

a. determining the Investment Strategy Statement;
b. ensuring adequate monitoring and compliance with the overall investment strategy and the Investment Strategy Statement;

c. appointing investment managers and any external service providers and advisors felt to be necessary; and,

d. maintaining effective arrangements for reviewing on a regular basis investment manager performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems.

The Committee will work closely with the Lambeth Pension Board (the Board) to ensure the scheme is administered efficiently and effectively and will share with the Board reports and documents to enable the Board to achieve meet its remit. The Council will receive reports from each Board meeting and as the Board deems necessary. In turn the Council will consider any reports the Board may produce in the course of their duties and respond accordingly within a reasonable period of time.

In support of this working relationship any member of the Committee may attend Board meetings and Board members may attend Committee meetings.

As part of the good governance of the Scheme, the Committee will work with, receive and consider reports from the Board. The Board is not a decision making body and it will be for the Committee to ensure that the appropriate actions are undertaken as required.

The Committee will ensure that the Fund works with the relevant admitted bodies as required and that a discretions policy is properly maintained and administered.

The investment managers make presentations to the Committee at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. Reports to the Committee are published on the Council’s website.

The frequency of meetings

The Committee meets at least three to four times per year; additional meetings are convened as and when required. A yearly calendar giving details of the times and venue of the Committee’s meetings is posted on the Council’s website.

The committee meetings are held in the Town Hall, Brixton, and are open to members of the public.

Representatives

The Committee draws its membership from “interested parties” as follows:

- Five elected councillor members (plus two substitutes)
- One employee representative (who is a member of the Fund)
- One trade union representative
- One pensioner representative (who is a member of the Fund)

Only the councillor members have voting rights. The non-voting employee and pensioner representatives are elected through a postal ballot.

Provision is made for councillor members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

Pensions Board

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

The terms of reference for the Pension Board are:

- To assist the Council in its role as Scheme Manager of the Lambeth Pension Scheme, and its Pension Committee to secure compliance with:

  (a) The Public Service Pensions Act 2013 (as amended from time to time);

  (b) The Regulations, (i.e.: The Local Government Pension Scheme Regulations 2013; the Local Government Pension Scheme(Transitional Provisions, Savings and Amendment Regulations 2014 (as amended from time to time) and the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009 and any amendments to these);

  (c) The Pension Regulator's Code of Practice No 14 – governance and administration of public service pension schemes ("the Code") (as amended from time to time).

  (d) other relevant legislation relating to the governance and administration of the Fund and;

  (e) the requirements imposed by the Pensions Regulator in relation to the Fund;

- and to ensure the effective and efficient governance and administration of the Scheme.

The Board is not a negotiating body and will recognise its shared interests and objectives with the Committee. It is not responsible for making operational or investment decisions concerning the London Borough of Lambeth Pension Fund.

The frequency of meetings

The Board will meet at least twice per year, but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website.

The committee meetings are held in the Town Hall, Brixton, and are open to members of the public.

Representatives

The Board draws its membership from "interested parties" as follows:

- Three elected councillor members serving as employer representatives.
- One employee representative (who is a member of the Fund)
- One trade union representative

- One pensioner representative (who is a member of the Fund)

All six members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

Lambeth Council will ensure that all members of both the Committee and the Board receive appropriate training and formally declare that they do not have conflicts of interest

Statement of compliance to guidance

Regulation 55(1)(c) requires Scheme administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement to give, in their Governance Compliance Statement, the reasons for not complying.

Principle A – Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant*				**Fully Compliant**
a)					√
b)				√	
c)					√
d)					NA

* Please use this space to explain the reason for non-compliance.

The Pension Fund Committee comprises representatives of the main employer, Lambeth Council. There is no representation of other employers or scheme members but there is a co-opted representative of active scheme members, pensioner members and a trade union representative. The co-opted members do not have voting rights. The Pension Board includes a representative of active scheme members and pensioner

Principle B – Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- employing authorities (including non-Scheme employers, e.g., admitted bodies);

- Scheme members (including deferred and pensioner Scheme members),
- where appropriate, independent professional observers, and
- expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant*				**Fully Compliant**
a)				√	
b)					√

* Please use this space to explain the reason for non-compliance.

The Pension Committee and Board comprises representatives of the main employer, Lambeth Council, representation for scheme members and trade union representation. There are no independent advisors on the Committee or Board.

Principle C – Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*				**Fully Compliant**
a)					√
b)					√

* Please use this space to explain the reason for non-compliance.

Principle D – Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Principle E – Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Not Compliant*				Fully Compliant
a)					√
b)					√
c)				√	

* Please use this space to explain the reason for non-compliance.

The Policy is that the Pension Committee and Board are aware of the six areas of knowledge and skills relating to the LGPS which CIPFA has identified as being the core technical requirements for those involved in decision making. They are frequently advised of training opportunities and are advised of facility time and the reimbursement of expenses. A formal training log is maintained for committee members.

The Administering Authority will provide a training programme which all Committee and

Principle F – Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

	Not Compliant*				**Fully Compliant**
a)					√
b)					√
c)					NA

* Please use this space to explain the reason for non-compliance.

Principle G – Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant*				**Fully Compliant**
a)					√

* Please use this space to explain the reason for non-compliance.

Principle H – Scope

a) That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Principle I – Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance.

Please use this space if you wish to add anything to explain or expand on the ratings given above.

Fund Account, Net Assets and Notes

FUND ACCOUNT		2018/19 £000	2017/18 £000
Dealing with members, employers and others directly involved in the fund:			
Contributions	7	(49,687)	(46,681)
Transfers in from other pension funds	8	(2,880)	(2,264)
Sub-Total		(52,567)	(48,945)
Benefits	9	53,048	51,446
Payments to and on account of leavers	10	5,650	5,575
Sub-Total		58,698	57,021
Net (additions)/withdrawals from dealing with members.		6,131	8,076
Management expenses	11	1,753	2,285
Net additions/withdrawals including fund management expenses		7,884	10,361
Returns on investments:			
Investment Income	12	(28,266)	(42,917)
Tax on Income	13	5	143
Profit and loss on disposal of investments and changes in the market value of investments and currency	14a	(41,677)	799
Foreign Exchange gain			978
Net return on investments		(69,939)	(40,997)
Net increase in the net assets available for benefits during the year		(62,054)	(30,636)
Net Assets of the fund at 1 April		(1,377,391)	(1,346,755)
Net Assets of the fund at 31 March		(1,439,444)	(1,377,391)

NET ASSET STATEMENT	Notes	2018-19 £000	2017-18 £000
Investment Assets	14	1,390,129	1,355,799
Cash Deposits	14	0	0
Total Investment Assets		1,390,129	1,355,799
Current Assets:	20	49,501	21,713
Current Liabilities	21	(186)	(121)
Net assets of the fund available to fund benefits at the period end.		1,439,444	1,377,391

The accompanying notes form an integral part of the financial statements.

Note 1: Description of the Fund

The Lambeth Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by London Borough of Lambeth Council. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Lambeth Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

1) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

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

It is a contributory defined benefit pension scheme administered by Lambeth Council to provide pensions and other benefits for pensionable employees of Lambeth Council and a range of other scheduled and admitted bodies within the borough area.

The fund is overseen by the Lambeth Pension Fund Committee, which is a committee of Lambeth Council.

2) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Lambeth Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable, and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 22 employer organisations within Lambeth Pension Fund including the Lambeth council itself, as detailed below.

Lambeth Pension Fund	31-Mar-19	31-Mar-18
Number of employers with active members	22	24
Number of employees in scheme:		
Lambeth council	5,180	4,927
Other employers	492	459
Total	5,672	5,386
Number of pensioners:		
Lambeth council	6,136	7,187
Other employers	76	48
Total	6,212	7,235
Deferred pensioners:		
Lambeth council	8,043	8,101
Other employers	244	156
Total	8,287	8,257
Total number of members in pension scheme	20,171	20,878

3) 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 2019. Employee contributions are matched by employers' contributions that are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 17% to 42% of pensionable pay.

4) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, 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 3x salary. 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.	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.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

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 Lambeth Pension Fund scheme handbook available from Town Hall.

Note 2: Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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 that fall due after the end of the financial year.

Note 3: Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, 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.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (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 (see below) 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 period 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 period 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 (including investment properties) are recognised as income and comprise of realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as 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. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its total pension fund management expenses in note 11. This is in accordance with the CIPFA guidance on *Accounting for Local Government Pension Scheme Management Costs (2016)*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses, including staffing, are accounted for on an accruals basis and charged direct to the fund. Associated management, accommodation, and other overheads are apportioned to this activity and charged as expenses to the fund.

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 reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the year-end 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 2018/19, £0.1m of fees is based on such estimates (2017/18: £0.1m).

The cost of the council's Investment management team is charged to the fund, and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

Net asset 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 delisted 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.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

The unquoted securities typically include private equity. 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.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

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 that is reinvested in the fund, net of applicable withholding tax.

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 held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, liquid investments that are readily convertible to known amounts of cash and 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 the 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 to the net assets statement (Note 19).

m) Additional voluntary contributions

Lambeth 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, Equitable Life, and Clerical Medical as its AVC providers.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVC contributors receive 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 22)

Note 4: Critical Judgements in Applying Accounting Policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2019 was £61.0m (31 March 2018: £52.9m).

Pension fund liability

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

These actuarial revaluations are used to set future contribution rates and underpin the fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 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 the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £179m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £214m, and a one-year increase in assumed life expectancy would increase the liability by approximately between £64.9m to £108.1m.
Private equity (Note 14)	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publically listed and as such, there is a degree of estimation involved in the valuation. The valuation shown as at 31 March 2019 is £61.0m.	The total (called) private equity investment in the financial statements is £61.0m. There is a risk that this investment may be under- or overstated in the accounts. Private Equity is illiquid for holding until its maturity of 12 years.
Hedge fund of funds (Note 14)	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publically listed and as such, there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £3.0m. There is a risk that the investment may be under or overstated in the accounts. The custodian reports a tolerance of +/-5% in respect of the net asset values on which the hedge funds of funds valuation is based. This equates to a tolerance of +/- £0.15m.

Note 6: Events after the Reporting Date

There have been no events since 31 March 2019, up to the date when these accounts were authorised that require any adjustments to these accounts.

Note 7: Contributions Receivable

Category	2018/19 £000	2017/18 £000
Members	**8,883**	8,879
Employer:		
Normal contribution	**25,804**	25,802
Deficit recovery contribution	**15,000**	12,000
Total employer's contribution	**40,804**	37,802
Total	**49,687**	46,681

Authority	2018/19 £000	2017/18 £000
Administering authority	**46,769**	42,804
Scheduled bodies	**2,148**	3,486
Admitted bodies	**134**	211
Community admission body	**105**	71
Transferee admission body	**531**	109
Total	**49,687**	46,681

Note 8: Transfers in from Other Pension Funds

	2018/19 £'000	2017/18 £'000
Individual transfer	2,880	2,264
Total	**2,880**	2,264

Note 9: Benefits Payable

Category	2018/19 £'000	2017/18 £'000
Pensions	45,595	44,996
Commutation and lump sum retirement benefits	6,453	5,734
Lump sum death benefits	1,001	716
Total	**53,048**	51,446

Authority	2018/19 £000	2017/18 £000
Administering authority	**52,805**	51,103
Scheduled bodies	**181**	153
Admitted bodies	**21**	56
Community admission body	**41**	134
Total	**53,048**	51,446

Note 10: Payments to and on Account of Leavers

	2018/19 £000	2017/18 £000
Refund to members leaving service	168	108
Individual transfers	5,482	5,467
Total	**5,650**	5,575

Note 11: Management Expenses

	2018/19 £000	2017/18 £000
Administrative costs	1,225	1,201
Investment management expenses	528	1,084
Total	**1,753**	2,285

Note 11a: Investment Management Expenses

	2018/19 £000	2017/18 £000
Management fees	514	1,072
Custody fees	14	12
Transaction costs	0	0
Total	**528**	1,084

This analysis of the costs of managing the Lambeth Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The total management expenses incurred for the year was £6.9m (2017-18 6.1m) of which only £0.49m was actually remitted; the remainder was deducted in the daily pricing of the individual portfolios.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. This is reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (Note 14a).

Note 12: Investment Income

	2018/19 £000	2017/18 £000
Fixed interest securities	8,254	9,809
Equity dividends	2,442	1,236
Private equity income	7,325	10,882
Pooled property investments	4,361	4,157
Pooled investments - unit trust and other managed funds	5,018	15,850
Interest on cash deposits	5	2
Other	861	980
Total	**28,266**	42,917

Note 13a: Taxes on Income

	2018/19 £000	2017/18 £000
Tax – equities	5	143
Withholding tax – pooled	0	0
Total	5	143

Note 13b: External Audit Costs

	2018/19 £000	2017/18 £000
Payable in respect of external audit	16	21
Total	16	21

Note 14: Investments

	2018/19 £000	2017/18 £000
Fixed interest securities	294,511	361,749
Equities	0	76,525
Pooled investments	809,251	732,983
Pooled property investments	145,273	131,456
Private equity	61,023	52,936
London CIV	150	150
Multi Asset Credit	79,921	0
Investment income due	0	0
Total	1,390,129	1,355,799

Note 14a: Reconciliation of Movements in Investments

	Market value 1 April 2018	Purchases during the year	Transfers – IN	Sales during the year	Transfers - OUT	Movement in cash during the year	Change in market value during the year	Market value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	**£000**
Fixed interest securities	361,714	11,255	0	(78,006)	0		(486)	294,476
Equities	76,525	1,978	(600)	(77,321)	0		(582)	
Pooled investments	732,983	82,803	0	(45,579)	0		39,045	809,251
Pooled property investments	131,456	15,468	0		0		(1,651)	145,273
Private equity	52,936	3,860	0		0		4,227	61,023
Multi Asset Credit		78,802	0				1,119	79,921
London CIV	150		0		0			150
Cash Deposits	0	20	0	(2,198)	0	2,179		0
Investment Manager Cash balance	35		0		0	11	(12)	34
Investment income due	0		0		0			0
Total	**1,355,799**	**194,185**	**(600)**	**(203,105)**	**0**	**2,190**	**41,661**	**1,390,129**

	Market value 1 April 2017	Purchases during the year	Transfers – IN	Sales during the year	Transfers - OUT	Movement in cash during the year	Change in market value	Market value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000	**£000**
Fixed interest securities	356,866	9,806	0	(6)	0	0	(4,953)	361,714
Equities	160,361	1,236	0	(166,693)	0	0	81,621	76,525
Pooled investments	632,605	16,447	277,000	(121,216)	0	0	(71,853)	732,983
Pooled property investments	126,868	0	0	(1,259)	0	0	5,847	131,456
Private equity	57,595	6,795	0	0	0	0	(11,454)	52,936
London CIV	150	0	0	0	0	0	0	150
Cash Deposits	5,103	2,088		(5,003)	0	(2,189)	0	0
Investment Manager Cash balance	6	0	0	0	0	35	(6)	35
Investment income due	525	0	0	0	0	(525)	0	0
Total	**1,340,079**	**36,373**	**277,000**	**(294,176)**	**0**	**(2,679)**	**(799)**	**1,355,799**

Note 14b: Analysis of Investments

	31-Mar-19 £000	31-Mar-18 £000
Bonds		
UK		
Corporate quoted	294,511	361,749
Equities		
UK		
Quoted	0	76,525
Cash investment	0	0
Overseas		
Quoted	0	0
Pooled funds - additional analysis		
Overseas		
Unit trusts	806,254	729,406
Hedge fund of funds	2,997	3,577
Pooled property investments	145,273	131,456
Private equity	61,023	52,936
Multi Asset Credit	79,921	
London CIV	150	150
Cash deposits	0	0
Investment income due	0	0
Total investment assets	1,390,129	1,355,799

Note 14c: Investments Analysed by Fund Manager

	Market value 31 March 2019		Market value 31 March 2018	
	£000	%	£000	%
Adam Street	61,023	4.4	52,936	3.9
Aviva	78,580	5.7	80,044	5.9
Baillie Gifford	0	0	0	0.0
Invesco	144,992	10.4	131,172	9.7
Insight	294,511	21.2	361,749	26.7
London CIV	150	0	150	0.0
London CIV (BG Global Equity)	263,348	18.9	242,139	17.9
London CIV (Majedie)	0	0	76,525	5.6
LONDON CIV-Henderson	150,041	10.8	75,664	5.6
LONDON CIV-PyrFord	56,219	4.0	54,362	4.0
LONDON CIV-Ruffer	60,586	4.4	60,922	4.5
LONDON CIV-MAC	76,119	5.5	0	0.0
MFS	197,480	14.2	216,276	16.0
PAAMCO	2,997	0.2	3,577	0.3
RREEF	281	0	285	0.0
Churchill Asset Management	3,802	0.3	0	0.0
State Street	0	0	0	0.0
Total	1,390,129	100	1,355,799	100

Note 15: Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – hedge funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to the expected cash flows, by any difference between audited and unaudited accounts.
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts

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 2019.

	Valuation range (+/-)	Value at 31 Mar-19	Value on increase £000	Value on decrease £000
Pooled investments – Hedge funds	6.8%	2,997	3,201	2,793
Private equity	23.3%	61,023	75,242	46,805
Total		64,021	78,443	49,598

NOTE 15a: Fair Value Hierarchy

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

Level 1

Assets and liabilities 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.

Level 2

Assets and liabilities 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 are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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.

Values at 31 March 2019	Quoted Market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets at fair value through profit and loss	1,230,355	145,273	64,021	1,439,649
Financial Liabilities at fair value through profit and loss	(186)			(186)
Net investment assets	**1,230,169**	**145,273**	**64,021**	**1,439,463**

Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets at fair value through profit and loss	1,189,543	131,456	56,513	1,377,512
Financial Liabilities at fair value through profit and loss	(121)			(121)
Net investment assets	**1,189,422**	**131,456**	**56,513**	**1,377,391**

Note 15b: Reconciliation of Fair Value Measurements within Level 3

Period 2018/19	Market value 01 Apr 2018	Transfer into level 3	Transfer out of level 3	Purchases	Sales	Unrealised gain (loss)	Realised gain (loss)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Hedge Fund of Funds	70,118				(67,120)			2,997
Private equity	61,023			3,860		(3,860)		61,023
	131,141	0	0	3,860	(67,120)	(3,860)	**0**	64,021

Note 16: Financial Instruments

Note 16a: Classification of Financial Instruments

	2018/19			2017/18		
	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Fixed interest Securities	294,511			361,749		
Equities				76,525		
Pooled investments	809,251			732,983		
Pooled property investments	145,273			131,456		
Private equity	61,023			52,936		
Multi Asset Credit	79,921					
London CIV	150			150		
Cash instruments						
Investment income due						
Debtors		3,858			363	
Cash and Cash Equivalents		45,641			21,349	
Financial Liabilities						
Creditors			(186)			(121)
Total	**1,390,129**	**49,499**	**(186)**	**1,355,799**	**21,712**	**(121)**

Note 16b: Net Gains and Losses on Financial Instruments

	31-Mar-19 £000	31-Mar-18 £'000
Financial Assets		
Fair Value through profit and loss	1,390,129	1,357,988
Loans and receivables	49,501	19,524
Financial Liabilities		
Fair Value through profit and loss		
Loans and receivables	(186)	(121)
Total	**1,439,444**	**1,377,391**

Note 17: 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 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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest risk) to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund 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 Pension Committee. Risk management policies are 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.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through 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:

1. The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund’s investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors’ most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movement %
Corporate Bonds	6.4%
Bonds- LDI	18.9%
Emerging Markets	26.2%
UK equities	
Global Equities	19.2%
Pooled property investments	13.9%
Other pooled investments	9.7%
Private Equity	23.3%
Multi Asset Credit	8.2%
Hedge Funds	6.8%
Cash - GBP	0.00%

Had the market price of the fund investments increased/decreased 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 Mar 19 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
UK Equities	0	0	0	0
Global Equities	460,828	88,479	549,307	372,349
Emerging Markets	150,041	39,311	189,352	110,730
Diversified Growth	195,385	18,952	214,337	176,432
Hedge Funds	2,997	204	3,201	2,793
Private Equity	61,023	14,218	75,242	46,805
Multi Asset Credit	79,921	6,554	86,474	73,367
Corporate Bonds	240,501	15,392	255,894	225,109
Bonds- LDI	54,009	10,208	64,217	43,801
Property	145,273	20,193	165,466	125,080
London CIV	150		150	150
Investment income due				
Total	**1,390,129**	**213,511**	**1,603,640**	**1,176,619**

Asset type	Value as at 31 Mar 18 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
UK Equities	76,525	12,183	88,708	64,342
Global Equities	458,414	82,193	540,607	376,221
Emerging Markets	75,664	20,066	95,730	55,598
Diversified Growth	195,328	19,884	215,212	175,444
Hedge Funds	3,577	233	3,810	3,343
Private Equity	52,936	13,128	66,064	39,808
Corporate Bonds	309,299	22,146	331,445	287,153
Bonds- LDI	52,450	10,060	62,509	42,390
Property	131,456	18,509	149,965	112,947
London CIV	150		150	150
Investment income due				
Total	**1,355,799**	**198,402**	**1,554,200**	**1,157,396**

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 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 benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPs change in interest rates.

Asset exposed to interest rate risk	Value as at 31 Mar 19	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	45,662		45,662	45,662
Fixed interest securities	294,511	2,945	297,456	291,566
Total	**340,173**	**2,945**	**343,118**	**337,227**

Asset exposed to interest rate risk	Value as at 31 Mar 18	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	21,349	0	21,349	21,349
Fixed interest securities	361,749	3,617	365,366	358,131
Total	**383,097**	**3,617**	**386,714**	**379,479**

Income exposed to interest rate risk	Amount Receivable as at 31 Mar 19	Potential market movement on 1% in interest	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	5		5	5
Fixed interest securities	8,254	83	8,337	8,172
Total	**8,259**	**83**	**8,342**	**8,177**

Income exposed to interest rate risk	Amount Receivable as at 31 Mar 18	Potential market movement on 1% in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	2	0	2	2
Fixed interest securities	9,809	98	9,907	9,711
Total	**9,811**	**98**	**9,910**	**9,713**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not influence the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

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 (GBP). The fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

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

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables – in particular interest rates – remain constant. A 10% strengthening / weakening of the pound against the various currencies in which the fund holds investments would increase / decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value as at 31 Mar 19 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	61,023	6,102	67,126	54,921
Overseas unit trusts	129,525	12,953	142,477	116,572
Total	**190,548**	**19,055**	**209,603**	**171,493**

Assets exposed to currency risk	Value as at 31 Mar 18 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	52,936	5,294	58,230	47,643
Overseas unit trusts	131,168	13,117	144,285	118,051
Total	**184,104**	**18,410**	**202,515**	**165,694**

b) 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.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2019 was £45.7m (31 March 2018: £21.3m). This was held with the following institutions.

	Rating	31 Mar 19 £000	31 Mar 18 £000
Money Market Funds			
State Street- Liquidity Fund	AAA	**21**	**2,189**
Majedie Asset Management (London CIV)		**2**	**6,591**
Bank deposits and current account			
Royal Bank of Scotland	A+	**45,634**	**12,560**
Total		**45,657**	**21,340**

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 pension 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 cash to meet investment commitments. The council has immediate access to its pension fund cash holding.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert in to cash. As at 31 March 2019 the value of liquid assets was £1,224.0m, which represented 95.7% of the total fund assets (31 March 2018: £1,189.4m, which represented 95.4% of the total fund assets).

The Fund's Investment Management team prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2019 are due within one year.

Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund 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 investment strategy.

Note 18: Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation is underway as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment.
- To ensure that employer contribution rates are as stable as possible.
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.

- To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a reasonable period. Solvency is achieved when the funds held, future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the fund was assessed as 80% funded (72.6% at the March 2013 valuation). This corresponded to a deficit of £287m (2013 valuation: £359m) at that time.

Contribution increases were phased in over the three-year period from April 2017 to 31 March 2020 for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate that all employers in the fund pay) is 18.5% until the next triennial valuation in 2019.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

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

Demographic assumptions

The post-retirement mortality tables are the S1PA tables with a multiplier of 110% for males and 100% for females. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% pa. Assumed life expectancy from age 65 is as follows.

	31-Mar-19	31-Mar-18
Retiring today		
Males	21.6	21.6
Females	23.9	23.9
Retiring in 20 years		
Males	23.8	23.8
Females	26.0	26.0

Commutation assumption

It is assumed that future retirees will take 25% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 63% of the maximum for post-April 2008 service.

Note 19: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS 19 basis, the actuarial present value of promised retirement benefits at 31 March 2019 was £2,174m (31 March 2018: £1,955m). The net assets available to pay benefits as at 31 March 2019 was £1,406m (31 March 2018: £1,348m). The implied fund deficit as at 31 March 2019 was therefore £768m (31 March 2018 £607m).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used	2018/19 %	2017/18 %
Inflation/pension increase rate	**2.5**	2.4
Salary increase rate	**2.9**	2.8
Discount rate	**2.4**	2.7

Note 20: Current Assets

	31-Mar-19 £000	31-Mar-18 £000
Sundry debtors	3,858	**363**
Cash balances	45,641	**21,349**
Total	**49,499**	**21,713**

Note 21: Current Liabilities

	31-Mar-19 £000	31-Mar-18 £000
Outstanding settlement	**0**	**0**
Sundry creditors	186	**121**
Total	**186**	**121**

Note 22: Additional Voluntary Contributions

	31-Mar-19 £000	31-Mar-18 £000
Prudential	2,315	**1,970**
Equitable Life	419	**493**
Clerical Medical	171	**160**
Total	**2,905**	**2,624**

Note 23: Related Party Transactions

Lambeth Council administers the Lambeth Pension Fund. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the Council incurred costs of £1.06m (2017/18: £0.87m) in relation to the administration of the fund and these costs were reimbursed by the Fund. The council is also the single largest employer of members of the pension fund and contributed £38.0m to the fund in 2018/19 (2017/18: £34.0m). The amount payable to the council as at 31 March 2018 shown as current liability.

Governance

There are no elected members of the Pension Committee in receipt of pension benefits from the Lambeth Pension Fund but one pensioner representative is in receipt of pension benefits from the Lambeth Pension Fund. In addition, pension committee staff representatives K White and trade union representative J Rogers are active members of the pension fund. Also one pension board staff representative G Williamson is an active member of the pension fund.

Members of the Pension Committee are required to declare their interest at each meeting.

Note 24: Contingent Liabilities and Contractual Commitments

The total commitments as at 31 March 2019 are £171.6m and the outstanding capital commitments (investments) are £65.1m (31 March 2018: total commitment £93.9m and outstanding was £18.1m).

These commitments relate to outstanding call payments due on Private Equity, Pooled Property & Private Debt parts of the portfolio. The amounts ‘called’ by this fund are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Note 25: Contingent Assets

Admitted body employers in the Lambeth Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

Funding Strategy Statement

The Funding Strategy Statement has been prepared by the Administering Authority in collaboration with the Fund's actuary Hymans Robertson, and after consultation with the Fund's employers and investment adviser.

Following the 2016 valuation the Funding Strategy Statement was reviewed and updated in February 2017. In preparing the Funding strategy Statement the officers and the actuary took into consideration the guidance issued by CIPFA and the Scheme Advisory Board.

- Purpose of the Pension Fund.
- Aims of the funding policy.
- Solvency issues and target funding levels.
- Identification of risks and counter measures.
- Links to investment policy set out in the Statement of Investment Principles.

The full version of the Funding Strategy Statement is attached as appendix 2 to this report and also available on the Pension Fund's website at: https://www.lambeth.gov.uk/elections-and-council/finance-and-payments/financial-information-guide

Investment Strategy Statement

Under powers contained in The Public Service Pensions Act 2013 Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and these regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services

(e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Lambeth published the ISS statement in February 2017 and will be regularly reviewed and at least every three years. This document is designed to comply with the guidance given by the Secretary of State.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

The full version of the Investment Strategy Statement is attached as appendix 1 to this report and also available on the Pension Fund's website at *https://www.lambeth.gov.uk/elections-and-council/finance-and-payments/financial-information-guide*

Communications Policy Statement

As required by Regulation 67 of the Administration Regulations the fund should prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities.

Effective communication with all members and Scheme Employers is very important. The Fund's Communications Policy Statement formalises the processes by which this will be achieved. The full version of the communication policy is also available on the Fund's website at http://www.lgpslambeth.org/lambeth-pension-fund/ .

The Fund uses the following ways to provide up-to-date and accurate information to its members.

Website

The Fund's dedicated website has all the relevant information on joining the Pension Fund, Fund performance, and latest changes in LGPS Regulations.

Website: http://www.lgpslambeth.org/lambeth-pension-fund/ The Lambeth Pension Fund Annual Report will be available to all Scheme Employees. The Annual Report has the Fund Statement of Account for the year ended 31 March and further useful information on Fund operations. The annual report is also available on the Fund webpage.

Annual Benefit Statements

Annual Benefit Statements are sent out to all active and deferred members. This statement provides details of their pension benefits. It is hoped that our members will find them a useful aid in assessing the benefits they have accrued and their prospective benefits at retirement. The Fund plans to continue improving and updating the statements to ensure the information provided is accurate, clear and understandable.

Contact Details:

Pension Administration

Lambeth Pension Services
2nd Floor, Lambeth Town Hall
2 Brixton Hill
Brixton
London SW2 1RW

Telephone: 0207 926 9572
email:pensions@lambeth.gov.uk

Investment Management

Treasury and Pension Fund
2nd Floor, Lambeth Town Hall
2 Brixton Hill
Brixton
London SW2 1RW

Telephone: 0207 926 0576
Email: pensionfund@lambeth.gov.uk

Compliance Statement

The purpose of this Compliance Statement is primarily to disclose some additional information required by law, but which is not considered to be of such significance to Members.

Taxation

The Fund is approved under the Income and Corporation Taxes Act 1988. Although exempt from UK income and capital gains taxes, the Fund is unable to recover the tax credit on UK dividends.

Investment Strategy Statement

The Public Service Pensions Act 2013 (The Act) Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities prepared and maintain an ISS documenting how the investment strategy for the fund is determined and implemented.

Transfer Values

Transfer values for Members leaving pensionable service during the year were calculated in accordance with the Pension Schemes Act 1993, (as amended by the Pensions Act 1995). No transfer values were reduced because of under-funding. The Rules of the Fund have always provided that deferred pensioners may transfer the value of their benefits to another approved scheme at any time before any benefits have been paid from the Fund.

Pension Increases

Pensions are increased in accordance with the pension increase (Review) Order 2009 Statutory Instrument 2009 No 692.

Statement of Responsibilities

Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs (usually that officer is the S151 officer who in the Councils case is the Chief Financial Officer);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

The Chief Financial Officer Responsibilities

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Government Accounting.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the Lambeth Pension Fund as at 31 March 2019 and its income and expenditure for the year then ended.

Christina Thompson

Chief Financial Officer (S151 Officer)

Independent Auditor's Statement

Independent auditor’s report to the members of the London Borough of Lambeth on the pension fund financial statements published with the Lambeth Pension Fund Annual Report

Opinion

We have audited the financial statements of London Borough of Lambeth Pension Fund (‘the Pension Fund’) for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

•give a true and fair view of the financial transactions of London Borough of Lambeth Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund’s assets and liabilities as at 31 March 2019; and

•have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

•the Acting Strategic Director: Finance and Investment use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

•the Acting Strategic Director: Finance and Investment has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Acting Strategic Director: Finance and Investment is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Acting Strategic Director: Finance and Investment for the financial statements

As explained more fully in the Statement of the Acting Strategic Director: Finance and Investment Responsibilities, the Acting Strategic Director: Finance and Investment is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Acting Strategic Director: Finance and Investment is also responsible for such internal control as the Acting Strategic Director: Finance and Investment determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Acting Strategic Director: Finance and Investment is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Acting Strategic Director: Finance and Investments is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

•we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

•we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or

•we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of London Borough of Lambeth, as a body and as administering authority for the London Borough of Lambeth Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley

For and on behalf of Mazars LLP,

Tower Bridge House,

St. Katherine’s Way,

London, E1W 1DD

24 July 2019