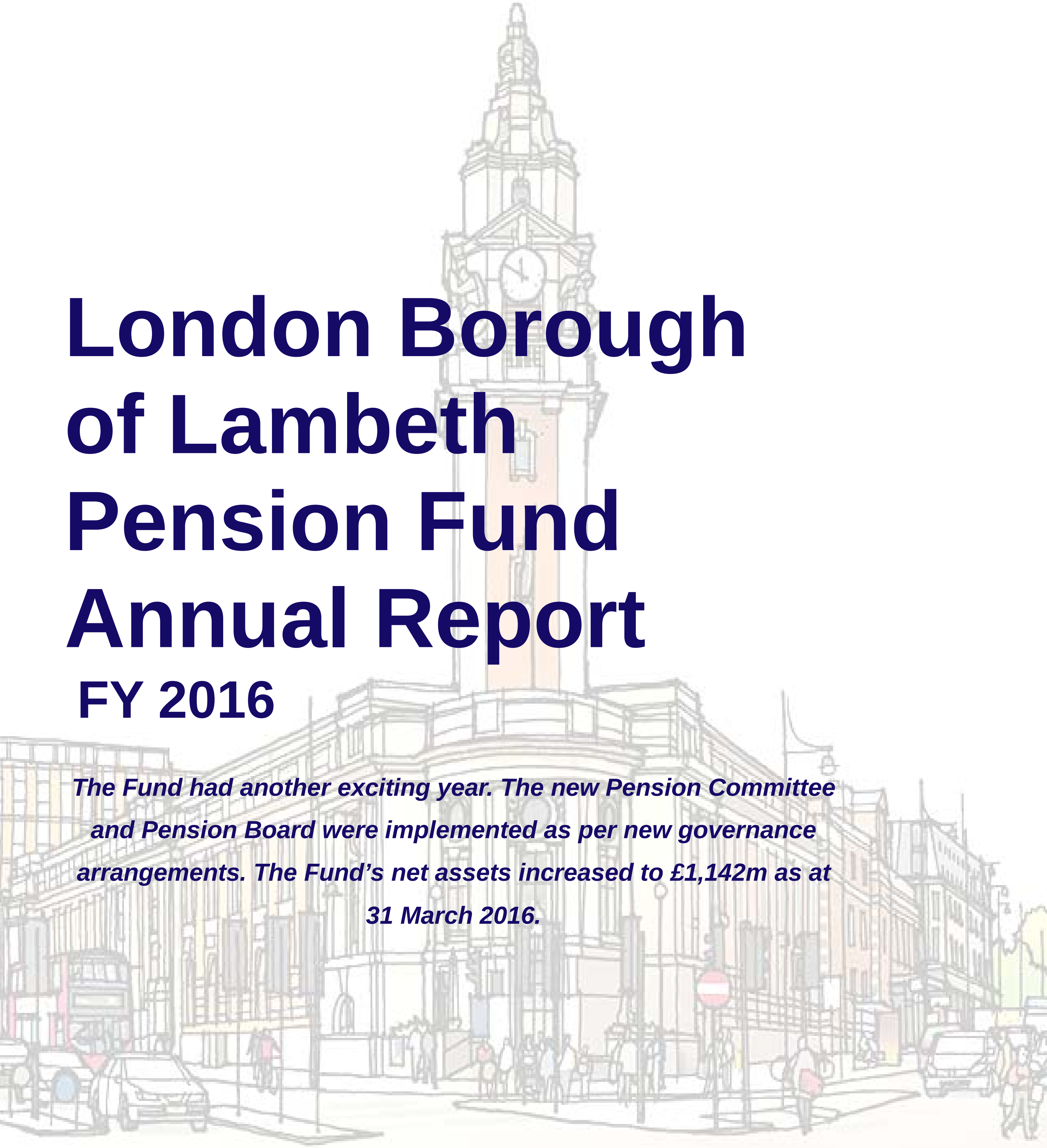


London Borough of Lambeth Pension Fund Annual Report

FY 2016

The Fund had another exciting year. The new Pension Committee and Pension Board were implemented as per new governance arrangements. The Fund's net assets increased to £1,142m as at 31 March 2016.

London Borough of Lambeth

Contents

Appendices

Scheme Management and Advisors

Administering Authority:	London Borough of Lambeth
Administrator:	Christina Thompson – Chief Financial Officer
Council Officers:	
Hamant Bharadia	Associate Director
Frank Higgins	Head of Finance (left March 2016)
Andrien Meyers	Treasury and Pensions Manager (left March 2016)
Nemashe Sivayogan	Pension Fund Accountant
Shida Ashrafi	Head of Payroll, Pension & Staff Support
Linda Osborne	Pensions Manager
Bank:	National Westminster Bank Plc
Legal Advisors:	Council Lawyers
Fund Managers:	
Adam Street Partnership	Baillie Gifford & Co
Insight Investment Management	Invesco Perpetual
Majedie Asset Management	MFS Investment Management
RREEF	Pacific Alternative Asset Management Company (PAAMCO)
Standard Life	State Street Liquidity Fund
London CIV	
AVC Providers:	
Equitable Life	Clerical Medical
Prudential	
Adviser:	Mercer Ltd
Custodian:	State Street Global Advisors
Actuary:	Hymans Robertson
Auditor:	KPMG LLP,UK

Highlights of the Year

- In April 2015, as all LGPS funds expected, Chancellor George Osborne, speaking at the Consrvative Party annual conference, revealed that The Local Government Pension Scheme's (LGPS) 89 funds would be pooled into six British wealth funds to invest billions in infrastructure. The Chancellor said the move would save "hundreds of millions in costs" and that the wealth funds would invest in regional infrastructure. This gave the fund an exciting start.
- Following the above, all LGPS funds were asked to form their pools. London Pension funds, including Lambeth, were a step ahead with the London CIV. When the announcement came, London's funds were in a better position than the funds not in London CIV. The Lambeth Pension Fund transferred its first investment (Global Equity of £158m) into London CIV in April 2016.
- Before April 2015 the pension fund investment panel used to monitor only the investment but as required by the Pension Regulations 2013 the Lambeth Pension Fund appointed its new Pension Committee (April 2015) to oversee the management of the Lambeth Pension Fund including investment management and pension administration issues.
- The new Pension Board is set up to assist the Administering Authority (Lambeth council) in ensuring compliance with the regulatory framework within which the Fund operates, and to ensure the effective and efficient governance and administration of the Fund.
- The Fund's assets increased to £1141.9m showing a 0.5% increase from 2014-15.
- In the year fund accounted a total income of £89.7m and out of that £57.8m was contribution income and the remaining was investment income
- The Fund paid out £54m in benefits to its members and dependants.
- The Fund had one new employer – an academy joining the fund – and two cessations.
- The Lambeth Pension Fund manages the pension administration in-house and the team manages records of just under 20,000 members and 25 employers. The team delivered accurate annual benefit statements by the deadline of 31st August for the majority of its members.
- The Fund's performance was recognised by getting shortlisted for LAPFF and LGC awards in the year.

Pension Committee Chairman's Report

Welcome to the Lambeth Pension Fund Annual Report 2015-16

As Chairman of the Lambeth Pension fund, I am pleased to introduce the Pension Fund's Annual Report and Accounts for 2015-16. The value of the Lambeth Pension Fund increased marginally during the year by £6m and showed a net asset value of £1,141.9m as at 31 March 2016.

As a result of having an effective strategy in place and by continued monitoring the fund has shown a steady growth since 2010. The asset value increased by £365m (47%) in five years, by 20% over three years, and by 1% in the year.

In the last twelve months the Lambeth Pension Fund has had a total makeover. In the past, governance of the Fund solely focused on investments with minimal importance placed on other aspects. The introduction of the Pensions Act 2013 was used as an opportunity to change these arrangements, which were deemed too narrowly focused.

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.

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.

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

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.

Lambeth is the first co-operative borough and the Fund supports co-operative services to join the LGPS. There are five community groups currently in the Lambeth Pension Fund and few more in the pipeline to join.

The Fund continues to play a key role in (expand then LGPS in brackets) LGPS collaboration and innovation. The Fund is represented on the London Collective Investment Vehicle (CIV) and as the chairperson of the Lambeth Pension Fund I sit on the Sectoral Joint Committee as Lambeth representative.

The Fund transferred its first investment (Global Equity) into London CIV in April 2016.

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 six wealth funds by 2018. The Fund's ultimate objective of providing a steady and secure benefit to its members is primary in all its decisions.

Going forward

The Fund is currently working along with the Fund actuary on the 2016 triennial valuation. The initial results are expected by the end of summer and we are hoping that funding level will remain the same (72.6%) The Fund will also be reviewing its investment strategy and asset allocation in the meantime.

Along with all other funds, Lambeth Pension fund watching carefully the government's expectations and directions on pooling funds. The fund submitted its response to Department for Communities and Local Government (DCLG) for the February submission. For the July submission as no response is expected from the individual funds, The Fund contributed its view to London CIV.

I would like to thank the Pension Committee, the Pension Board, and the officers all of whom once again contributed so effectively to the successful management of the Fund.

I wish Cllr. Iain Simpson all the very best in his new role as the new chair of the Lambeth Pension Committee.

Cllr. Adrian Garden

Chairman – Lambeth Pension Committee

Pension Board Chairman's Report

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

Structure and attendance

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 08 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015. The board consists of three representatives of the scheme employers, and three representing scheme members.

Lambeth Pension Board Membership 2015 /16

Member Representatives		Employer Representatives	
Peter Davis	Pensioner Rep	Cllr. Jack Holborn	Chair
Glenis Williamsons	Staff Rep	Cllr. Linda Bray	
Anjala Boyle	Vice chair	Cllr. Danny Adilypour	

The Board met on three occasions during the year ending 31 March 2016 and all meetings were quorate.

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 LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a Review/Challenge/recommend, 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 set out above.

The Board is effectively helping to manage the reputational risk of the Fund, and Administering Authority, who are under considerable scrutiny by a number of stakeholders as well as the two main oversight bodies the Pensions Regulator and the Department for Communities and Local Government.

The Board operates under Terms of Reference which were approved at inception and is appended here again as an aide memoire.

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

The Board in its first year of operation reviewed a range of scheme policies which were incorporated in the schemes Annual Report. The Board expect to take forward detailed review of Funds all policies going forward.

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 going forward. Both formal and informal (cascade) training will be considered.

Work plan

The agenda for the first two meetings emerged naturally as the Board scanned the statutory documents, reports to the Pensions committee, and reports, reviews and compliance requirements of both the Scheme Advisory Board and the Pensions Regulator.

In considering the work of the Board going forward 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
- Triennial Valuation March 2016
- Training

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 fellow Board members who have volunteered their time and energies towards the new role, and for their on-going support.

I also like to express my thanks to express to the Officers, Pensions Committee and to the Democratic Services Officers.

Cllr. Jack Holborn

Chairman – Lambeth Pension Board

Risk Management

The Fund's 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.

By considering today's investment landscape the Fund has put in place a number of measurements which should help improve and manage risk within the governance structure.

Lambeth Pension Fund has adopted a transparent, performance monitoring framework that makes clear the relative importance of the multitude of risks associated with operating a pension fund, where the Pension Committee has overall responsibility for internal controls and risk management. In adopting this approach, committee members are able to allocate their time more efficiently by devoting more time to the biggest risks. The committee is committed to identifying, evaluating, and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level.

In order to meet the above responsibilities the Fund established the Pension Committee and Pension Board, effective from April 2015, replacing the prior Pension Fund Investment Panel. The Committee is the decision making body and the Board will review all activities related to the Fund to ensure proper practice is followed and identify areas for improvement. This helps to reduce and control the risks associated with the pension fund as a whole.

The new governance arrangements contribute to effective risk management and help identify areas where further work/training is required.

Investment Risks

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 Statement of Investment Principles is the main tool by which the Fund controls investment risk. One of the principal ways in which the Fund manages risk is through diversification of assets and managers. The provision of expert advice is crucial to the decision-making and risk management processes. The knowledge of Pension Committee members must be sufficient for advice to be challenged and understood. To facilitate this the Fund is committed to training the committee members are also requires them to attend external training courses and internal workshops to aid them to discharge their duties.

The investment management process is outsourced to third parties, specifically investment managers and custodians. This arrangement provides a clear segregation of duties within the Fund, with the in-house investment team closely monitoring compliance with regulations and mandates. The Fund investment adviser, Mercer Limited, monitors the performance of the Fund and Managers, and reports to the pension Committee on a quarterly basis.

The Investment Adviser carries out the following evaluations which are reviewed by the Committee on a quarterly basis:

- independent evaluation and analysis of fund performance;
- reviewing benchmarks and asset allocation; financial markets review; and,
- reviewing changes in the Investment Manager's business.

Investments are monitored to ensure they are in accordance with the current requirements of the LGPS (Management and Investment of Funds) Regulations 2013, as amended, which specifies certain limits on investments. Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 15).

A Risk Register for the Pension Fund has been developed and presented to the pension Committee in September 2015. The Funding Strategy Statement (Appendix 2) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required

In addition, assurance is sought over third party operations, undertaken by external investment managers who manage the Fund's assets by requesting and reviewing their internal control reports.

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.

Financial Performance

2015-16 saw only modest increases in the value of the Fund's investments – the Fund's assets value increased by £5.6m (0.5%) to stand at £1.1bn at 31 March 2016. The Fund's investments in property performed well over the benchmark for the year, while diversified products failed to meet benchmark results.

In the year the fund terminated its hedge fund manager Blue Crest in June 2015. The fund was proactive and redeemed its full investment before Blue Crest made its decision to wind up the fund, and the fund received total proceeds of £30.4 million and made a £5.1million realised gain from the redemption.

The table below details each asset class's performance against their benchmark:

Asset Class	Last Quarter		Last Year		Last 3 Years	
	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)
UK Equity	-0.2	-0.4	-6.5	-3.9	6.4	3.7
Global Equity	2.6	2.6	0.4	-0.5	9.6	8.4
Property	9.0	2.0	18.7	8.0	4.7	8.0
Diversified Growth	-3.3	1.3	-4.6	5.0	2.8	5.0
Hedge Fund (Fund of Funds)	-3.6	1.4	-7.6	5.6	0.8	5.6
Bonds	2.9	3.2	0.1	0.4	5.1	4.9
Total	**1.9**	**2.1**	**-0.1**	**1.6**	**5.6**	**6.3**

Cash flow for the 2015/16 year was positive for the Fund. During the year, the Fund received £57.4m in contributions and transfers in and paid out £53.8m in benefits and payments to leavers. The total income to the Fund was £89.7m and the expenditure incurred was £57.8m. This has resulted in the Fund having a positive cash position of £32.0m as at 31 March 2016.

The Fund's contribution income is largely used to pay retirement benefits. As part of the One Oracle project in the year the Lambeth Pension Fund implemented its own Accounts Payable module (previously payment were made via the council Accounts Payable) and this required the fund to hold more cash on hand to meet regular benefit payments. In the year the Fund used some of its investment income to meet the benefit payments but majority of the investment income was reinvested within the existing portfolios in order to enhance returns.

The table below summarises the Fund's income and expenditure for the past three years to 2015/16.

	2015-16 £000	2014-15 £000	2013-14 £000
Income	**89,704**	88,446	87,877
Expenditure	**(57,753)**	(57,501)	(57,096)
Surplus for the year	**31,951**	30,945	30,781

Contribution cash-flow

Lambeth Pension Fund is a mature Fund with more pensioners than contributing members. Once again, the contribution income was sufficient to pay the benefit mainly by the deficit funding of £20m received from the Fund's major employer, the Lambeth Council.

The table below details the Fund's cash flow in 2015-16.

Cash Flow	£m
Contributions receivable:	
from employers	45,142
from employees	9,453
from employees transferring from other pension funds	2,790
Income earned on investments	32,319
Total inflow	89,704
Benefits payable:	
Pension payments	42,479
Lump Sum payments due when people retire	7,525
Lump Sum death benefits	761
Payments to and on account of leavers:	
Refunds to employees who leave the scheme	141
Payments where employees transfer to other funds	2,882
Tax paid on Investment Income	608
Administrative and Management expenses borne by the scheme	3,357
Total outflow	57,753
Net cash flow	31,951

Fund's Triennial Valuation (based on 2013 valuation)

Assets

The Fund had its last actuarial valuation in March 2013. The performance of the Fund's investments had been more than the expected return over the three-year period to 31 March 2013. This has had a positive effect on the past service position of the Fund at this valuation.

The Fund's investment strategy has changed slightly since 2010. However, the Fund continues to invest in a large proportion of riskier assets (such as equities, property, and alternatives). At 31 March 2013, around 66% of the Fund's investments were in these riskier assets. The experience of the last three years serves to underline the fact that, whilst these riskier assets are expected to outperform more risk adverse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

The Fund is aware of this risk and in 2015/16 continued with the de-risking strategy, terminating one of two hedge fund managers. The proceeds from the termination were invested in Diversified Growth Fund. This again focussed on removing riskier assets as the funding level improves. The Fund has completed all preliminary work to implement a Liability Driven Investment (LDI) vehicle, and is evaluating market movements for the right time to begin investment.

Liabilities

The decrease in the real yield from gilts since 2010 has served to increase the value of the Fund's liabilities.

The discount rate used to value the Fund's future benefit payments is based on the return on fixed interest gilts, whilst the benefits themselves are projected to increase in line with both salary and price inflation. Therefore, the "real" return available on gilts (i.e. the return on fixed interest gilts net of inflation) is a key indicator in the measurement of liabilities.

All other things being equal, a decrease in real gilt yield serves to increase the value placed on the Fund's liabilities and vice versa.

At the 2013 valuation, the Fund had assets of £951m and liabilities of £1,310m. The deficit had increased from £290m at 31 March 2010 to £359m at 31 March 2013 and the funding level had increased by 0.1% from 72.5% to 72.6% in the same period.

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 just under 20,000 scheme members and 23 active employers. A key achievement of the team in 2015/16 was to produce annual benefit statements for the majority of pension scheme members by the new deadline of 31st August.

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

Performance against LGPC Targets 2015/16

Performance indicator (from point at which all required information has been received)	LGPC Target	Achieved %
Letter detailing transfer ***in*** quote	10 days	86.0
Letter detailing transfer ***out*** quote	10 days	91.0
Process and pay refund	5 days	82.0
Letter notifying estimate of retirement benefits	10 days	90.0
Process and pay lump sum retirement grant	5 days	95.0
Calculate and notify deferred benefits	10 days	53.0

The table below shows the movement in membership for the past five years. The Fund has lost a considerable number of active members due to reductions in staff numbers, but with more employers joining the fund and auto enrolment, the number of contributing members has kept stable.

Five-year analysis of membership data

Description	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Active	5,378	5,239	4,832	4,543	4,501
Deferred pensioner	8,151	8,074	7,816	7,438	7,178
Pensioner	6,801	6,626	6,525	6,394	6,300
Total	**20,330**	**19,939**	**19,173**	**18,375**	**17,979**

Key documents for Lambeth Pension Fund, including the discretionary policy statement, can be found on the Lambeth Internet (www.lambeth.gov.uk/pensions) 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: HR & Organisational Development; and Stage 2 cases by the Head of Legal Services. In the financial year 2015/16 there were two appeals that were resolved at Stage 1, one of these related to ill-health retirement and one related to a transfer value.

Investment Policy and Performance Report

The Fund made a series of changes to the way in which it approaches its investment strategy. The Triennial valuation 2013 (where funding levels improved to 72.6%) 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. Once all these areas were covered, the Fund decided to adopt a de-risking strategy terminating riskier asset classes such as active currency and further seeking to implement an LDI vehicle to buy itself inflation and interest rate protection.

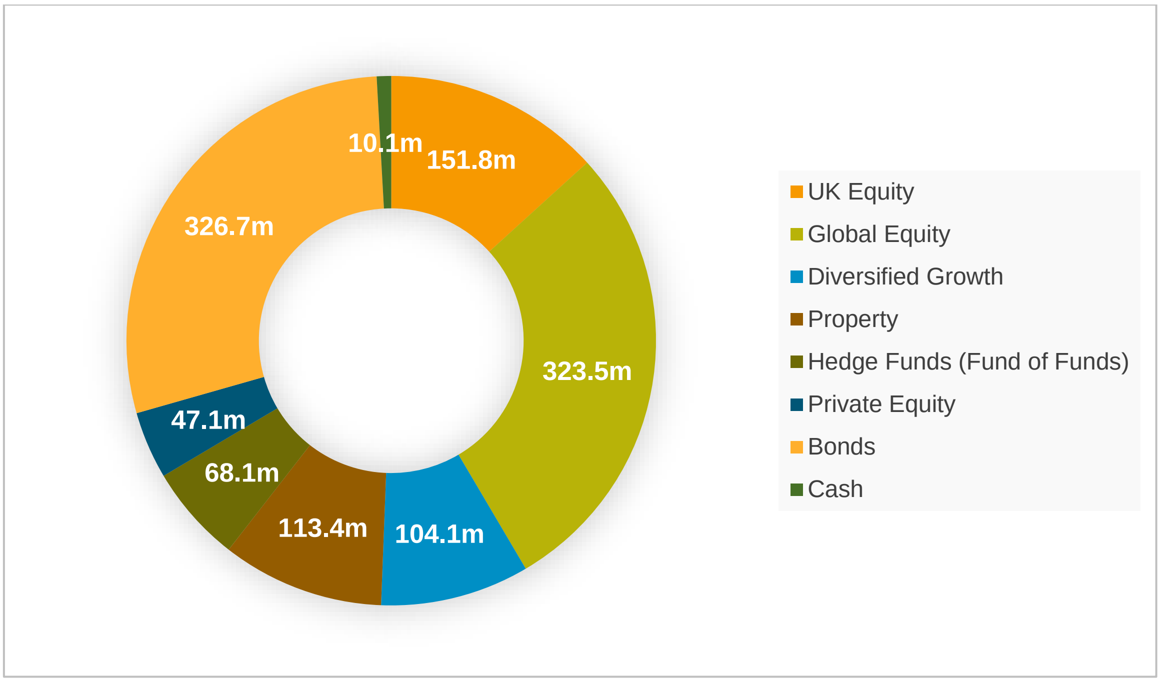
The Fund has invested its assets through nine external Fund managers in seven different asset classes. During 2015-16, the Fund's net asset value grew by £5.6m made up of a return on investments of £32.4m offset by a reduction in the market value of those investments of 26.7m. The table below shows the planned asset allocation along with the actual asset allocation for the beginning and end of the financial year.

Manager	2016			2015		
	Value (£m)	Actual (%)	Planned (%)	Value (£m)	Actual (%)	Planned (%)
Adams Street	46.3	4.0	5.0	44.3	3.9	5.0
Baillie Gifford	159.8	13.9	13.5	160.1	14.2	13.5
Blue Crest	0	0	0	30.9	2.7	3.0
Insight	326.7	28.3	30.0	325.9	28.9	30.0
Invesco	113.2	9.8	12.0	99.5	8.8	12.0
Majedie	151.8	13.2	11.0	160.8	14.2	11
MFS	163.7	14.2	13.5	161.6	14.3	13.5
PAAMCO	68.2	5.9	7.0	73.7	6.5	7.0
RREEF	2.2	0.2	0.0	1.6	0.1	0.0
Standard Life	104.0	9.0	8.0	47.5	4.2	5.0
Cash Account	17.1	1.5	0.0	25.3	2.2	0.0
Total	**1,153.0**	**100.0**	**100.0**	**1,131.2**	**100.0**	**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 the Statement of Investment Principles. 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 asset allocations by major asset classes as at 31 March 2016



The Fund underperformed the benchmark over the quarter to 31 March 2016 as outperformance by Invesco and MFS was more than offset by underperformance of the portfolios managed by Standard Life, Baillie Gifford and PAAMCO. The Fund has also underperformed the benchmark over the one year and three year and five year periods to 31 March 2016, primarily due to the underperformance of PAAMCO and Invesco. The table below shows the individual fund managers performance for the quarter, one year, three years, and five years against their benchmark.

Manager	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.)
Baillie Gifford	0.3	2.9	-0.6	-0.6	9.9	8.1	9.9	8.1
Insight	2.9	3.2	0.1	0.4	5.1	4.9	-	-
Invesco	9.0	2.0	18.9	8.0	4.7	8.0	4.7	8.0
Majedie	-0.2	-0.4	-6.5	-3.9	6.4	3.7	8.8	5.7
MFS	4.8	2.2	1.2	-0.3	9.3	8.8	11.5	8.9
PAAMCO	-3.6	1.4	-7.5	5.6	1.1	5.6	1.7	5.7
RREEF	5.0	1.1	10.1	11.7	8.8	14.6	-0.4	10.5
Standard Life	-3.3	1.3	-4.6	5.0	2.8	5.0	4.5	5.1
Total	**1.9**	**2.1**	**-0.1**	**1.6**	**5.6**	**6.3**	**7.3**	**8.0**

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.

- The Employers of the Fund wish to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Fund requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.
- Whilst the Fund has no specific policy on investing or divesting in stock with regard to environmental, social and governance (ESG) issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external Fund managers could deploy ESG considerations in deciding upon selection.
- The Pension Fund also holds expectations of its Fund managers to hold companies to account on the highest standards of behaviour and reputational risk management, which may damage long-term performance, and for those issues to be part of their stock selection criteria. Further Mercers and the Committee use these ratings when they meet our managers to interrogate them on what they have done over the quarter.
- The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Whilst work is being undertaken to bring the share voting process in-house, managers have delegated authority to exercise the Fund’s voting rights, subject to seeking the Council’s specific approval in respect of potentially contentious issues and report quarterly on action taken.
- The Fund is an active 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 issues and more recently have started to use it when it comes to voting either through proxy voting with the manager or via the LAPFF. E.g. Actively supported LAPFF along with other 100 co-filers to put resolutions before the Shell and BP 2015 AGMs on issues such as - ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies.

- The Fund will demonstrate action it has taken to show compliance with the Myners principles, where appropriate.

Actuarial Report on Funds

Pension Funds Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 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.

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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Lambeth Pension Fund, which is in the remainder of this note.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits (£m)	Year ended 31 March 2016	Year ended 31 March 2015
Active members	613	624
Deferred pensioners	462	520
Pensioners	570	633
Total	**1,645**	**1,777**

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £160m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2016 % p.a.	31 March 2015 % p.a.
Inflation/pensions increase rate	2.2%	2.4%
Salary increase rate	4.2%	4.3%
Discount rate	3.5%	3.2%

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Average future life expectancies at age 65 (years)	Males	Females
Current pensioners	21.7	24.0
Future pensioners	24.3	26.6

* Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

Commutation assumption

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:

Change in assumptions for the year ended 31 March 2016	Approximate % Increase to liabilities	Approximate monetary Amount (£m)
0.5% decrease in discount rate	10%	169
1 year increase in member life expectancy	3%	49
0.5% increase in salary rate	3%	44
0.5% increase in pensions increase rate	7%	122

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2016 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
14 April 2016

Governance Compliance Statement

This is the Governance Compliance Statement of the London Borough of Lambeth Pension Fund administered by the London Borough of Lambeth (“the administering authority”).

Background

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare a written governance compliance statement.

Governance is defined as the leadership, direction, and control of organisations to ensure they achieve their aims and objectives. In public service organisations particularly, these processes need to be clear and open to scrutiny.

In the past Governance of the Fund solely focused on investments with minimal importance placed on other aspects. The Fund has used the introduction of the Pensions Act 2013 as an opportunity to change these arrangements, which were deemed too narrowly focused.

A new Pensions Committee has been created with full decision-making powers. The new Committee is all encompassing. 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 new Committee and Board came into effect on 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 of Enabling and the Fund’s investment consultants.

The Strategic Director of Enabling 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 of Enabling 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, KPMG 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:

- Determining the overall investment strategy in accordance with the Local Government Pension Scheme (LGPS) Regulations and, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives.
- Determining the Statement of Investment Principles, and modification as appropriate.
- Ensuring adequate monitoring and compliance with the overall investment strategy and the Statement of Investment Principles.
- The appointment of investment managers and any external service providers and advisers it considers to be necessary.
- Maintaining effective arrangements for reviewing on a regular basis investment managers' performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems.

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 times per year; additional meetings are convened as and when required. Notice of the meeting is sent to all members of the Council.

A yearly calendar giving details of the times and venue of the Committee's meetings is posted on the Council's website.

Currently the committee meetings are held in International house Brixton and are open to members of the public. Once the "Your new town hall project is completed the meeting will be held in Town Hall as it used to be.

Representatives

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

- Five elected councillor members
- 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 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.

Currently the committee meetings are held in International House Brixton and are open to members of the public. Once the "Your new town hall project is completed the meeting will be held in Town Hall as it used to be.

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.

The terms of reference for the Pension Board are:

- Assist in securing compliance with the Scheme Regulations, the Public Service Pensions Act 2013 and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator.
- Ensure the effective and efficient governance and administration of the Scheme.

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

During 2015/16 the Pension Committee met every quarter to review investment performance. At each meeting, two Investment managers were asked to attend to present details of their Fund's performance and answer any questions the Panel had. The Fund advisor Mercer presented the quarterly performance report and provided advice to the panel. An attendance level for the Panel was 70% for the year.

Fund Account, Net Assets and Notes

FUND ACCOUNT		2015/16 £000	2014/15 £000
Dealing with members, employers and others directly involved in the fund:			
Contributions	7	**(54,598)**	(54,959)
Transfers in from other pension funds	8	**(2,790)**	(1,609)
		(57,388)	(56,568)
Benefits	9	**50,765**	48,381
Payments to and on account leavers	10	**3,023**	4,720
		53,788	53,101
Net increase in dealing with members, employers and others directly involved in the fund		**(3,600)**	(3,467)
Management expenses	11	**3,378**	3,718
Returns on investments:			
Investment Income	12	**(32,434)**	(31,878)
Tax on Income	13	**654**	682
Profit and loss on disposal of investments and changes in the market value of investments and currency	14a	**26,698**	(73,413)
Foreign Exchange gain		**(337)**	245
Net return on investments		**(5,419)**	(104,364)
Net increase in the net assets available for benefits		**(5,641)**	(104,113)
Net Assets of the fund at 1 April		**(1,136,276)**	(1,032,163)
Net Assets of the fund at 31 March		**(1,141,917)**	(1,136,276)

NET ASSET STATEMENT	Notes	2015-16 £000	2014-15 £000
Investment Assets	14	**1,131,395**	1,103,010
Cash Deposits	14	**13,333**	28,143
		1,144,728	1,131,153
Investment Liabilities			
Current Assets	19	**13,612**	18,289
Current Liabilities	20	**(16,423)**	(13,166)
Net assets of the fund available to fund benefits at the period end.		**1,141,917**	1,136,276

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 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

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 2009.

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 23 employer organisations within Lambeth Pension Fund including the Lambeth council itself, as detailed below.

Lambeth Pension Fund	31-Mar-16	31-Mar-15
Number of employers with active members	**23**	23
Number of employees in scheme		
Lambeth council	**5,032**	4,652
Other employers	**346**	587
Total	**5,378**	5,239
Number of pensioners		
Lambeth council	**6,746**	6,521
Other employers	**55**	105
Total	**6,801**	6,626
Deferred pensioners		
Lambeth council	**7,994**	7,722
Other employers	**157**	352
Total	**8,151**	8,074

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 2016. Employee contributions are matched by employers' contributions that are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 8.8% to 31% 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 1/80x 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 Prices 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 County Hall.

Note 2: Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, 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.

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 (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) comprising of all realised and unrealised profits/losses is recognised as income.

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 accordance with the CIPFA guidance on *Accounting for Local Government Pension Scheme Management Costs*.

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 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.

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 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 18).

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(2) (b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 21)

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 2016 was £47.1m (31 March 2015: £44.3m).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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 2016 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	Estimation of the net liability to pay pensions depends on a number of complex judgements 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 £167m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £36.8m, and a one-year increase in assumed life expectancy would increase the liability by approximately £52m.
Private equity	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 2016 is £47.1m.	The total (called) private equity investment in the financial statements is £47.1m. 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	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 £68.1m. 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 +/- £3.4m.

Note 6: Events after the Reporting Date

There have been no events since 31 March 2016, up to the date when these accounts were authorised, that require any adjustments to these accounts.

Note 7: Contributions Receivable

Category	2015/16 £000	2014/15 £000
Members	**9,180**	9,430
Employer:		
Normal Contribution	**25,418**	25,529
Deficit recovery Contribution	**20,000**	20,000
Total Employer's Contribution	**45,418**	45,529
Total	**54,598**	54,959

Authority	2015/16 £000	2014/15 £000
Administering authority	**51,920**	49,409
Scheduled bodies	**1,961**	4,811
Admitted bodies	**323**	466
Community admission body	**294**	187
Transferee admission body	**100**	86
Total	**54,598**	54,959

Note 8: Transfers In From Other Pension Funds

	2015/16 £'000	2014/15 £'000
Individual Transfer	**2,790**	1,609
Total	**2,790**	1,609

Note 9: Benefits Payable

Category	2015/16 £'000	2014/15 £'000
Pensions	**42,479**	41,119
Commutation and lump sum retirement benefits	**7,525**	6,856
Lump sum death benefits	**761**	406
Total	**50,765**	48,381

Authority	2015/16 £000	2014/15 £000
Administering authority	**50,607**	48,079
Scheduled bodies	**0**	14
Admitted bodies	**84**	288
Community admission body	**74**	0
Total	**50,765**	48,381

Note 10: Payments To and On Account of Leavers

	2015/16 £000	2014/15 £000
Refund to members leaving service	**141**	132
Individual transfers	**2,882**	4,588
Total	**3,023**	4,720

Note 11: Management Expenses

	2015/16 £000	2014/15 £000
Administrative costs	**939**	999
Investment management expenses	**2,439**	2,699
Oversight and governance costs	**0**	20
Total	**3,378**	3,718

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 £6m (2014-15 6.8m) of which only £2.4m 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

	2015/16 £000	2014/15 £000
Fixed interest Securities	**11,901**	11,806
Equity dividends	**5,793**	5,500
Private Equity income	**9,603**	9,001
Pooled property investments	**3,946**	4,422
Pooled investments - unit trust and other managed funds	**276**	957
Interest on cash deposits	**132**	192
Other	**783**	0
Total	**32,434**	31,878

Note 13: Taxes on Income

	2015/16 £000	2014/15 £000
Tax – equities	**565**	546
Withholding tax – pooled	**89**	136
Total	**654**	682

Note 14: Investments

	2015/16 £000	2014/15 £000
Fixed interest securities	**326,659**	325,857
Equities	**151,084**	160,800
Pooled Investments	**495,733**	473,703
Pooled property investments	**113,285**	101,110
Private equity	**47,067**	44,309
London CIV	**150**	0
Cash Instruments	**10,072**	24,990
Cash	**0**	384
Investment income due	**678**	0
Total	**1,144,728**	1,131,153

The London CIV investment of £150k is a Shareholder Subscription paid in the financial year.

Note 14a: Reconciliation of Movements in Investments

	Market value 1 April 2015 £000	Purchases during the year £000	Sales during the year £000	Movement in cash during the year £000	Change in market value during the year £000	**Market value 31 March 2016 £000**
Fixed interest securities	325,857	11,901	(3)		(11,096)	**326,659**
Equities	160,800	73,416	(68,311)	(30)	(14,791)	**151,084**
Pooled Investments	473,703	60,650	(30,374)		(8,246)	**495,733**
Pooled property investments	101,110				12,175	**113,285**
Private equity	44,309	7,498			(4,740)	**47,067**
London CIV		150				**150**
Cash instruments	24,990			(14,918)		**10,072**
Cash	384			(384)		
Investment income due				678		**678**
Total	**1,131,153**	**153,615**	**(98,688)**	**(14,654)**	**(26,698)**	**1,144,728**

	Market value 1 April 2014 £000	Purchases during the year £000	Sales during the year £000	Movement in cash during the year £000	Change in market value during the year £000	**Market value 31 March 2015 £000**
Fixed interest securities	287,376	17,675	(2)		20,808	**325,857**
Equities	150,006	84,743	(79,985)		6,036	**160,800**
Pooled Investments	441,953	296	(27,864)		59,318	**473,703**
Pooled property investments	113,125		(54)		(11,961)	**101,110**
Private equity	36,117	8,980			(788)	**44,309**
Cash Instruments		24,990				**24,990**
Cash	377			7		**384**
Total	**1,028,954**	**136.685**	**(107,905)**	**7**	**73,413**	**1,131,153**

Note 14b: Analysis of Investments

	31-Mar-16 £000	31-Mar-15 £'000
Fixed interest securities		
UK		
Corporate quoted	**326,659**	325,857
Equities		
UK		
Quoted	**120,299**	126,562
Cash investment	**3,260**	2,738
Overseas		
Quoted	**27,525**	31,470
Pooled funds - additional analysis		
Overseas		
Unit trusts	**427,629**	369,130
Hedge fund of funds	**68,104**	104,573
Pooled property investments	**113,285**	101,110
Private equity	**47,067**	44,309
London CIV	**150**	0
Cash instruments	**10,072**	24,990
Cash		384
Investment income due	**678**	
Total investment assets	**1,144,728**	1,131,153

Note 14c: Investments Analysed by Fund Manager

	Market value 31 March 2016		Market value 31 March 2015	
	£000	%	£000	%
Adam Street	**47,067**	**4.1**	44,309	3.9
Baillie Gifford	**159,759**	**14.0**	160,068	14.2
Blue Crest	**0**	**0**	30,893	2.7
Invesco	**111,460**	**9.7**	99,452	8.8
Insight	**326,659**	**28.5**	325,856	28.8
London CIV	**150**	**0**	0	0
Majedie	**151,762**	**13.3**	160,800	14.2
MFS	**163,741**	**14.3**	161,579	14.3
PAAMCO	**68,104**	**5.9**	73,680	6.5
RREEF	**1,825**	**0.2**	1,658	0.2
Standard Life	**104,128**	**9.1**	47,483	4.2
State Street	**10,072**	**0.9**	25,374	2.2
Total	**1,144,728**	**100**	1,131,153	100

Note 15: Financial Instruments

Note 15a: Classification of Financial Instruments

	2015/16			2014/15		
	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
Financial Assets						
Fixed interest securities	**326,659**			325,857		
Equities	**151,084**			160,800		
Pooled investments	**495,733**			473,703		
Pooled property investments	**113,285**			101,110		
Private equity	**47,067**			44,309		
London CIV	**150**			0		
Cash instruments	**10,072**			24,990		
Cash				384		
Investment income due	**678**					
Debtors		**13,612**			18,289	
Financial Liabilities						
Creditors			**(16,423)**			(13,166)
Total	**1,144,728**	**13,612**	**(16,423)**	1,131,153	18,289	(13,166)

Note 15b: Net Gains and Losses on Financial Instruments

	31-Mar-16 £000	31-Mar-15 £'000
Financial Assets		
Fair Value through profit and loss	**1,144,728**	1,131,153
Loans and receivables	**13,612**	18,289
Financial Liabilities		
Fair Value through profit and loss		
Loans and receivables	**(16,423)**	(13,166)
Total	**1,141,917**	1,136,276

Note 15c: Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

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

Level 2

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

Level 3

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

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Lambeth Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The 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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	923,762	113,285	115,171	**1,152,218**
Loans and receivables	6,122			**6,122**
Total Financial Assets	**929,884**	**113,285**	**115,171**	**1,158,340**
Financial Liabilities				
Fair value through profit and loss	(16,423)			**(16,423)**
Loans and receivables				
Total Financial Liabilities	**(16,423)**			**(16,423)**
Net financial assets	**913,461**	**113,285**	**115,171**	**1,141,917**

Values at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	881,161	101,110	148,882	1,131,153
Loans and receivables	18,289			18,289
Total Financial Assets	**899,450**	**101,110**	**148,882**	**1,149,442**
Financial Liabilities				
Fair value through profit and loss	(13,166)			(13,166)
Loans and receivables				
Total Financial Liabilities	**(13,166)**			**(13,166)**
Net financial assets	**886,284**	**101,110**	**148,882**	**1,136,276**

NOTE 16: 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 asset 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 Council manage these investments risks as part of its overall Pension Fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund 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

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:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- 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 2015/16 reporting period.

Asset type	Potential market movement %
UK Equities	10.58%
Global Equities	9.67%
Diversified Growth	4.83%
Hedge Funds	4.58%
Private Equity	4.57%
Corporate Bonds	5.94%
Cash	0.01%
Property	2.39%

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.

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 16 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
UK Equities	151,084	15,985	167,069	135,099
Global Equities	323,501	31,283	354,784	292,218
Diversified Growth	104,128	5,029	109,157	99,099
Hedge Funds	68,104	3,119	71,223	64,985
Private Equity	47,067	2,151	49,218	44,916
Corporate Bonds	326,659	19,404	346,063	307,255
Cash	10,072	1	10,073	10,071
Property	113,285	2,708	115,993	110,577
London CIV	150	0	150	150
Investment income due	678	0	678	678
Total	**1,144,728**	**79,680**	**1,224,408**	**1,065,048**

Asset type	Value as at 31 Mar 15	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
UK Equities	158,032	16,278	174,310	141,754
Global Equities	321,647	28,820	350,467	292,827
Diversified Growth	47,483	1,558	49,041	45,925
Hedge Funds	104,573	4,392	108,965	100,181
Private Equity	44,309	2,295	46,604	42,014
Corporate Bonds	325,857	18,802	344,659	307,055
Cash	40,084		40,084	40,084
Property	101,110	3,670	104,780	97,440
Total	**1,143,095**	**75,815**	**1,218,910**	**1,067,280**

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 2016 and 31 March 2015 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 (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund’s risk management strategy. The fund’s investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

Asset exposed to interest rate risk	Value as at 31 Mar 16	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	13,333		13,333	13,333
Cash balances	7,490		7,490	7,490
Fixed interest securities	326,659	3,267	329,926	323,392
Total	**347,482**	**3,267**	**350,749**	**344,215**

Asset exposed to interest rate risk	Value as at 31 Mar 15	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	28,143		28,143	28,143
Cash balances	11,941		11,941	11,941
Fixed interest securities	325,857	3,259	329,116	322,598
Total	**365,941**	**3,259**	**369,200**	**362,682**

Income exposed to interest rate risk	Value as at 31 Mar 16	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	132		132	132
Fixed interest securities	11,901	119	12,020	11,782
Total	**12,033**	**119**	**12,152**	**11,914**

Income exposed to interest rate risk	Value as at 31 Mar 15	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	192		192	192
Fixed interest securities	8,771	88	8,859	8,683
Total	**8,963**	**88**	**9,051**	**8,875**

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

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 13% 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 13% 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 16	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unquoted securities	47,067	3,663	50,730	43,404
Overseas unit trusts	111,460	7,548	119,008	103,912
Total	**158,527**	**11,211**	**169,738**	**147,316**

Income exposed to interest rate risk	Value as at 31 Mar 15	Potential market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unquoted securities	44,309	5,760	50,069	38,549
Overseas unit trusts	99,452	12,929	112,381	86,523
Total	**143,761**	**18,689**	**162,450**	**125,072**

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 2016 was £20.0m (31 March 2015: £40.3m). This was held with the following institutions.

	Rating	31 Mar 16 £000	31 Mar 15 £000
Money Market Funds			
State Street- Liquidity Fund	AAA	**10,072**	25,405
Majedie Asset Management		**3,261**	2,738
Bank deposits and current account			
Investment cash		**384**	384
Royal Bank of Scotland	A	**7,107**	11,941
Total		**20,824**	40,468

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 council has immediate access to its pension fund cash holdings.

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 2016 the value of liquid assets was £1,105.3m, which represented 96.8% of the total fund assets (31 March 2015: £999.8m, which represented 88.0% of the total fund assets).

Management 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 2016 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 17: 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 2013. The next valuation will take place as at 31 March 2016.

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 2013 actuarial valuation, the fund was assessed as 72.6% funded (72.5% at the March 2010 valuation). This corresponded to a deficit of £359m (2010 valuation: £290m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2017 for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate that all employers in the fund pay) is 16.8% until the next triennial valuation in 2016.

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 2013 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 2012 Model, allowing for a long-term rate of improvement of 1.5% pa. Assumed life expectancy from age 65 is as follows.

	31-Mar-16	31-Mar-15
Retiring today		
Males	**21.7**	21.7
Females	**24.0**	24.0
Retiring in 20 years		
Males	**24.3**	24.3
Females	**26.6**	26.6

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 18: 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 2016 was £1,645m (31 March 2015: £1,777m). The net assets available to pay benefits as at 31 March 2016 was £1,165m (31 March 2015: £1,135.3m). The implied fund deficit as at 31 March 2016 was therefore £480m (31 March 2015: £641.7m).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2013 triennial funding valuation (see Note 17) because IAS 19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used	2015/16 %	2014/15 %
Inflation/pension increase rate	**2.2**	2.4
Salary increase rate	**4.2**	4.3
Discount rate	**3.5**	3.2

Note 19: Current Assets

	31-Mar-16	31-Mar-15
Sundry debtors	**6,122**	6,335
Cash balances	**7,490**	11,941
Total	**13,612**	18,276

Note 20: Current Liabilities

	31-Mar-16	31-Mar-15
Outstanding settlement	**6,110**	5,890
Sundry creditors	**10,313**	7,276
Total	**16,423**	13,166

Note 21: Additional Voluntary Contributions

	31-Mar-16	31-Mar-15
Prudential	**1,320**	1,208
Equitable Life	**217**	243
Clerical Medical	**112**	105
Total	**1,649**	1,556

Note 22: 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 £0.9m (2014/15: £1.0m) 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 £43.4m to the fund in 2015/16 (2014/15: £41.7m). The amount payable to the council as at 31 March 2016 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 two pensioner representatives are 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.

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

Note 23: Contingent Liabilities and Contractual Commitments

The total commitments as at 31 March 2016 are £92.1m and the outstanding capital commitments (investments) are £28.1m (31 March 2015: total commitment £88.3m and outstanding was £35.1m).

These commitments relate to outstanding call payments due on Private Equity parts of 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 24: 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. The Funding Strategy Statement was reviewed and updated in May 2014 following the 2013 triennial valuation. Following the 2016 triennial valuation the Fund will have its new Funding Strategy Statement in place . This statement covers the Fund and its policies in respect of the following areas:

- 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 www.lambeth.gov.uk/pensions.

Statement of Investment Principles

Lambeth Council is responsible for administering the Lambeth Pension Fund under the Local Government Pension Scheme (LGPS) Regulations.

The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Pension Fund Investment Panel subject to approval by Corporate Committee.

The statement was made in accordance with regulation 5 of the Local Government Pension Scheme Regulation 1999. In preparing this statement, the Panel has taken professional advice. The statement is subject to periodic review and it was last reviewed and updated in April 2014.

As part of the 2016 triennial valuation the Fund will review it current investment strategy and will produce its new Statement of investment principles which will be called as Investment Strategy Statement.

The statement covers:-

- Funding objective.
- Investment objectives and ways to achieve.
- Social responsible investment.
- Exercise of voting rights.
- Asset allocation by fund manager.

The full version of the Statement of Investment Principles is attached as appendix 1 to this report and also available on the Pension Fund's website at www.lambeth.gov.uk/pensions.

Communications Policy Statement

As required by the Regulation 67 of the Administration Regulations the fund 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 attached as appendix 3 to this report also available on the Fund's website at www.lambeth.gov.uk/pensions.

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: www.lambeth.gov.uk/pensions

Annual Reports

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 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.

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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.

Statement of Investment Principles

In accordance with the Pension Act 1995, the Fund has produced a Statement of Investment Principles, which is reviewed at intervals of not more than three years; copies are available on request or can be accessed from the Fund website.

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 secure 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;
- Take 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 2016 and its income and expenditure for the year then ended.

29.9.16.

Christina Thompson
Chief Financial Officer

Independent Auditor's Statement

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

We have examined the Pension Fund financial statements for the year ended 31 March 2016 on pages 22 to 47.

Respective responsibilities of the Chief Financial Officer and the Auditor

As explained more fully in the Statement of the Chief Financial Officer Responsibilities the Chief Financial Officer is responsible for the preparation of the Pension Fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Lambeth and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the Pension Fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the Pension Fund financial statements included in the annual published statement of accounts of London Borough of Lambeth for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts and the date of this report.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

N Thomas

Neil Thomas
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

29 September 2016