Agenda

REGULATORY AND AUDIT COMMITTEE

Date: Wednesday 20 November 2019

Time: 8.30 am

Venue: Mezzanine Room 1, County Hall, Aylesbury

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4a	**COUNTY COUNCIL ACCOUNTS- DRAFT AUDIT FINDINGS REPORT** To be presented by Mr L Whitehead, Finance Accountancy Lead	**08:50**	**To Follow**
4b	**PENSION FUND ACCOUNTS** To be presented by Ms J Edwards, Pensions & Investments Manager	**09:05**	**13 - 58**
5	**VALUE FOR MONEY STATEMENT** Verbal Update to be presented by Mr I Murray, External Auditor, Grant Thornton	**09:20**	
6	**COMPLIMENTS AND COMPLAINTS ANNUAL REPORT** To be presented by Ms K Mitchelmore, Legal Team Manager	**09:35**	**To Follow**
7	**TREASURY MANAGEMENT MID YEAR REPORT** To be presented by Ms J Edwards, Pensions & Investments Manager	**09:50**	**59 - 64**
8	**RISK MANAGEMENT GROUP UPDATE** Verbal update to be provided by Ms M Gibb, Head of Business Assurance	**10:05**	
9	**2019/20 BUSINESS ASSURANCE STRATEGY UPDATE** To be presented by Ms M Gibb, Head of Business Assurance Late paper due to clearance required by Statutory Officers	**10:20**	**To Follow**
10	**DATE AND TIME OF NEXT MEETING** Provisional: 20 January 2020, 9:00am, Mezzanine Room 2	**10:35**	
11	**EXCLUSION OF THE PRESS AND PUBLIC** **To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)**		
12	**CONFIDENTIAL MINUTES** To agree the confidential minutes of the meeting held on 30 July 2019.		**65 - 66**

13	**STANDING ORDERS EXEMPTIONS / BREACHES** Verbal update to be provided by Ms M Gibb, Head of Business Assurance	**10:40**	
14	**2019/20 BUSINESS ASSURANCE STRATEGY UPDATE-PRIVATE** To be presented by Ms M Gibb, Head of Business Assurance Late paper due to clearance required by Statutory Officers	**10:55**	**To Follow**
15	**PRIVATE SESSION WITH INTERNAL AUDITOR**	**11:10**	

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For further information please contact: Alice Williams on 01296 383042, email: alicwilliams@buckscc.gov.uk

Members

Mr W Bendyshe-Brown
Mr T Butcher (VC)
Mr A Christensen
Mr S Lambert
Mr D Martin (C)
Mr P Martin
Mr D Watson
Ms A Wight

Buckinghamshire County Council

Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON TUESDAY 30 JULY 2019 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 2.02 PM AND CONCLUDING AT 4.05 PM.

MEMBERS PRESENT

Mr W Bendyshe-Brown
Mr A Christensen
Mr D Martin (Chairman)
Mr P Martin
Mr D Watson
Ms A Wight

OTHERS IN ATTENDANCE

Mr T Ball, Grant Thornton
Ms J Edwards, Pensions and Investments Manager
Ms M Gibb, Head of Business Assurance
Ms S Harlock, Audit Manager
Ms R Martinig, Financial Accountant
Mr P McGovern, Senior Finance Officer
Mr I Murray, Manager - Assurance, Grant Thornton Auditors
Ms H Norman-Thorpe, Harrow Law
Mr A Rush, Interim Deputy Director of Finance
Mr C Sendell-Price, Head of Procurement
Mr S Turner, Grant Thornton
Mr L Whitehead, Finance Accountancy Lead
Ms A Williams, Committee Assistant

1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Mr R Ambrose, Ms S Ashmead, Mr T Butcher, Ms B Heran, Mr J Hollis and Mr S Lambert.

2 DECLARATIONS OF INTEREST

There were none.

3 MINUTES

Members of the committee reviewed the minutes from the previous meeting and highlighted the following:

- Mr D Watson had submitted his apologies ahead of the meeting but these were not recorded in the minutes. This would be amended.

ACTION: Ms A Williams, Committee Assistant

RESOLVED: The minutes of the meeting held on 21 May 2019 were AGREED as an accurate record and signed by the Chairman.

4 STATEMENT OF ACCOUNTS

Mr A Rush, Interim Deputy Director of Finance and Ms R Martinig, Accountant presented the report and highlighted the following:

- The report followed directly on from the draft presented at the previous meeting.
- The report had not yet been audited completely, but would receive an unqualified opinion from Grant Thornton, External Auditors.
- Bucks County Council would receive a clear bill of health subject to the most recent Ofsted report.
- The accounts had not yet been signed off by Grant Thornton.
- There had been a number of factors that had contributed to the delay in the audit process and reduced the window for the accounts to be produced and audited.
- Due to financial reductions Grant Thornton had not had sufficient capacity to deal with issues presented.
- There would be no material difference to the overall opinion or changes to the statement of accounts.
- On the balance sheet the short term borrowings in the draft report of £47.945 million were reinstated to £35.945 million, resulting in a £12 million increase.
- Short term investments had decreased to £12 million due to re- categorisation.
- Bucks County Council was the accountable body for the Local Enterprise Partnership (LEP.) The decision had been made to classify the LEP as a fund liability as opposed to a reusable reserve.
- There was no impact on the general fund balance following the implemented changes.
- The balance sheet had previously listed pension liability at £753 million. This had been updated and increased to £769 million, following the recent McLoud judgement.

The following points were highlighted in response to questions raised and discussed by members of the committee:

- Due to the LEP not being a legal entity in their own right, Buckinghamshire County Council was the accountable body. The LEP was treated as a liability and not a reserve. This would continue going forwards.
- The £7.9 million in property rental income was recognised as general income. The write down from properties would have no impact over the general fund and would not affect the balance sheet due to the statutory override that could be implied.
- The level of usable reserves was at a sufficient level despite a 38% reduction. Reserves would fluctuate over time due to circumstances. There was no mandated guidance however Mr R Ambrose, Section 151 Officer had recommended that the figure should not fall below 5%.
- There was no information included in the report regarding the amount accumulated from council tax for surplus, as inclusion of this information was not a statutory duty.
- The majority of Buckinghamshire County Council's borrowing was fixed rate long term. This would significantly reduce the interest rates on borrowing.
- It was clarified that if any material changes were made to the final audited accounts during the audit process, then the report would again be presented to the committee. If there were no significant changes made then the accounts would be signed off by the Section 151 Officer and the Chairman and reported to the committee.
- The accounts report at the time of the meeting required to be approved and published without an audit opinion but including an explanatory note. A final version of the reports would be issued to the Chairman.

ACTION: Grant Thornton

RESOLVED: Members of the committee AGREED to approve the statement of accounts.

5 PENSION FUND ACCOUNTS

Mr I Murray, External Auditor, Grant Thornton presented Grant Thornton's report and highlighted the following:

- An overview was given of the external circumstances causing the delay in the final opinion.
- The auditing process was on track to deliver an unqualified opinion.
- The main area of work was focused around property valuations.
- There had been a degree of uncertainty around the estimated figures provided by the actuary since the impact in the draft accounts was an estimate which did not include the impact of the McCloud judgement, since there was a remote possibility that there wouldn't be an obligation on the pension fund accounts.
- There could be a number of potential remedies following the outcome of the McCloud case. The case had been referred to an employment tribunal to determine the eventual remedy. There could be a number of outcomes and the revised estimated figures are based on one outome.

- The estimate had been redone taking into account the McCloud case. Grant Thornton had used an in house actuary to speak to all audit providers and make sure that the approach was reasonable.
- A member stated that it had to be said the external audit of accounts was a shambles and it's clear that the PSAA process for audit services had created problems for many councils and external audit providers. The problem Buckinghamshire County Council had was not with our choice of auditors but with a procurement process that had badly let down everybody involved. The procurement process and remuneration levels for auditors needed to be urgently reviewed by Public Sector Audit Appointments Limited (PSAA) to allow the normal and timely process of auditing to be resumed. The chairman and all members agreed with this comment.

Mr A Rush, Interim Deputy Director of Finance and Ms J Edwards, Pensions & Investments Manager presented Buckinghamshire County Council's report and highlighted the following:

- Any significant changes to the report compared to the draft accounts presented in May 2019 were highlighted in blue.
- Extra content has been added. In addition to the percentage with the fund managers the value of the funds with the fund manager had been included.
- The service had increased the total liability of the pension fund in line with the McCloud case from £4752 million to £4791 million, totalling an increase of £38 million.
- Cash deposits had been reported as £127,559. This was an error identified by the external auditors and this would be amended to the correct figure of £121,408 before publication of the report.
- Related parties note 14 states Buckinghamshire County Council contributed £40.3 million to the pension fund, but it was anticipated that the figure would change in the final version.

Following the reports, the following points were highlighted in response to questions raised and discussed by members of the committee:

- The derivative policy was a small element of pension funds. The pension funds team would leave the decision to continue with the derivative policy in terms of investments down to managers' discretion.
- Administration costs that were incurred by Buckinghamshire County Council were recharged to the pension fund. There was an increase in performance fees on active management. If managers outperformed the market then they would receive a performance related fee.

RESOLVED: Members of the committee NOTED the report.

RESOLVED: Members of the committee AGREED that the same process around Chairman and Section 151 Officer signing off the council statement of accounts would be applied to the pension fund accounts.

6 VALUE FOR MONEY STATEMENT

Mr I Murray, External Auditor, Grant Thornton presented the report.

It was clarified that Grant Thornton had completed the value for money statement, but it would make sense to issue it along with overall opinion. Grant Thornton could provide an unqualified conclusion with the exception of the ongoing work with Children's Services in relation to Ofsted. A discussion took place around the Ofsted piece and the following points were highlighted:

- Ofsted findings had been examined backwards within a time frame of the 2018/ 19 financial year, though this was not necessarily an up to date reflection.
- Grant Thornton had liaised with members of senior management at Buckinghamshire County Council and had received feedback from the Children's Commissioner.
- There was evidence of progress, but the progress was not sufficient therefore Grant Thornton gave an 'except for' qualification.
- The Chairman stated there had been significant investment and overspend within the Children's Service during the year, therefore the committee agreed with the external auditors qualification.

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- There was a risk of safeguarding against the potential misuse of SAP, but to maintain organisation efficiency it was beneficial to maintain SAP access.
- It was important to ensure appropriate authorisation and access with SAP.
- A typo in the report would be corrected: "qualified opinion" would be amended to "unqualified opinion."

ACTION: Grant Thornton

RESOLVED: Members of the committee NOTED the report

7 ANNUAL GOVERNANCE STATEMENT

Ms M Gibb, Head of Business Assurance presented the report highlighted the following:

- The statement had been presented at the meeting in May 2019. The main detail of the statement had previously been agreed by members of the committee.
- The statement reflected the knowledge of the organisation, and the authority was required to conduct a review to prepare the document.
- The statement would be signed by Leader and Chief Executive and would be published alongside the statement of accounts.
- The number of limited and partial reports needed to be updated to ensure consistency across the statements. 4 reports had been issued by internal auditors. It was clarified

that there were 9 partial reports and not 11. That was the only change made to the statement.

RESOLVED: Members of the committee AGREED to approve the statement which would be signed off by the Chief Executive and the Leader of Buckinghamshire County Council.

8 HEAD OF AUDIT ANNUAL OPINION

Ms M Gibb, Head of Business Assurance presented the report and highlighted the following:

- The purpose of the report was to provide an opinion of the adequacy of the control environment.
- The process complied with the public sector internal audit standards.
- The main focus was placed on the key risk areas across the organisation.
- Two areas had fallen outside of the public sector internal audit standards which included Ms Gibb's role holding responsibility for operational management within the organisation, and not having a quality of assurance improvement plan in place. Risk management processes were in place to monitor this, and a quality assurance improvement plan was in development. An internal review had been carried out which showed that the organisation complied with 111 standards out of the total 118 and had partial compliance with 6 of those standards.
- The Head of Audit overall opinion was based on a number of elements which were listed in the report.
- The opinion did not imply that all risks related to the organisation have been reviewed. It was highlighted that absolute assurance could not be given, but reasonable assurance over the adequacy framework could be provided.
- The governance framework continued to strengthen with good accountable values demonstrated across all units.
- The financial management improvement programme had been successful in developing frameworks and robustness of the financial control framework.
- The level of assurance opinion was "partial." There were no comparatives to the opinion, but this could be provided in the next financial year. Benchmarking from other councils was based on the financial year 2017/18.
- In regards to implementation of audit actions, over the financial year 373 management actions had been followed up and 84% were completed. A small number of the actions were overdue, but had progressed since the production of the report.
- The risk management process was well embedded.
- Reasonable assurance could be given that there were no major weaknesses.

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- The identified control weaknesses did not expose the organisation to a high level of risk.

- It was challenging to bench mark against other authorities without complete auditing plans as different organisations may audit different things.
- The areas examined were based on risk registers, knowledge of the business and communication with the Section 151 Officer.
- A significant amount of focus of the audit plan was within Children's Services. Areas of fraud were built into the plan.
- The financial management improvement project was ongoing, with the aim to improve collaborative working with the finance service and clear accountabilities.
- Governance was provided through the Corporate Management Team (CMT.) Quarterly reports were provided which established and introduced a financial accountabilities framework.
- SAP would continue to be used in the unitary organisation.

RESOLVED: Members of the committee NOTED the report.

9 STANDING ORDER EXEMPTIONS AND BREACHES

Mr C Sendell-Price, Head of Procurement presented the report and highlighted the following:

- An overview was given of the process around exemptions.
- The service could exempt if an urgent solution was required.
- Some contracts were being extended to accommodate the unitary programme.
- There was a high amount of assurance over the process of approval. It was highlighted that exemptions were a useful tool in making savings.
- Breaches were negative, meaning that the organisation was in breach of legislation.
- Within the last financial year, 15 exemptions were processed and 14 were completed

Following the report, the following points were highlighted in response to questions raised and discussed by members of the committee:

- Any exemption that exceeded £50,000 must be approved by the relevant executive director of the business unit. The majority of exemptions were over the £50,000 bracket.
- Exemptions under the value of £25,000 were more flexible.
- Exemptions were only agreed if there was a value for money reason.
- The Mystery Shopper Scheme had been changed to the Procurement Review Service. This was useful if the organisation failed to deliver.

RESOLVED: Members of the committee NOTED the points presented in the report.

10 DATE AND TIME OF NEXT MEETING

11th September 2019, 10:30am, Mezzanine Room 1

11 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED: That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

CHAIRMAN

Buckinghamshire County Council Pension Fund

Statement of Accounts

For the year ended 31 March 2019

Initial changes as a result of the audit are highlighted in turquoise and were reported to this Committee in July

Final changes to the Statement of Accounts since July are highlighted in pink

Pension Fund Account for the Year Ended 31 March 2019

The Pension Fund Accounts contain two core statements, the Pension Fund Account and the Net Assets Statement. Each of the statements is accompanied by supplementary notes providing additional detail to the figures presented.

31 March 2018 £000	Pension Fund Account	Note	31 March 2019 £000
	Dealings with Members, Employers and Others directly Involved in the Fund		
	Income		
(134,066)	Contributions	3	(137,260)
(16,504)	Transfers in from other pension funds	4	(11,349)
(110)	Other income		(163)
(150,680)			**(148,772)**
	Benefits	5	
85,504	Pensions		90,860
22,700	Commutation of pensions and lump sums		21,210
	Payments to and on Account of Leavers	6	
556	Refunds of contributions		804
14,113	Transfers out to other pension funds		11,736
122,873			**124,610**
(27,807)	**Net Additions from Dealings with Members**		**(24,162)**
19,239	**Management expenses**	7	**16,237**
(8,568)	**Net (Additions)/Withdrawals including Fund Management Expenses**		**(7,925)**
	Returns on Investments		
(45,448)	Investment income	8	(47,693)
(73,103)	Profits and losses on disposal of investments and changes in the market value of investments	9	(129,727)
554	Taxes on income	16	471
(117,997)	**Net Returns on Investments**		**(176,949)**
(126,565)	**Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year**		**(184,874)**

Net Assets Statement

31 March 2018 £000	Net Assets Statement	Note	31 March 2019 £000
	Investments		
840	Long term investments		840
883,946	Equities - quoted		573,933
352,726	Bonds		428,687
1,239,939	Pooled investment vehicles		1,690,849
204,534	Unit trusts - property		214,243
121,408	Cash deposits		80,693
102	Derivative contracts		(34)
9,504	Investment income receivable		10,489
2,812,999	**Net Investments**	11	**2,999,700**
14,293	Current assets	15	**21,694**
(5,143)	Current liabilities	15	**(14,370)**
2,822,149	**Net Assets of the Fund Available to Fund Benefits at 31 March**		**3,007,024**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18.

1 Description of the Fund

Buckinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Buckinghamshire County Council. Organisations participating in the Fund include the County Council, Milton Keynes Council, the district and parish Councils of Buckinghamshire, Thames Valley Police, Buckinghamshire Fire and Rescue Service, and other scheduled and admitted bodies. These are listed in Note 21 to these Financial Statements. Teachers, fire fighters and police officers, for whom separate pension schemes apply, are excluded from the Pension Fund.

The purpose of the Pension Fund is to provide defined benefits for employees and their widows, widowers and children, based on pay and past service. The scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Employee contribution bands range from 5.5% to 12.5% of pensionable pay. In April 2014 a 50/50 option was introduced which means members can pay half their contribution rate and build up half the pension benefit whilst retaining full value of other scheme benefits such as death in service lump sum and ill health cover. Accrued pension is revised annually in line with the Consumer Prices Index. Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. More details of benefits provided under the scheme are available on the Council's pension website.
https://www.buckscc.gov.uk/services/council-and-democracy/local-government-pension-scheme/scheme-members

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

In 2015 the government announced that they wanted the 91 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. Brunel Pension Partnership Ltd was formed to implement the investment strategies for ten Funds. The founding Funds include The Environment Agency Pension Fund, and the Local Government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. The company Brunel Pension Partnership Ltd was formed on 14 October 2016. By 31 December 2018 the collective assets of the pool were circa £30 billion.

The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments. The transition of assets began in July 2018 and by 2021 for the majority of the assets will have transitioned, although illiquid alternative assets such as private equity may need a longer transition timetable. More information and updates can be found on the Brunel Pension Partnership website at: www.brunelpensionpartnership.org

The following summarises the membership of the Fund:

31 March 2018	Membership of the Fund	31 March 2019
24,042	Contributors	24,141
18,548	Pensioners	19,411
27,313	Deferred pensioners	28,991
69,903	**Total Membership of the Fund**	**72,543**

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The Investment Strategy Statement can be viewed on the Council's website.
https://www.buckscc.gov.uk/media/4508836/bccpf_iss_may2017.pdf

Further Information

The County Council publishes a separate Annual Report on the Pension Fund, which gives more detailed information, a copy can be viewed on the Council's pension website.
http://www.buckscc.gov.uk/services/council-and-democracy/local-government-pension-scheme/investment/pension-fund-annual-reports/

Basis of Preparation

The accounts summarise the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at Note 18 of these accounts.

The Pension Fund is administered by Buckinghamshire County Council, but the Fund balances are not included in Buckinghamshire County Council's Balance Sheet.

2. Accounting Policies and Critical Judgements in Applying Accounting Policies

Accounting Policies

Accruals of Income and Expenditure

The financial statements are prepared on an accruals basis, unless otherwise stated. That is, income and expenditure are recognised as they are earned or incurred, not as they are received or paid.

Contributions, benefits and investment income are included on an accruals basis. All settlements for buying and selling investments are accrued on the day of trading. Interest on deposits is accrued if not received by the end of the financial year. Investment management expenses are accounted for on an accruals basis. Administrative expenses are accounted for on an accruals basis, staff costs are paid by Buckinghamshire County Council then recharged to the Pension Fund at the year end and group transfers to and from the Fund are accounted for on an accruals basis unless it is too early in the negotiations for an estimate of the value to be available. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Assets Statement. Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Individual transfers in / out are accounted for when received / paid, which is normally when the member liability is accepted or discharged.

Investment 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. Investment 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 investment income. 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. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits / losses during the year.

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.

Management Expenses

All management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. 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.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Global Thematic Partners – global equities
- Investec Asset Management – global equities
- Mirabaud – UK equities

- Royal London Asset Management – bonds
- Schroders – global equities
- Standard Life – UK equities

Financial Instruments
Financial Instruments that are "held for trading" are classified as financial assets and liabilities at fair value through profit or loss when the financial instrument is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- A derivative.

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.

Financial instruments have been classified as Loans and Receivables when they have fixed or determinable payments and are not quoted in an active market. Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term.

The value of market quoted investments is determined by the bid market price ruling on the final day of the accounting period. Fixed interest securities are recorded at net market value based on their current yields. Pooled investments in property funds, equity funds, fixed interest funds, private equity funds and hedge fund of funds are valued by the fund manager in accordance with industry guidelines. Note 12 includes commentary on the valuation methods that the Fund's fund managers use.

Foreign Currency Transactions
Foreign currency transactions are translated into sterling at the exchange rate ruling 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.

Derivatives
The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Currently the Fund only holds forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

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

Contingent Assets & Liabilities and Commitments
Contingent liabilities are disclosed by way of a note when there is a possible obligation which may require a payment or a transfer of economic benefits. The timing of the economic transfer and the level of certainty attaching to the event are such that it would be inappropriate to make a provision.

Contingent assets are disclosed by way of a note where inflow or a receipt or an economic benefit is possible and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Pension Fund.

Commitments are disclosed by way of a note when there is a contractual commitment which may require a payment.. The timing of the payment is such that it would be inappropriate to make a provision. Commitments are accounted for at the best estimate of the obligation.

Critical Judgements in Applying Accounting Policies
Pension Fund Liability
The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The last such valuation took place as at 31 March 2016, the funding level of the Fund as a whole increased from 82% to 87% between 31 March 2013 and 31 March 2016. The next valuation will take place as at 31 March 2019. The Fund's actuary undertook an interim valuation as at 31 March 2018 which showed that the funding level had increased to 95% and the average required employer contribution would be 21.3% of payroll assuming the deficit is to be paid by 2032. The estimated funding position is based on market movements since 31 March 2016 rather than being a full valuation with updated member data. Following the 31 March 2019 triennial valuation, an updated funding level will be available later this year.

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 year end date and the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 18)	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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £93m a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £8m a one-year increase in assumed life expectancy would increase the liability by approximately £170m.
Private equity fund of funds (Note 12)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £146m in the financial statements. There is a risk that this investment may be under or overstated in the accounts by £22m.

Events After The Reporting Date
Since 31 March 2019, there has been some volatility in the financial markets, there would be an impact on the market value of the fund's investments were they to be valued as at the date these accounts were authorised. These changes are deemed to be non-adjusting post balance sheet events. There have been no events since 31 March 2019, and up to the date when these accounts were authorised, which require any adjustments to these accounts.

Accounting Standards that have been issued but not yet adopted
The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. Potentially relevant standards include annual improvements to IFRS standards 2014-2016, IFRIC 22 foreign currency transactions and advance considerations and amendments to IFRS9 financial instruments: prepayment features with negative compensation.

3. Contributions

Contributions relating to wages and salaries paid up to 31 March 2019 have been included in these accounts, there were no augmented employers' contributions received during 2017/18 or 2018/19.

Restated 2017/18 £000	**Contributions by Category**	**2018/19 £000**
	Employers' Contributions	
(83,561)	Normal Contributions	(87,302)
(21,056)	Deficit Recovery Contributions	(19,829)
(104,617)	**Total Employers' Contributions**	**(107,131)**
(29,449)	**Members' Contributions**	**(30,129)**
(134,066)	**Total Contributions**	**(137,260)**

The 2017/18 employers' contributions by category have been restated to correct the allocation of the administering authority's normal and deficit contributions.

Original 2017/18 £000	**Contributions by Category**
	Employers' Contributions
(91,568)	Normal Contributions
(13,049)	Deficit Recovery Contributions
(104,617)	**Total Employers' Contributions**
(29,449)	**Members' Contributions**
(134,066)	**Total Contributions**

2017/18 £000	**Contributions by Authority**	**2018/19 £000**
(40,298)	Administering authority	(40,308)
(88,050)	Scheduled bodies	(92,413)
(5,718)	Admitted bodies	(4,539)
(134,066)	**Total Contributions**	**(137,260)**

4. Transfer Values

2017/18 £000	Transfers in from other pension funds	2018/19 £000
(4,427)	Group transfers	(2,159)
(12,077)	Individual transfers	(9,190)
(16,504)	**Total Transfers in from other pension funds**	**(11,349)**

The individual transfer values relate to transfers, which have been received during the financial year i.e. included on a cash basis. On 31 March 2019 there were two outstanding transfer values receivable greater than £50k, for which £196k had not been received. (On 31 March 2018 there were no outstanding transfer values receivable greater than £50k.)

On 31 March 2019 there was one group transfer to the Fund being negotiated with other Funds (3 on the 31 March 2018), the value of the transfers to the Fund is being negotiated between the Funds' actuaries. The income due to the Fund for the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

5. Benefits

Benefits include all valid benefit claims notified during the financial year.

2017/18 £000	Benefits Payable by Category	2018/19 £000
85,504	Pensions	90,860
19,951	Commutations of pensions and lump sum retirement benefits	19,321
2,749	Lump sum death benefits	1,889
108,204	**Total Benefits**	**112,070**

2017/18 £000	Benefits Payable by Authority	2018/19 £000
37,825	Administering authority	40,227
62,049	Scheduled bodies	63,044
8,330	Admitted bodies	8,799
108,204	**Total Benefits**	**112,070**

6. Payments to and on Account of Leavers

2017/18 £000	Payments to and on Account of Leavers	2018/19 £000
439	Refunds to members leaving service	761
117	Payments for members joining the state scheme	43
942	Group transfers to other pension funds	0
13,171	Individual transfers to other pension funds	11,736
14,669	**Total Payments to and on Account of Leavers**	**12,540**

The individual transfer values relate to transfers, which have been paid during the financial year i.e. included on a cash basis. On 31 March 2019 there were four outstanding individual transfer values payable greater than £50k, for which £528k had not been paid. On 31 March 2018 there were 4 outstanding individual transfer values payable greater than £50k, for which £439k had not been paid.

On 31 March 2019 there was one group transfer from the Fund being negotiated with other Funds (one on the 31 March 2018); the value of the transfers from the Fund is being negotiated between the Funds' actuaries. The expenditure in respect of the transfer has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

7. Management Expenses

2017/18 £000	Management Expenses	2018/19 £000
1,840	Administrative costs	2,177
16,623	Investment management expenses	13,501
776	Oversight and governance costs	559
19,239	**Total Management Expenses**	**16,237**

The analysis of the cost of managing the Pension Fund during the period has been prepared in accordance with CIPFA guidance. Management expenses have been categorised as administrative costs, investment management expenses and oversight / governance costs. Included in the oversight and governance costs are the external audit fees, £19k in 2018/19 (£25k in 2017/18). Administrative costs increased in 2018/19 due to appointing an external provider to undertake a reconciliation of the Fund's records to HMRC's Guaranteed Minimum Pension records.

Management fees for pooled funds and transaction costs have been included in the investment management expenses. The investment management expenses include £3.03m (£0.775m in the 2017/18 financial year) in respect of performance related fees payable to the fund's investment managers. It also includes £2.621m in respect of transaction costs (£1.697m in the 2017/18 financial year).

8. Investment Income

2017/18 £000	Investment Income	2018/19 £000
(23,781)	Dividends from equities	(23,026)
(13,510)	Income from bonds	(14,315)
(804)	Income from pooled investments	(162)
(6,767)	Income from property unit trusts	(7,420)
(201)	Interest on cash deposits	(903)
(385)	Other	(1,867)
(45,448)	**Total Investment Income**	**(47,693)**

9. Investments

All investments are valued on a fair value basis and where there is an active market the bid price is the appropriate quoted market price. The investment accounting information from 13 December 2017 is provided by State Street when they became the Fund's custodian, BNY Mellon provided the investment accounting information to 12

December 2017. Realised profit of £324m and unrealised loss of £195m are combined to report an increase in the market value of investments of £129m.

Investments (All values are shown £000)	Value at 31 March 2018 £000	Reclass-ification of Assets £000	Purchases at Cost £000	Sales Proceeds £000	Realised Profit / (Loss) £000	Unrealised Profit / (Loss) £000	Value at 31 March 2019 £000
Long term investments	840	-	-	-	-	-	840
Equities - quoted	883,946	-	458,840	(822,441)	79,231	(25,643)	573,933
Bonds	352,726	-	194,371	(123,385)	2,349	2,626	428,687
Pooled investment vehicles	1,239,939	-	1,308,442	(922,451)	238,483	(173,564)	1,690,849
Unit trusts - property funds	204,534	-	26,351	(18,923)	4,227	(1,946)	214,243
Derivative contracts	102	-	485	(463)	(22)	(136)	(34)
Cash deposits	121,408	-	-	(44,837)	-	4,122	80,693
	2,803,495	**-**	**1,988,489**	**(1,932,500)**	**324,268**	**(194,541)**	**2,989,211**
Investment income due	9,504						10,489
	2,812,999						**2,999,700**

During 2017/18 realised profit of £169.689m and unrealised loss of £96.586m combined to report an increase in the market value of investments of £73.103m.

Investments (All values are shown £000)	Value at 31 March 2017 £000	Reclass-ification of Assets £000	Purchases at Cost £000	Sales Proceeds £000	Realised Profit / (Loss) £000	Unrealised Profit / (Loss) £000	Value at 31 March 2018 £000
Long term investments	0	0	840	0	0	0	840
Equities - quoted	852,632	(214)	672,947	(643,674)	89,550	(87,295)	883,946
Bonds	339,005	0	163,024	(141,800)	3,808	(11,311)	352,726
Pooled investment vehicles	1,204,325	214	180,998	(212,055)	75,522	(9,065)	1,239,939
Unit Trusts - property funds	183,581	-	12,682	(2,826)	201	10,896	204,534
Derivative contracts	385	-	866	(1,473)	608	(284)	102
Cash deposits	87,736	-	-	33,199	-	473	121,408
	2,667,664	**-**	**1,031,357**	**(968,629)**	**169,689**	**(96,586)**	**2,803,495**
Investment income due	7,848						9,504
	2,675,512						**2,812,999**

Pooled investment vehicles are funds where the Pension Fund is not the named owner of specific investments such as shares or bonds, but owns a proportion of a pooled fund. The Code requires that pooled investments are analysed between unit trusts, unitised insurance policies and other managed funds. The pooled investment vehicles in the tables above are other managed funds. These funds include the following types of investments:

- Equities
- Fixed interest securities
- Index linked securities
- Hedge fund of funds
- Diversified growth funds
- Private equity fund of funds

The change in the fair value of investments during the year comprises all increases and decreases in the fair value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The Fund's investments in derivatives are not material and therefore further disclosures are not included in the accounts. Indirect costs are incurred through the bid-offer spread on investments within pooled investments.

The Fund does not participate directly in a stock lending programme.

On 31 March 2019 assets which exceed 5% of the total value of the net assets of the Fund are a £226.4m, 7.5%, investment in Legal & General's All Stocks Index-Linked Gilt Fund (£214.5m as at 31 March 2018) and a £767.1m, 25.5%, investment in Brunel Pension Partnership Passive Developed Global Equities portfolio (£0.0m as at 31 March 2018).

IFRS accounting requires that the Fund discloses information on fair value hedges, cash flow hedges and hedges of net investments in foreign operations. The Fund has exposure to hedges through its investments in a hedge fund of funds pooled investment vehicle, and so the hedge disclosure is not applicable to this type of investment.

10. Investment Management Arrangements

Aviva Investors sold its Real Estate Multi Manager (REMM) business to LaSalle Investment Management on 6 November 2018. Fund manager fees have been calculated according to the specific mandate and the associated contract agreement as shown in the following table:

Fund Manager / Mandate		**Proportion of Fund 31 March 2018**		**31 March 2019**	
		£000	**%**	**£000**	**%**
Investments managed by Brunel Pension Partnership Ltd					
Global Passive Equities		0	0	767,145	26
Infrastructure		0	0	5,883	0
Private Equity		0	0	1,565	0
Investments managed by the Fund					
La Salle / Aviva Investors	Property	211,284	8	221,066	7
BlackRock	Cash / inflation plus	134,944	5	139,122	5
Blackstone Alternative Asset Management	Hedge fund of funds	134,050	5	156,310	5
Global Thematic Partners	Less constrained global equities	197,393	7	0	0
Investec Asset Management	Less constrained global equities	232,988	8	258,633	9
Legal & General Investment Management	Passive index-tracker	786,732	28	444,420	15
Mirabaud Investment Management Limited	UK equities	151,172	5	218	0
Pantheon Private Equity	Private equity	135,818	5	119,040	4
Partners Group	Private equity	29,761	1	24,867	1
Royal London Asset Management	Core plus bonds	378,462	14	464,444	15
Schroders	Less constrained global equities	209,705	7	219,222	7
Aberdeen Standard Investments	Less constrained UK equities	119,862	4	121,985	4
Total		2,722,739	97	2,945,392	98

11. Analysis of the Value of Investments

31 March 2018 £000	Analysis of the Value of Investments	31 March 2019 £000
840	**Long Term Investments**	**840**
	Bonds	
	Fixed Interest Securities	
319	Overseas public sector	0
213,922	UK other	279,600
78,448	Overseas other	86,759
292,689	**Total Fixed Interest Securities**	**366,359**
	Index-Linked Securities	
50,934	UK Index-linked securities public sector	51,742
9,103	UK Index-linked securities other	10,586
60,037	**Total Index-Linked Securities**	**62,328**
352,726	**Total Bonds**	**428,687**
	Equities	
301,919	UK quoted	144,069
582,027	Overseas quoted	429,864
883,946	**Total Equities**	**573,933**
	Pooled Investment Vehicles	
10,735	UK Equities	0
358,218	UK Bonds	379,310
436,412	Overseas Equities	864,319
134,940	Overseas Diversified Growth Fund	139,122
134,050	Overseas Hedge Fund of Funds	156,310
0	Overseas Infrastructure	5,883
165,584	Overseas Private Equity	145,909
1,239,939	**Total Pooled Investment vehicles**	**1,690,849**
	Other	
204,534	Unit Trusts - property funds	214,243
102	Derivatives	(34)
121,408	Cash deposits – sterling and foreign cash	80,693
9,504	Investment Income receivable	10,489
335,548	**Total Other**	**305,391**
2,812,999	**Total Value of Investments**	**2,999,700**

12. Financial Instruments

The Net Assets of the Fund disclosed in the Net Assets Statement are made up of the following categories of financial instruments:

31 March 2018				31 March 2019		
Fair value through profit and loss £000	**Loans And Receivables £000**	**Financial Liabilities At amortised cost £000**		**Fair value through profit and loss £000**	**Loans And Receivables £000**	**Financial Liabilities At amortised cost £000**
			Financial Assets			
840	-	-	Long Term Investments	840	-	-
883,946	-	-	Equities - quoted	573,933	-	-
352,726	-	-	Bonds	428,687	-	-
1,239,939	-	-	Pooled investment vehicles	1,690,849	-	-
204,534	-	-	Property – unit trusts	214,243	-	-
102	-	-	Derivatives	-	-	-
9,504	-	-	Investment Income receivable	10,489	-	-
-	121,408	-	Cash deposits	-	80,693	-
-	6,371	-	Current assets	-	11,585	-
2,691,591	**127,779**	**-**		**2,919,041**	**92,278**	**-**
			Financial Liabilities			
-	-	-	Derivatives	(34)	-	-
-	-	(4,190)	Current liabilities	-	-	(13,367)
-	-	**(4,190)**		-	-	**(13,367)**
2,691,591	**127,779**	**(4,190)**	**Total**	**2,919,007**	**92,278**	**(13,367)**
		2,815,180				**2,997,918**

Reconciliation to Net Investments in the Net Assets Statement	**£000**
Net Investments	3,007,024
Less contributions due current assets	(10,109)
Add HMRC current liabilities	1,003
Valuation of Financial Instruments carried at fair value	2,997,918

The net gains and losses on financial instruments are shown in the table below.

31 March 2018 £000		**31 March 2019 £000**
	Financial Assets	
121,320	Fair value through profit and loss	175,424
1,770	Loans and receivables	2,227
-	Financial liabilities measured at amortised cost	-
	Financial Liabilities	
-	Fair value through profit and loss	-
(238)	Loans and receivables	(9,177)
-	Financial liabilities measured at amortised cost	-
122,852	**Total**	**168,474**

The code requires that for each class of financial assets and financial liabilities an authority shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount. As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

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 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, quoted equities are classified as level 1. 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 where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Fixed interest securities are traded in an active market and evaluated prices sourced from a valid pricing vendor.

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 fund of funds in which the 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. Valuations are audited annually as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.

The values of the hedge fund of 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 analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Value at 31 March 2019	**Quoted Market Price**	**Using Observable Inputs**	**With Significant Unobservable Outputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Long term investments	-	-	840	840
Equities - quoted	573,933	-	-	573,933
Bonds	-	428,687	-	428,687
Pooled investment vehicles	-	1,539,057	151,792	1,690,849
Property – unit trusts	-	214,243	-	214,243
Derivatives	-	(34)	-	(34)
Total	**573,933**	**2,181,953**	**152,632**	**2,908,518**

Cash is not included in the analysis of assets held at fair value since it is held at amortised cost, not fair value.

Reconciliation to Net Investments in the Net Assets Statement	**£000**
Net Investments	2,999,700
Less Cash deposits	(80,693)
Less investment income receivable	(10,489)
Valuation of Financial Instruments carried at fair value	2,908,518

Value at 31 March 2018	**Quoted Market Price Level 1 £000**	**Using Observable Inputs Level 2 £000**	**With Significant Unobservable Outputs Level 3 £000**	**Total £000**
Long term investments	-	-	840	840
Equities - quoted	883,946	-	-	883,946
Bonds	-	352,726	-	352,726
Pooled investment vehicles	-	1,074,355	165,584	1,239,939
Property – unit trusts	-	204,534	-	204,534
Derivatives	-	102	-	102
Total	**883,946**	**1,631,717**	**166,424**	**2,682,087**

Sensitivity Analysis of Assets Valued at Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the potential impact on the closing value of investments held at 31 March 2019 and 31 March 2018.

	Assessed valuation range (+/-)	**Value at 31 March 2019 £000**	**Value on increase £000**	**Value on decrease £000**
Pooled investment vehicles - infrastructure	15%	5,883	6,765	5,001
Pooled investment vehicles – private equity	15%	145,909	167,795	124,023
Total		**151,792**	**174,560**	**129,024**

	Assessed valuation range (+/-)	**Value at 31 March 2018 £000**	**Value on increase £000**	**Value on decrease £000**
Pooled investment vehicles – private equity	15%	165,584	190,422	140,746
Total		**165,584**	**190,422**	**140,746**

Reconciliation of Fair Value Measurements Within Level 3

	Value at 31 March 2018 £000	Purchases £000	Sales £000	Realised profit/(loss) £000	Unrealised profit/loss £000	Value at 31 March 2019 £000
Pooled investment vehicles – private equity	165,584	8,853	(37,552)	31,745	(22,721)	145,909
Pooled investment vehicles – infrastructure	0	6,154	0	0	(271)	5,883
Total	**165,584**	**15,007**	**(37,552)**	**31,745**	**(22,992)**	**151,792**

	Value at 31 March 2017 £000	Purchases £000	Sales £000	Realised profit/(loss) £000	Unrealised profit/loss £000	Value at 31 March 2018 £000
Pooled investment vehicles – private equity	207,316	11,987	(66,599)	(5,785)	18,665	165,584
Total	**207,316**	**11,987**	**(66,599)**	**(5,785)**	**18,665**	**165,584**

The Fund's fund managers provided the following commentary on the valuation methods they use:

Blackstone – Fund of Hedge Funds
Blackstone's direct securities and derivative investments made through Blackstone's fund of hedge fund vehicles, such as Securities, Options, Futures are valued using prices quoted on the relevant exchanges. Forward currency contracts are valued at the current forward market prices obtained from brokers. Total return swaps are valued using the last reported public closing price of the underlying index.

Partners Group – Private Equity
Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP).

Partners Group gathers the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

LGIM – Passive Tracker Fund
The method used to value units is the same at every valuation date throughout the year. All holdings of the appropriate Pooled Fund Sections are valued at the close of business valuation point using a recognised pricing service. These values are then adjusted to allow for outstanding dividends, tax payable or recoverable and any relevant expenses (this creates the "Mid Value").

La Salle – Property Fund
La Salle rely on the NAV provided by each fund manager, computed in accordance with appropriate local standards, incorporating independent valuations conducted from suitably qualified external providers. These external NAVs are subject to review by La Salle's Real Estate Multi Manager (REMM) team.

Pantheon – Private Equity
Investments are valued using the most relevant of methods listed below:

- Cost/recent round of financing/price of recent investment where recent transactions may be the most reflective of fair value.
- Comparable Private Company Transactions used for companies with low enterprise value or low EBITDA which means it is not appropriate to use earnings multiples of similar publicly listed companies.
- Earnings/Earnings Multiples /Performance Multiples valuations involve applying a multiple, appropriate to the company being valued, to the earnings of a company. The valuation is described as a function of two variables, price and earnings (The most widely used of the valuation methodologies, especially for buyout or other businesses that have comparable characteristics to companies in the public markets).
- Underlying value of Net Assets.
- Discounted Cash flows (DCF) where there are predictable cash flows visible over a given time horizon.
- Industry Benchmarks are normally based on the assumption that investors are willing to pay for market share, and that profitability of the business in the does not vary greatly.
- Unrestricted Publicly traded securities are valued at the closing public market price on the valuation date.

These methods are consistently applied across all investment types.

BlackRock Institutional Jersey Dynamic Diversified Growth Fund
The above Fund is a sub-fund of the BlackRock Institutional Jersey Funds umbrella which reports under UK SORP and is not exchange-traded. The price is determined daily by the Funds Administrator and will be representative of the Fund's net asset value ("NAV") at each dealing point subject to any spreads applied, where appropriate. The Fund is not subject to any redemption notice periods and can be redeemed at each dealing point, currently on a daily basis.

13. Additional Financial Risk Management Disclosures

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund Committee manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Pension Fund Risk Assessment analyses the risks faced by the Council's pensions operations, it is reviewed regularly by the Pension Fund Committee to reflect changes in activity and in market conditions. The analysis below is designed to meet the disclosure requirements of IFRS 7.

Market Risk
Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices of equities, commodities, interest rates, foreign exchange rates and credit spreads. This could be as a result of changes in market price, interest rates or currencies. The objective of the Fund's Investment strategy is to manage and control market risk exposure within acceptable parameters, while optimising the return.

In general excessive volatility in market risk is managed through diversification across asset class, investment manager, country, industry sector and individual securities. Each manager is expected to maintain a diversified portfolio within their allocation.

Market Price Risk

Market 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 the market in general.

By diversifying investments across asset classes and managers, the Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst the appointment of specialist managers enables the Fund to gain from their investment expertise.

Market Price - Sensitivity Analysis

Whilst the value of the Fund's assets is sensitive to changes in market conditions and the Fund's assets are diversified across fund managers and asset classes to mitigate the risks. The Fund's liability to pay future benefits is equally sensitive, particularly to interest rate changes. In consultation with Mercer, the Fund's investment consultant, the Fund has determined that the following movements in market price risk are reasonably possible for 2019/20. Assuming that all other variables in particular foreign exchange rates and interest rates, if the market price of the Fund's investments does increase/decrease in line with the table below, the change in the market price of net assets available to pay benefits would be as follows.

Asset Type	**31 March 2019 £000**	**Percentage Change %**	**Value on increase £000**	**Value on decrease £000**
Long term investments	840	20.0	1,008	672
Equities – quoted	573,933	20.0	688,720	459,146
Bonds	428,687	4.2	446,621	410,753
Pooled investment vehicles	1,690,849	17.0	1,940,104	1,441,594
Property - unit trusts	214,243	14.8	245,951	182,535
Derivative contracts	(34)	12.2	(30)	(38)
Cash deposits	80,693	1.0	81,500	79,886
Investment income receivable	10,489	20.0	12,587	8,391
Total	**2,999,700**		**3,416,461**	**2,582,939**

Following analysis of historical data and expected investment return movement during the financial year, applying a 13.4% movement in market price risk which is reasonably possible for the 2018/19 reporting period, if the market price of the Fund's investments did increase/decrease in line with the table below, the change in the market price of net assets available to pay benefits would be as follows.

Asset Type	**31 March 2018 £000**	**Percentage Change %**	**Value on increase £000**	**Value on decrease £000**
Long term investments	840	13.4	953	727
Equities – quoted	883,946	13.4	1,002,395	765,497
Bonds	352,726	13.4	399,991	305,461
Pooled investment vehicles	1,239,939	13.4	1,406,091	1,073,787
Property - unit trusts	204,534	13.4	231,942	177,126
Derivative contracts	102	13.4	116	88
Cash deposits	121,408	13.4	137,677	105,139
Investment income receivable	9,504	13.4	10,778	8,230
Total	**2,812,999**		**3,189,943**	**2,436,055**

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate – Sensitivity Analysis
The Pension Fund recognises that interest rates vary and can impact income to the fund and the fair value of the assets, both of which affect the value of the net assets available to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the impact of a 1% change, long term average interest rates are expected to move less than 1% from one year to the next. The exposure to interest rate risk for 31 March 2018 has been restated to show the impact of a 1% change on the asset values. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

31 March 2019	**Asset Value**	**Impact of 1% increase**	**Impact of 1% decrease**
Exposure to interest rate risk	**£000**	**£000**	**£000**
Cash and cash equivalents	90,575	90,575	90,575
Fixed interest bonds	366,359	370,023	362,695
Variable rate bonds	62,328	62,328	62,328
Total	**519,262**	**522,926**	**515,598**

Restated 31 March 2018	**Asset Value**	**Impact of 1% increase**	**Impact of 1% decrease**
Exposure to interest rate risk	**£000**	**£000**	**£000**
Cash and cash equivalents	124,881	124,881	124,881
Fixed interest bonds	292,689	295,616	289,762
Variable rate bonds	60,037	60,037	60,037
Total	**477,607**	**480,534**	**474,680**

Asset Type	**Value**	**Change for the year in net assets available to pay benefits**	
		1%	**-1%**
Audited Accounts as at 31 March 2018	**£000**	**£000**	**£000**
Cash deposits	121,408	-	-
Cash balances (not forming part of the investment assets)	3,473	-	-
Bonds	292,689	2,927	(2,927)
Total	**417,570**	**2,927**	**(2,927)**

The exposure to interest rate risk for 31 March 2018 has been restated to show the impact of a 1% change on the interest receivable.

2018/19	**Interest receivable**	**Impact of 1% increase**	**Impact of 1% decrease**
Exposure to interest rate risk	**£000**	**£000**	**£000**
Cash and cash equivalents	903	912	894
Fixed interest bonds	8,721	8,721	8,721
Variable rate bonds	5,595	5,651	5,539
Total	**15,219**	**15,284**	**15,154**

Restated 2017/18	Interest receivable	Impact of 1% increase	Impact of 1% decrease
Exposure to interest rate risk	**£000**	**£000**	**£000**
Cash and cash equivalents	201	203	199
Fixed interest bonds	8,230	8,230	8,230
Variable rate bonds	5,280	5,333	5,227
Total	**13,711**	**13,766**	**13,656**

Income Source	Value	Change for the year on income values	
		1%	-1%
Audited accounts as at 31 March 2018	**£000**	**£000**	**£000**
Cash deposits / cash and cash equivalents	201	20	(20)
Bonds	8,230	-	-
Total	**8,431**	**20**	**(20)**

Changes in interest rates do not impact on 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 financial instruments 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 sterling. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value of foreign currency denominated investments will fall. Over the long term the differences in currencies are likely to balance out and the Fund has chosen not to hedge its currencies, with the exception of the European element of the La Salle property mandate.

Currency Risk – Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates have been analysed using a 9.36% movement in exchange rates in either direction for 31 March 2019. This analysis assumes that all variables, in particular interest rates, remain constant. Based on the composition of the Fund's currency exposure a 9.36% fluctuation in the currency is considered reasonable. A 9.36% weakening or strengthening of Sterling against the various currencies at 31 March 2019 would have increased or decreased the net assets by the amount shown below.

Currency Exposure by Asset Type	31 March 2019	Value on increase	Value on decrease
	£000	**£000**	**£000**
		+9.36%	**-9.36%**
Equities – quoted	439,638	480,788	398,488
Pooled investment vehicles	151,787	165,994	137,580
Property - unit trusts	163	178	148
Cash deposits	40,181	43,942	36,420
Total	**631,769**	**690,902**	**572,636**

The sensitivity of the Fund's investments to changes in foreign currency rates have been analysed using a 9.79% movement in exchange rates in either direction for 31 March 2018. This analysis assumes that all variables, in particular interest rates, remain constant. Based on the composition of the Fund's currency exposure a 9.79%

fluctuation in the currency is considered reasonable. A 9.79% weakening or strengthening of Sterling against the various currencies at 31 March 2018 would have increased or decreased the net assets by the amount shown below.

Currency Exposure by Asset Type	31 March 2018	Value on increase	Value on decrease
	£000	£000	£000
		+9.79%	-9.79%
Equities – quoted	540,358	593,259	487,457
Bonds	7,020	7,707	6,333
Pooled investment vehicles	167,712	184,131	151,293
Property - unit trusts	580	637	523
Cash deposits	98,247	107,865	88,629
Total	**813,917**	**893,599**	**734,235**

One important point to note is that currency movements are not independent of each other. If sterling strengthened generally it may rise against all the above currencies producing losses across all the currencies.

Currency Exposure by Significant Currency

The Fund's most significant currency exposures are to US Dollars and EUROs, using data on currency risk of 9.40% for the US Dollar and 7.99% for the EURO. Weakening or strengthening of Sterling against US Dollars and EUROs at 31 March 2019 would have increased or decreased the net assets by the amounts shown in the following table.

Asset Type	31 March 2019 £000	Percentage Change %	Value on increase £000	Value on decrease £000
US Dollars	388,278	9.40	424,776	351,780
EUROs	113,438	7.99	122,502	104,374
Total	**501,716**		**547,278**	**456,154**

Weakening or strengthening of Sterling against US Dollars and EUROs at 31 March 2018 would have increased or decreased the net assets by the amounts shown in the following table.

Asset Type	31 March 2018 £000	Percentage Change %	Value on increase £000	Value on decrease £000
US Dollars	483,474	9.71	530,419	436,529
EUROs	179,210	9.23	195,751	162,669
Total	**662,684**		**726,170**	**599,198**

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some sort of credit risk. The Fund is exposed to credit risk through its investment managers, custodian and its daily treasury management activities. Credit risk is minimised through the careful selection and monitoring of financial institutions and counterparties. Contractual credit risk is represented by the net payment or receipt that remains outstanding.

A source of credit risk is the cash balances held internally or by managers. The Pension Fund's bank account is held at Lloyds, which holds an "A" long term credit rating. The management of the cash held in this account is managed by the Council's Treasury Management Team in line with the Council's Treasury Management Strategy which sets out the permitted counterparties and limits. The value of the Fund invested by the Treasury Management Team at 31 March 2019 was £0.691m in an instant access Lloyds account. (On 31 March 2018 £1.186m was invested in an instant access Lloyds account.) Cash held by investment managers is invested with the global custodian, State Street, in a diversified money market fund rated AAAm.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The main liabilities of the Fund relate to the benefits payable which fall due over a long period of time. The investment strategy reflects this and sets out the strategic asset allocation of the Fund. Liquidity risk is mitigated by investing a proportion of the Fund in actively traded instruments in particular equities and fixed income investments. The Fund maintains a cash balance to meet operational requirements.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer to convert in to cash. The following table summarises the Fund's illiquid assets by fund manager.

31 March 2018		31 March 2019
£000		£000
211,284	Aviva	0
134,050	Blackstone	156,310
0	Brunel Infrastructure	5,883
0	Brunel Private Equity	1,565
0	La Salle	221,066
135,818	Pantheon Private Equity	119,040
29,761	Partners Group	24,867
567	Hg Capital	588
511,480		**529,319**

14. Related Parties

The Buckinghamshire County Council Pension Fund is administered by Buckinghamshire County Council and therefore there is a strong relationship between the Council and the Pension Fund.

The County Council was reimbursed £2.2m (£2.1m in the 2017/18 year) for oversight & governance costs and administration costs incurred by the County Council on behalf of the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £45.1m to the Fund in 2018/19 (£45.1m in the 2017/18 year).

The Pension Fund's surplus cash held for day to day cash flow purposes is invested on the money markets by the Buckinghamshire County Council's treasury management team, through a service level agreement. During the year to 31 March 2019, the Fund had an average investment balance of £7.7m (£7.2m in the 2017/18 year), earning interest of £55k (£30k in the 2017/18 year).

Membership of the Local Government Pension Scheme (LGPS) for Councillors closed to new members on 31 March 2014, councillors who were active members ceased to be a member at the next end of term of office. There is one member of the Pension Fund Committee who is a deferred member of the Fund. There are no members of the Pension Fund Committee who are pensioner members of the Fund on 31 March 2019 (on 31 March 2018 no pensioner or deferred members). The Director of Finance and Procurement (s151 Officer), holds a key position in the financial management of the Fund and is an active member. He is an employee of Buckinghamshire County Council for whom a portion of his costs of employment are re-charged to the Fund. Disclosure of his pay costs can be found within the officer remuneration note in the main Buckinghamshire County Council accounts.

The Pension Fund has transactions with Brunel Pension Partnership Ltd (BPP Ltd) (Company number 10429110) which was formed on 14 October 2016 and will oversee the investment of pension fund assets for ten Funds. The founding Funds include The Environment Agency Pension Fund, and the Local Government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. Each of the 10 organisations, including Buckinghamshire County Council own 10% of BPP Ltd. During the year to 31 March 2019 BPP Ltd provided services costing £835k (£840k in the year to 31 March 2018).

15. Current Assets and Liabilities

31 March 2018 £000	Current Assets and Liabilities	31 March 2019 £000
	Current Assets	
7,922	Contributions due from employers 31 March	10,109
3,473	Cash balances (not forming part of the investment assets)	9,882
2,898	Other current assets	1,703
14,293	**Total Current Assets**	**21,694**
	Current Liabilities	
(2,091)	Management charges	(1,170)
(953)	HM Revenue and Customs	(1,003)
(511)	Unpaid benefits	(692)
(1,588)	Other current liabilities	(11,505)
(5,143)	**Total Current Liabilities**	**(14,370)**
9,150	**Net Current Assets**	**7,324**

16. Taxes on Income

2017/18 £000	Taxes on Income	2018/19 £000
-	Witholding tax - fixed interest securities	-
554	Witholding tax - equities	471
554	**Total Taxes on Income**	**471**

The Fund retains the following taxation status:

- VAT input tax is recoverable on all fund activities by virtue of Buckinghamshire County Council being the administering authority.
- The fund is an exempt approved fund under the Finance Act 2004 and is therefore not liable to UK income tax or capital gains tax.
- Income earned from investments overseas in certain countries is subject to withholding tax, unless an exemption is available.

17. Actuarial Position of the Fund

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended), the Fund's actuary, Barnett Waddingham LLP, undertakes a funding valuation every three years to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

On 31 March 2016, the market value of the assets held were £2,221.253m, sufficient to cover 87% of the accrued liabilities assessed on an ongoing basis. All employers are projected to be fully funded after an average recovery period of 16 years. The primary rate of contribution is the employers' share of the cost of benefits accruing in each of the three years beginning 1 April 2017 and is 15.1% of payroll. In addition each employer pays a secondary contribution rate based on their particular circumstances, the secondary contribution rate across the whole Fund averages 6.2% in 2017/18, 6.3% in 2018/19 and 6.4% in 2019/20.

The results of the valuation are that the past service funding level of the Fund as a whole has increased from 82% to 87% between 31 March 2013 and 31 March 2016. The improvement of the funding position since the previous valuation is mainly due to good investment returns and employer contributions.

The main assumptions used in the valuation were:

Future assumed returns

- Investment return - gilts 2.4% per annum
- Investment return - other bonds 3.3% per annum
- Investment return - cash / temporary investments 1.8% per annum
- Investment return - equities 7.4% per annum
- Investment return - property 5.9% per annum
- Investment return - absolute return fund (LIBOR+) 5.8% per annum
- Investment return - expense allowance -0.2% per annum

Financial assumptions

- Discount rate 5.4% per annum
- Pension increases 2.4% per annum
- Short term pay increases in line with CPI from 31 March 2016 to 31 March 2020
- Long term pay increases 3.9% per annum

The demographic assumptions are the same as those used by the Government Actuary's Department when LGPS reforms were designed and are based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds.

The Fund's actuary undertook an interim valuation as at 31 March 2019 which showed that the funding level had increased to 95% and the average required employer contribution would be 21.3% of payroll assuming the deficit is to be paid by 2032. The estimated funding position is based on market movements since 31 March 2016 rather than being a full valuation with updated member data. Following the 31 March 2019 triennial valuation, an updated funding level will be available later this year.

18. Actuarial Present Value of Promised Retirement Benefits

International Financial Reporting Standards (IFRS) requires the disclosure of the actuarial present value of promised retirement benefits. The Fund's Actuary has prepared a report which rolls forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2016. On an IAS 19 basis the Actuary estimates that the net liability as at 31 March 2019 is £1,792m (31 March 2018 £1,794m), but figures calculated on an IAS 19 basis are not relevant for calculations undertaken for funding purposes or for other statutory purposes undertaken under UK pensions legislation. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

For the Triennial Valuation the actuary asks the question – what is the value of the assets required based on existing investment strategy to be sufficient to meet future liabilities? For IAS 19 valuations, however, the actuary asks the question – how much would need to be borrowed on the corporate bond market to meet future liabilities?

The expected returns on the assets actually held will be different from borrowing costs, and so different amounts are required. This manifests itself in different discount rates being used in each type of valuation, and so different values are placed on the same liabilities.

31 March 2018 £000		31 March 2019 £000
4,605,799	Present value of funded obligation	4,791,251
(2,812,158)	Fair value of scheme assets	(2,998,856)
1,793,641	**Net Liability**	**1,792,395**

The Present Value of Funded Obligation consists of £4,628m (£4,470m at 31 March 2018) in respect of Vested Obligation and £163m (£136m at 31 March 2018) in respect of Non-Vested Obligation. Vested benefits are the benefits that employees have a right to receive even if they do not render services to the employer. In other words, the employees will receive their vested benefits even if they stop working for the employer. Thus, non-vested benefits are the benefits an employee can receive in the future if he or she continues providing services to the employer. The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the triennial funding valuation (see Note 17) because IAS19 stipulates a discount rate rather than a rate that reflects market rates. The main assumptions used were:

31 March 2018		31 March 2019
3.3%	RPI increases	3.4%
2.3%	CPI increases	2.4%
3.8%	Salary increases	3.9%
2.3%	Pension increases	2.4%
2.6%	Discount rate	2.4%

These assumptions are set with reference to market conditions at 31 March. The Actuary's estimate of the duration of the Fund's past service liabilities is 20 years. An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).This is consistent with the approach used at the previous accounting date.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date. As future pension increases are expected to be based on CPI rather than RPI, the Actuary has made a further assumption about CPI which is that it will be 1.0% below RPI i.e. 2.4%.

Salaries are assumed to increase at 1.5% above CPI in addition to a promotional scale. However, the Actuary has allowed for a short term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. The liabilities include an allowance for the Court of Appeal judgement in relation to the McCloud & Sargeant cases which related to age discrimination within the Judicial & Fire Pension schemes respectively.

Demographic/Statistical assumptions

The actuary has adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 85%. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a. The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	**31 March 2018**	**31 March 2019**
Retiring today		
Males	24.0	22.9
Females	26.1	24.8
Retiring in 20 years		
Males	26.2	24.6
Females	28.4	26.6

The actuary also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

19. Contingent Liabilities and Contractual Commitments

Outstanding contractual commitments at 31 March 2019 relate to outstanding call payments due on unquoted limited partnership funds held in the private equity, resources, global real estate and infrastructure parts of the portfolio. The amounts “called” by the funds are irregular in both size and timing over several years from the date of each original commitment. The undrawn amount, the outstanding commitment, for each of these contracts is shown in the table below:

Outstanding Capital Commitments

	31 March 2018 £000	**31 March 2019 £000**
Brunel Infrastructure	0	68,846
Brunel Private Equity	0	73,570
Pantheon Asia Fund V LP	1,466	715
Pantheon Asia Fund VI LP	8,352	6,369
Pantheon USA Fund VII Limited	1,148	1,244
Pantheon USA Fund VIII Feeder LP	6,024	5,803
Pantheon Global Secondary Fund IV Feeder LP	3,572	3,465

Partners Group Global Resources 2009, LP	3,020	3,271
Pantheon Europe Fund V "A" LP	999	982
Pantheon Europe Fund VI LP	4,721	3,578
Partners Group Global Real Estate 2008 SICAR	1,754	1,722
Partners Group Global Infrastructure 2009 SICAR	2,764	2,715
	33,820	**172,280**

On 31 March 2019 there was one group transfer to the Fund being negotiated with other Funds (3 on the 31 March 2018), the value of the transfers to the Fund is being negotiated between the Funds' actuaries. The income due to the Fund for the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available. On 31 March 2019 there was one group transfer from the Fund being negotiated with other Funds (one on the 31 March 2018), the value of the transfers from the Fund is being negotiated between the Funds' actuaries. The expenditure in respect of the transfers has not been accrued since negotiations are at too early a stage for an estimate of the value to be available.

20. Additional Voluntary Contributions (AVCs)

AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The AVC providers to the Fund are Prudential and Scottish Widows, Scottish Widows replaced Clerical Medical on 7 May 2017. Prudential invests in several funds including with profits accumulation, deposit and discretionary funds. Scottish Widows invests in a range of funds to suit Scheme members' changing lifestyles. These amounts are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016.

2017/18 £000	Prudential	2018/19 £000
4,035	Value of AVC fund at beginning of year	3,869
91	Correction opening value	860
570	Employees' contributions and transfers in	543
242	Investment income	79
(1,069)	Benefits paid and transfers out	(611)
3,869	**Value of AVC fund at year end**	**4,740**

07.05.2017 - 31.03.2018 £000	Scottish Widows	2018/19 £000
3,378	Value of AVC fund at beginning of year	3,321
0	Correction opening value	(437)
141	Employees' contributions	119
400	Investment income	(46)
(598)	Benefits paid and transfers out	(119)
3,321	**Value of AVC fund**	**2,838**

21. List of Scheduled and Admitted Bodies

Scheduled Bodies

Buckinghamshire County Council
Buckinghamshire Fire and Rescue Service
Thames Valley Police
Aylesbury Vale District Council
Chiltern District Council
Milton Keynes Council
South Bucks District Council
Wycombe District Council

Amersham Town Council
Aston Clinton Parish Council
Aylesbury Town Council
Beaconsfield Town Council
Bletchley & Fenny Stratford Town Council
Bradwell Parish Council
Broughton & Milton Keynes Parish Council
Buckingham Town Council
Burnham Parish Council
Campbell Park Parish Council
Chalfont St Giles Parish Council
Chalfont St Peter Parish Council
Chepping Wycombe Parish Council
Chesham Bois Parish Council
Chesham Town Council
Chiltern Crematorium
Chilterns Conservation Board
Coldharbour Parish Council
Coleshill Parish Council
Gerrards Cross Parish Council
Great Missenden Parish Council
Hambleden Parish Council
Hazlemere Parish Council
Iver Parish Council
Ivinghoe Parish Council
Kents Hill & Monkston Parish Council
Lacey Green Parish Council
Lane End Parish Council
Little Marlow Parish Council
Longwick-cum-Ilmer Parish Council
Marlow Town Council
Mentmore Parish Council
New Bradwell Parish Council
Newport Pagnell Town Council
Newton Longville Parish Council
Olney Town Council
PCC for Thames Valley
Penn Parish Council
Piddington & Wheeler End Parish Council
Princes Risborough Town Council
Shenley Brook End and Tattenhoe Parish Council
Shenley Church End Parish Council
Stantonbury Parish Council
Stony Stratford Town Council
Taplow Parish Council
Waddesdon Parish Council
Wendover Parish Council
West Bletchley Town Council
West Wycombe Parish Council
Weston Turville Parish Council
Winslow Town Council
Woburn Sands Town Council
Wolverton & Greenleys Town Council
Wooburn & Bourne End Parish Council
Woughton Community Council

Alfriston School
Amersham School
Aspire Schools
Aylesbury College
Aylesbury Grammar School
Aylesbury High School
Aylesbury Vale Academy
Beaconsfield High School
Bedgrove Infant School
Bedgrove Junior School
Beechview Academy
Bourne End Academy
Bourton Meadow Academy
Bridge Academy
Brill CofE Combined School
Brookmead School
Brooksward School
Brushwood Junior School
Buckinghamshire New University
Buckinghamshire University Technical College
Burnham Grammar School
Bushfield School
Castlefield School
Chalfonts Community College
Chalfont St Peter CE Academy
Chalfont Valley E-Act Academy
Charles Warren Academy
Chepping View Primary Academy
Chesham Bois CofE Combined School
Chesham Grammar School
Chestnuts Academy

Chiltern Hills Academy
Chiltern Way Academy
Cottesloe School
Danesfield School
Denbigh School
Denham Green E-Act Academy
Dorney School
Dr Challoner's Grammar School
Dr Challoner's High School
E-Act Burnham Park Academy
EMLC Academy Trust
Fairfields Primary School
George Grenville Academy
Germander Park School
Gerrards Cross CoE School
Glastonbury Thorn First School
Great Horwood CofE Combined School
Great Kimble CoE School
Great Kingshill CoE Combined School
Great Marlow School
Great Missenden CoE Combined School
Green Park School
Green Ridge Academy
Hamilton Academy
Heronsgate School
Heronshaw School
Holmer Green Senior School
Ickford School
Inspiring Futures Through Learning
Ivingswood Academy
John Colet School
John Hampden Grammar School
Jubilee Wood Primary School
Kents Hill Park School
Kents Hill School
Khalsa Secondary Academy
Kingsbridge Education Trust (MAT)
Knowles Primary School
Lace Hill Academy
Lent Rise Combined School
Longwick CofE Combined School
Lord Grey Academy
Loudwater Combined School
Loughton School
Middleton Primary School
Milton Keynes Academy
Milton Keynes College
Milton Keynes Development Partnership
Milton Keynes Education Trust
Monkston Primary Academy
New Bradwell School
New Chapter Primary School
Oakgrove School
Olney Infant School
Olney Middle Academy
Orchard Academy
Ousedale School
Overstone Combined School
Oxford Diocesan Bucks School Trust (MAT)
Oxley Park Academy
Padbury CofE School
Portfields Combined School
Princes Risborough Primary School
Princes Risborough School
Rickley Park Primary School
Royal Grammar School
Royal Latin School
St John's CofE Combined School
St Nicolas' CE Combined School Taplow
St Paul's RC School
Seer Green CofE School
Shenley Brook End School
Shepherdswell School
Sir Henry Floyd Grammar School
Sir Herbert Leon Academy
Sir Thomas Fremantle Academy
Sir William Borlase's Grammar School
Sir William Ramsay School
Southwood Middle School
Stanton School
Stantonbury Campus
Stephenson Academy
The Beaconsfield School
The Bridge Academy
The Hazeley Academy
The Highcrest Academy
The Misbourne School
The Premier Academy
The Radcliffe School
Thomas Harding Junior School
Two Mile Ash School
Waddesdon CoE School
Walton High
Water Hall Primary School
Waterside Combined School
Whitehouse Primary School
Wooburn Green Primary Academy
Wycombe High School
Wyvern School

Election Fees:
Aylesbury Vale Local
South Bucks Local

Admitted Bodies

Acorn Childcare
Action for Children
Action for Children (Children's Centres)
Adventure Learning Foundation (BCC)
Ambassador Theatre Group
Ashridge Security Management
Aspens Services Ltd
Avalon Cleaning Services (Langland School)
Buckinghamshire Music Trust
Bucks Association of Local Councils
Bucks County Museum Trust
Busy Bee Cleaning Services Ltd (WDC)
C-SALT (Woughton Leisure Centre)
Capita (WDC)
Caterlink Ltd (Buckingham Primary)
Caterlink Ltd (Chiltern Hills Academy)
Chartwells Ltd (Oakgrove School)
Chiltern Rangers CIC
Cleantec Services Limited (MK Academy)
Cleantec Services Limited (Oakgrove School)
Connexions Buckinghamshire
Cucina Restaurants Ltd (Denbigh School)
Cucina Restaurants Ltd (Walton High)
Derwent Facilities Management Ltd
Excelcare
Fujitsu Services Limited
Hayward Services Ltd (Downley School)
Hayward Services Ltd (John Colet)
Heritage Care
Hightown Housing Association Ltd
Innovate Ltd
Kids Play Ltd
Manpower Direct Ltd
Mears Group plc
Mercury Infrastructure Limited
NSL Services Group
Nurture Landscapes (MKC)
Oxfordshire Health NHS Foundation Trust
Paradigm Housing Association
Places for People Leisure (Newport Pagnell TC)
Places for People Leisure (WDC)
Police Superintendents Association Limited
Red Kite Community Housing Ltd
Ridge Crest Cleaning Ltd (Shenley Brook End)
Ridge Crest Cleaning Ltd (Walton High)
Ringway Infrastructure Services
Ringway Jacobs
Serco (MKC)
Serco (MKC Recreation & Maintenance)
Sports Leisure Management
Spurgeons
The Fremantle Trust
Vale of Aylesbury Housing Trust
Wolverton & Watling Way Pools Trust
Wycombe Heritage and Arts Trust

Grant Thornton

The Audit Findings for Buckinghamshire Pension Fund

Year ended 31 March 2019

September 2019

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Buckinghamshire Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	We planned to complete our audit by 31 July 2019, but this was not possible. There are several reasons for this, which are as follows: • The 'Significant findings – other issues' section of this report sets out the additional work we have had to perform in respect of the McCloud court case. The work on this matter has impacted on the progress of a number of areas of the audit, due to the additional time commitment required. This matter was outside the control of the Pension Fund and the court case was only finalised in June, after the accounts had been submitted for audit • The additional work arising from this specialist pensions work has increased our total workload. We have sought to avoid this impacting on the quality of the audit by retaining our use of specialist public sector audit individuals, rather than expanding the team to use non-specialists. Whilst we have sought to contain and absorb the additional work as much as possible, we also want to avoid untenable pressures on our auditors as well as your finance team Our findings are summarised on pages 4 to 8. We have identified no adjustments to the financial statements that affect the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management in Appendix A and detailed the follow up to our prior year recommendation in Appendix B. This report is an update to the version presented to the Regulatory and Audit Committee on 30 July 2019. There are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters: - receipt of the management representation letter; and - review of the final version of the Pension Fund Annual Report.

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Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the Pension Fund's member data system; and
- Substantive testing of significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019, other than to identify an additional risk in relation to the transfer of assets to the Brunel Pension Partnership during the year. Further details can be found on page 5.

Conclusion

Our audit of your financial statements is complete. This report contains all our findings to date which we need to report to you.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations since those communicated in our Audit Plan have been updated to reflect the increase in value of the net assets of the Pension Fund since 31 March 2018 and the updated materiality amounts are stated right.

	Amount (£m)
Materiality for the financial statements	30.1
Performance materiality	22.6
Trivial matters	1.5

Significant findings – audit risks

	Risks identified in our Audit Plan	Auditor commentary
1	**The revenue cycle includes fraudulent transactions (rebutted)**	As communicated in our Audit Plan, we have rebutted this risk. We have made no changes to this assessment.
2	**Management override of controls**	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions We raised one recommendation in relation to journals authorisation and further details can be found in Appendix A. Other than this recommendation, our audit work has not identified any issues in respect of management override of controls.
3	**Valuation of Level 3 investments**	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period Our audit work has not identified any issues in respect of the valuation of Level 3 investments.
4	**Transfer of assets to Brunel Pension Partnership (BPP)** The Fund transferred £767.1m to BPP during the year. As a numerically significant and unusual transaction, there is a risk that the transfer of assets is made incompletely or inaccurately.	We have: • evaluated management's processes for transferring assets to BPP • tested the reconciliation used by management to confirm that the assets were transferred completely and accurately Our audit work has not identified any issues in respect of the transfer of assets to BPP.

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

Auditor commentary

- Management have concluded that the use of the going concern basis is appropriate for the Pension Fund and that they have not identified events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern
- Management have supported their assessment by reference to the Pension Fund engaging in new business relationships, such as the ongoing agreements with Brunel Pension Partnership.

Work performed

Auditor commentary

- We considered the appropriateness of management's use of the going concern basis in preparing the financial statements
- We assessed whether there were any events or conditions present that may cast significant doubt on the Pension Fund's ability to continue as a going concern
- We evaluated the adequacy of disclosures in the financial statements relating to going concern.

Concluding comments

Auditor commentary

- We have not identified any reasons to modify our audit opinion as a result of our procedures over going concern.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in private equity and infrastructure that in total are valued in the net assets statement as at 31 March 2019 at £152.8m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers to determine valuations using recognised techniques for the particular investment type (private equity and infrastructure). The value of the investment has decreased by £13.6m in 2018/19, due mainly to transfer of assets to BPP and calls and distributions on these investments during the year.	Our assessment of the estimate comprised: • Evaluating the audit opinion relating to the funds within which the investments are held • Testing the key assumptions used to determine the estimate • The appropriateness of the underlying information and techniques used to determine the estimate • Adequacy of disclosure of the estimate in the financial statements	Green
Level 2 investments	The Pension Fund have investments in a range of bonds, pooled investment vehicles and property unit trusts that in total are valued in the net assets statement as at 31 March 2019 at £2,181.8m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management use fund managers to determine valuations using recognised pricing techniques (such as for the equities and bonds held within pooled investment vehicles) and where appropriate use qualified external providers (for property unit trusts). The value of the investment has increased by £550.1m in 2018/19, predominantly due to the transfer of assets to BPP, where the assets are predominantly held as pooled investment vehicles.	Our assessment of the estimate comprised: • The controls employed by the fund managers engaged by management to determine the valuation of these investments • Agreeing investment unit prices or valuations to reports from the custodian and fund managers • The appropriateness of the underlying information and techniques used to determine the estimate • Adequacy of disclosure of the estimate in the financial statements	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – other issues

Issue	Commentary	Auditor view
Potential impact of the McCloud judgement The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Pension Fund has obtained an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in each of pension liabilities and past service costs of £38.8m. Management's view is that the impact of this change is material. The Pension Fund has now received the updated IAS 26 Report from its actuary and is incorporating the revised actuarial valuation into its 2018-19 financial statements.	We consider that that the approach used by the Pension Fund's actuary and the assumptions used in assessing the impact of the McCloud judgement are reasonable**.** Given the change in liability resulting from the McCloud judgement management has agreed to process the adjustments of £38.8m based on the updated IAS 26 report. We consider this an appropriate adjustment to the Pension Fund's financial statements. We have included this as an adjusted item at Appendix C.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Regulatory and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Pension Fund, which is included in the Regulatory and Audit Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the Pension Fund's custodian, fund managers and bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, except for the Pension Fund's bank. We undertook additional, alternative procedures in respect of the cash balance recorded in the Pension Fund financial statements and identified no issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We have concluded our review of the Annual Report and intend to issue an unqualified 'consistency' opinion on the Pension Fund Annual Report.

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Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-audit related			
IAS 19 procedures for other bodies admitted to the pension fund	TBC	Self interest	Fees are insignificant when compared to the audit fee.

Audit Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services. The fees reconcile to the financial statements.

	Proposed fee	Final fee
Pension Fund Audit	£19,275	TBC
Total audit fees (excluding VAT)	**£19,275**	**TBC**

Action plan

We have currently identified three recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● (Medium)	• Our journals testing identified a number of journals that did not contain any evidence of authorisation before posting. It is our understanding of the Pension Fund's policy that journals of those types should be subject to separate authorisation but that as a result of the lower volume of transactions and fewer members of staff who can post journal entries as compared to the County Council, this policy is not always followed in practice.	• Journals for the Pension Fund should be authorised in accordance with the relevant internal policy or that policy amended for the purposes of the Pension Fund. **Management response** • The Pension Fund's journal policy will be reviewed and updated.
2	● (Medium)	• As part of our testing of investments we considered management's quarterly reconciliation of investment valuations and noted that a number of differences had been identified that were not followed up with the custodian until year end. It would be more efficient for these differences to be followed up at the time they arise so that any corrections can be made promptly.	• Any differences identified from the custodian's quarterly reconciliation should be followed up in a more timely way. **Management response** • Agreed, there were a number of inconsistencies in the accounting reports from the custodian. We now have a clearer understanding of those inconsistencies and are confident that we will be able to follow up differences identified in a more timely manner.
3	● (Low)	• Management's reconciliation of the pension fund bank account contains uncleared miscellaneous items totalling approximately £354k. This balances comprises 105 transactions of which 77 relate to March 2019 and the remainder are spread across 9 months within the period March 2018 to February 2019. Whilst the uncleared transactions are individually and in aggregate not numerically significant, there are a number of aged transactions that it would be preferable to resolve as quickly as possible.	• Uncleared miscellaneous items in the bank account reconciliation should be resolved more promptly. **Management response** • 69 of the transactions were posted during the last week of March, 56 of these transactions were cleared during the first week in April. There are some 4,000 transactions processed each year with a small number that are difficult to allocate due to lack of information about the transaction.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issue in the audit of the Pension Fund's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓/x	In 2016/17 we reported that: The reconciliation of monthly returns for scheme contributions from scheduled and admitted bodies was not maintained on a regular basis during the year and a number of significant reconciling differences were not followed up and resolved. If this reconciliation is not kept up to date, then there is a risk that any misstatements of contributions recorded on the general ledger could go unidentified. In 2017/18 we reported that: The scheme contributions reconciliation has been maintained to a higher standard over 2017/18 and did not contain material reconciling differences as it did in the prior year. However, we noted from our testing of scheme contributions number of minor reconciling differences on the contributions for many of the scheduled and admitted bodies. This indicates that there remains further scope for management to improve the accuracy of the contributions reconciliation.	Our testing of the 2018-19 reconciliation determined that there were no material reconciling differences, however, the differences identified were still numerically significant. These differences represented three employers who were not included in the reconciliation, but which were included in the financial statements. There were also a number of insignificant differences noted in relation to several other employers. Whilst the accuracy and completeness of the reconciliation has been improved since this issue was first identified, we consider that there remains a need to improve further these aspects of the reconciliation.

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Assessment
✓ Action completed
X Not yet addressed

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the Pension Fund's reported financial position for the year ending 31 March 2019. Our audit work has not identified any adjusted or unadjusted misstatements to report to you.

Disclosure changes

The table below provides details of disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Detail	Impact
Note 12 – Financial Instruments	The cash deposits balance relating to investments as at 31 March 2018 was stated as £127,559k in the unaudited financial statements. To be consistent with the net assets statements, this should have been recorded as £121,408k. Management have agreed to correct for this.	The value of cash deposits as at 31 March 2018 has been reduced from £127,559k to £121,408k. There is no impact on the net assets statement.
Note 14 – Related Parties	The unaudited financial statements recorded contributions from the County Council in the current and prior years as £40.3m, which did not include all elements of the Council's contribution. Management have agreed to update the amounts for both years.	The contributions from the County Council during 2017/18 2018/19 have been increased to £45.1m.
Note 18 – Actuarial Present Value of Promised Retirement Benefits	Management have updated this disclosure to reflect the increased present value of defined benefit obligation and past service costs arising from the revised actuarial estimate to reflect the McCloud judgment, as detailed on page 8.	This present value of the defined benefit obligation as at 31 March 2019 has increased from £4,752.4m to £4,791.3m. The past service costs for the year to 31 March 2019 have increased from £1.9m to £40.7m.

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Regulatory and Audit Committee

Title: Treasury Management Update

Date: Wednesday 20 November 2019

Author: Richard Ambrose - Director of Finance and Procurement

Contact officer: Julie Edwards – Pensions & Investments Manager
Telephone (01296) 383910

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The Council is required to report to members on the current year's treasury management. It was agreed that a mid-year report on treasury management would be reported to Regulatory and Audit Committee prior to reporting to County Council as required by the CIPFA Code of Practice on treasury management in the public sector.

Recommendations

The Committee RECOMMENDS to Council the Treasury Management Update Report and the Prudential Indicators.

Supporting information

1 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Regulations (B5), this Council is required to provide Regulatory and Audit Committee with a mid-year report on the treasury management activity for the first six months of the financial year.

2 The Code of Practice defines Treasury Management as:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Treasury Management Strategy

3 The Council approved the 2019/20 treasury management strategy at its meeting on 21 February 2019. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities. In exceptional circumstances, where investments do not meet this criteria, decisions on investments will be delegated to the Director of Finance and Procurement in consultation with both the Leader of the Council and the Cabinet Member for Resources, or where considered appropriate will be referred to Cabinet for such a decision. The Council's cash position is a net borrower:

	31 Mar 2018	30 Sept 2018	31 Mar 2019	30 Sept 2019
Borrowing	**£m**	**£m**	**£m**	**£m**
PWLB Borrowing*	-102.1	-150.0	-243.5	-250.1
LOBO Borrowing#	-78.0	-30.0	-30.0	-30.0
Short term Borrowing	-32.0	-45.0	-20.0	0.0
Accrued Interest	-1.1	-1.0	-2.7	-2.2
Gross Borrowing	**-213.2**	**-226.0**	**-296.2**	**-282.3**
Treasury Cash				
Money Market Funds	15.3	4.8	5.5	21.2
CCLA Property Fund	5.0	5.0	5.0	5.0
Total Cash	**20.3**	**9.8**	**10.5**	**26.2**
Net Cash / (Borrowing)	**-192.9**	**-216.2**	**-285.7**	**-256.1**

*PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury, it's purpose is to lend money to local authorities The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

#LOBO Lender Option Borrower Option. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

4 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions. There were no investments placed which resulted in a breach of the investment strategy.

Debt Management Strategy

5 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.

- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.

Outlook for Interest Rates

6 Arlingclose's central case is for Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

Interim Performance Report

7 The following table summarises interest paid on external debt and interest earned on cash balances in 2018/19 and the forecast for 2019/20:

	2018/19 Outturn	2019/20 Forecast
	£m	£m
Interest paid on Loans	8.7	8.7
Interest Income	-0.5	-0.5
Net Interest Cost	8.2	8.2

8 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. On 30th September 2019, the Council had net borrowing of £256.1m arising from its revenue and capital income and expenditure. Investments totalled £26.2m. The forecast outturn for interest earned on investments £489k. This includes £5m invested in the CCLA property fund.

9 Loans outstanding totalled £282.3m at 30 September 2019; £250.1m was from the Public Works Loan Board (PWLB), £30m LOBO loans and £2.2m accrued interest. The forecast outturn for interest payments on external debt is £8.6m. In May the Council arranged a new equal instalment of principal (EIP) loan. EIP loans are where equal half-yearly instalments of principal are paid with the interest on the balance outstanding at the time. Annuity loans are where fixed half-yearly payments include principal and interest. A repayment of £7m is due to be paid to the PWLB on 14 February 2020. Instalments of loan principal will be repaid on annuity and EIP loans totalling £3.2m between 1 October 2019 and 31 March 2020.

10 The forecast external borrowing as at 31 March 2020 is £272.6m which includes £240.4m from the PWLB, £30m LOBO loans and £2.2m accrued interest. On 30 September, the Council had no short term loans in place. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

11 The PWLB increased the margin applied to loan rates by 1% on 8 October, the new margin above gilts is now 1.8%. Arlingclose suggested that those authorities that can sensibly delay long-term funding do so and select shorter-term loans from other local authorities in the interim. There are several alternatives to PWLB funding, such a bank loans and the municipal bonds agency. Arlingclose held a detailed discussion with HM Treasury (HMT) policy makers. HMT is keen to ensure borrowing across local government is controlled. They observed a clear correlation between the reduction in PWLB rates and the increase in borrowing undertaken in recent months. While they

increased the statutory PWLB limit by £10bn to £95bn, they were fearful that, at the current rate of borrowing, this could be exhausted in a few months. With no appetite to extend the statutory limit beyond this, HMT decided to control demand by increasing rates, thereby preserving the facility. HMT are less concerned about the type of borrowing or purpose, than the overall level of local authority debt.

12 The Council continues to be aware of the potential to restructure debt, but there are unlikely to be opportunities in the prevailing interest rate environment.

Prudential Indicators

13 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The indicators were agreed by County Council at its meeting on 21 February 2019.

Borrowing Indicators

Indicator	Unit	Revised Estimate 2019/20	2019/20
Gross Borrowing	£000	425,000	425,000
Capital Financing Requirement	£000	462,767	468,208

Indicator	Unit	Revised Estimate 2019/20	2019/20
Authorised limit (for borrowing) *	£000	435,000	435,000
Authorised limit (for other long term liabilities) *	£000	10,000	10,000
Authorised limit (for total external debt) *	£000	445,000	445,000

* These limits can only be breached with the approval of the full Council to raise ther

Indicator	Unit	Revised Estimate 2019/20	2019/20
Operational boundary (for borrowing)	£000	405,000	405,000
Operational boundary (for other long term liabilities)	£000	7,500	7,500
Operational boundary (for total external debt)	£000	412,500	412,500

Treasury Management Indicators

14 The Council measures and manages its exposures to treasury management risks using the following indicators.

15 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Indicator as at 30 September 2019	Target
Portfolio average credit rating	AA-	A

16 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one month period, without additional borrowing.

Liquidity risk indicator	Actual	Target
Total cash available within one month	£29m	£10m

17 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Actual	Indicator
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£36,000	-£23,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£36,000	£23,000

18 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

19 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Actual 30 Sept 2019	Upper limit	Lower limit
Under 12 months	10%	25%	0%
12 months and within 24 months	2%	20%	0%
24 months and within 5 years	7%	20%	0%
5 years and within 10 years	20%	25%	0%
10 years and above	61%	70%	25%

20 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

21 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end are:

Price risk indicator	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£10m	£10m	£10m

Legal Implications

22 The publication of a mid-year treasury report conforms to best practice as required by the CIPFA Treasury Management in the Public Services: Code of Practice.

Other Implications

23 Not applicable.

Feedback from consultation, Local Area Forums and Local Member views

24 Not applicable.

Background Papers

Treasury Management Strategy Report to County Council 21 February 2019
https://democracy.buckscc.gov.uk/documents/g12196/Public%20reports%20pack%2021st-Feb-2019%2009.30%20County%20Council.pdf?T=10

Treasury Management Annual Report 2018/19 to County Council 25 July 2019
https://democracy.buckscc.gov.uk/documents/g12135/Public%20reports%20pack%2025th-Jul-2019%2009.30%20County%20Council.pdf?T=10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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