



Pension Board

Wednesday 27 July 2016 at 7.00 pm

Board Room 2 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

Mr David Ewart (Chair)
Councillor Crane
Councillor Kabir
Bola George
Euton Stewart
Trevor Dawson
Angela Cattermole

Independent member
Employer representative
Employer representative
Member representative (Trade Union)
Member representative (Trade Union)
Member representative (Pension Scheme member)
Employer representative (other than Council)

For further information contact: Peter Goss, Democratic Services Manager
peter.goss@brent.gov.uk 020 8937 1353

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members.

Item	Page
1 Apologies for absence	
2 Declarations of interests	
Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
3 Minutes of the previous meeting	1 - 4
To approve the minutes of the previous meeting as a correct record.	
4 Matters arising	
5 Chair's Annual Report outlining the work of the Board for 2015/16	5 - 8
This report provides a summary of the work carried out by the Council's Pensions Board and covers the period from the Board's inception and first meeting in July 2015 to the end of 2015/16.	
6 A discussion on training needs in view of last year and the work programme	
7 Draft Annual Report (Pension Fund Annual Accounts)	9 - 142
The Draft Annual Report and Accounts 2015/16 are presented for the Pension Fund.	
8 Final Response to Government Consultation on Pooling	143 - 174
The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the LGPS. London Local authorities and their pension funds have been working together for over 3 years to bring the benefits of pooling of investments in London.	

9 Update on Performance of Capita 175 -
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This report presents an update on Capita's performance

10 Re-enrolment update 179 -
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This report provides progress on re-enrolment.

11 Actuarial Review 183 -
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Training slides attached.

12 Verbal Update on the Triennial Actuarial Review Progress

13 Smaller Admitted Bodies and the Triennial Review report 209 -
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The purpose of this report is to provide an update on the impact of the Triennial Review and the increasingly differentiated risks attached to the Various Bodies. It is also updates members on the review and planned actions that officers are starting to take to ensure that risks are addressed.

14 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 64.

Date of the next meeting: Wednesday 23 November 2016



- Please remember to **SWITCH OFF** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

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MINUTES OF THE PENSION BOARD Tuesday 2 February 2016 at 7.00 pm

PRESENT: Mr D Ewart (Chair), Councillors S Choudhary and Kabir and Mr E Stewart

Apologies were received from: Ms B George

1. Apologies for absence

Received from Bola George. Francesca Hammond was in attendance to represent her.

2. Declarations of interests

None declared.

3. Minutes of the previous meeting

RESOLVED:

that the minutes of the meeting held on 7 July 2015 be approved as an accurate record of the meeting.

4. Matters arising

Communication of Pension Board business back to employees and scheme members

Members asked that inclusion of an explanation of the Board's establishment and role in the pension newsletter be pursued and circulated to Board members.

5. Capita's LGPS pension administration performance 2015

The Board considered the report on the performance of Capita Employee Benefits against the contract year October 2014 to September 2015, the fourth year of a six year contract. The Board was advised that performance for the period had been unsatisfactory but that it had since improved. The Chair recognised the failings and remarked on how well these had been handled in discussions with Capita. With reference to paragraph 3.2.5 of the report, it was explained that consideration would be given to reporting the lateness of providing complete Annual Benefit Statements to the Regulator once all the outstanding issues had been resolved. Euton Stewart pointed out that scheme members affected should raise the issue with their Trade Union.

The Chair thanked the HR Director and her staff for their work in dealing with this serious situation. He asked that the matter be kept under review and that referral of the matter to the Regulator be actively considered.

RESOLVED:

that the report submitted be noted and that a follow-up report be submitted to the next meeting of the Board reviewing the performance and progress made by Capita.

6. LGPS pension related complaints

The Board considered the report which detailed the Local Government Pension Scheme (LGPS) pension related complaints under the Council's Internal Dispute Resolution Procedure (IDRP) and those escalated to the Pensions Ombudsman Service.

The Board was re-assured that whilst there was the possibility of one further complaint being referred to the Ombudsman, the IDRP was dealing with the majority of complaints.

RESOLVED:

that the report be noted and a similar report be submitted to the Board in one years' time unless any referral of a complaint to the Ombudsman requires the Board to consider the matter at an earlier time.

7. Brent Pension Fund - Annual Report and Accounts 2014/15

The Board considered the Annual Report and Accounts of the Brent Pension Fund for 2014/15.

Board members asked questions arising from the report concerning accounting methods, investment performance an strategy and the number of active employers. The Chair explained that the Council's Finance Director has offered to receive questions from Board members outside the meeting and ensure answers were copied to all Board members.

RESOLVED:

that the Annual Report and Accounts be noted.

8. Appointment of employer representative

The Board was informed that a further offer to employers had been made to nominate a representative to serve on the Board. It was hoped this would bring forward a volunteer.

The absence of Trevor Dawson, a pension scheme member representative was noted and the Board requested that he be contacted to ascertain his future participation.

RESOLVED:

that should Mr Trevor Dawson be no longer able to serve on the Board, officers be delegated to pursue his replacement.

9. **Workplan**

The Chair proposed the following work plan:

- Update on performance of Capita
- Discussion around a training strategy for the Board
- Consideration of the risk and administration strategy as set out in the Brent Pension Fund Annual Report
- Progress on the results of the Actuarial Review (to July 2016 meeting)
- Consideration of development of the role of the Board arising from the Brent Pension Fund Annual Report and draft annual accounts
- Complaints

10. **Date of next meeting**

Dates for meetings of the Board would be included in the Council's calendar of meetings for 2016/17 and it was requested that the next meeting be in July 2016.


11. **Any other urgent business**

None.

The meeting closed at 8.25 pm

D EWART
Chair

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 Brent	<p>Pension Board 27 July 2016</p> <p>Report from the Chair of Council's Pensions Board</p>
<p>For information* Wards affected: ALL</p>	
<p>Annual report</p>	

1.0 Summary

- 1.1 This report provides a summary of the work carried out by the Council's Pensions Board. The report covers the period from the Board's inception and first meeting in July 2015 to the end of 2015/16. It presents detailing of the Board members, training, the programme of work and items discussed during the Board's two meetings during the year.

2.0 Recommendation

To note the annual report, and agree to submit it to the General Purposes Committee.

3.0 Detail

3.1 The Board Membership

The membership of the Board was agreed by the Council's General Purposes Committee on 27 May 2015 was as follows:

Brent Council employer representatives - Councillors Chaudhary and Kabir

Trade Union representative – Unison – Bola Geoarge

Trade Union representative – GMB – Euton Stewart

Employer representative from another employer within the pension fund – Vacant (Angela Cattermole, Finance Officer, of the Ark Academy, has since been appointed).

Pension Scheme member – Trevor Dawson

Independent Chair – David Ewart

3.2 The Board's Training

The Board received two training seasons during the year:

- The first in July 2015 was provided the Pension Funds Actuaries' Hymans Robertson LLP covering:
 - What is the Local Government Pension Scheme (LGPS)
 - Brent Pension Fund specifics
 - The background to Local Pensions Boards (LPBs)
 - The Pensions Boards:
 - Role
 - Responsibilities
 - Knowledge and skills required
 - Training Strategy
 - The compliance and enforcement by the Pension Regulator in the LGPS
- The second session in February 2016 was specifically on the Board's roles, responsibilities and training needs which was provided by the Council's Director of Finance.

3.3 The Board's Meetings

During the year the Board met twice

The First Meeting

At its first meeting in July 2015, the Board agreed:

- (i) Its Terms of Reference:
 - (a) that, having noted that there was still one vacancy to be filled, noted the terms of reference and arrangements for the Board's meetings,
 - (b) They also agreed that a quorum of three, comprising at least one employer and one employee representative; and
 - (c) That a programme of dates for future meetings be subject to further consideration.
- (ii) On how to communication of Pension Board business back to employees and scheme members, the Board noted that the current Council web site provided pensions' information and a link to the administrators of the scheme, Capita's web site. However this did not provide information about the work of the Board. It was therefore felt that an item should be included in the next edition of the pension newsletter explaining the establishment and role of the Board. Further consideration would need to be given to how the work of the Board could be communicated back to scheme members.
- (iii) There work plan, the Board requested that the next Pension Fund Annual Report (for 2014/15) due to be submitted to the Pension Fund Sub-Committee be circulated to Board members. Further the Board resolved that the work plan for 2015/16 comprise:
 - (a) A report to the next meeting of the Board on the governance and the administration of the pension scheme; and
 - (b) An update on any cases referred to the Pension Regulator (and/or the Pension Ombudsman) and whether any action is required of the Board.

The Second Meeting

At its second meeting in February 2016, the Board:

- (i) Considered a report on the performance of Capita Employee Benefits, the Funds Pensions manager, against the contract for the year October 2014 to September 2015, the fourth year of a six year contract. The Board was advised that the performance for the period had been unsatisfactory but were pleased to note that it had since improved, the Board agreed to receive an update on the performance at its next meeting.
- (ii) Received a report details Local Government Pension Scheme (LGPS) pension related complaints under the council's Internal Dispute Resolution Procedure (IDRP) including those escalated externally to the Pensions Ombudsman Service. The Board was re-assured that whilst there was the possibility of one further complaint being referred to the Ombudsman, the IDRP was dealing with the majority of complaints.
- (iii) Considered the Annual Report and Accounts of the Brent Pension Fund for 2014/15. Board members asked questions arising from the report concerning accounting methods, investment performance an strategy and the number of active employers. It was noted that the Council's Finance Director has offered to receive questions from Board members outside the meeting and ensure answers were copied to all Board members.

3.4 The Board's work plan

The Board agreed as part of the forward work plan to consider the following item:


- a. Update on the Council's Pensions Fund Manager Capita's performance;
- b. Discussion on a training strategy for Board Members;
- c. Issues arising from the Brent Pension Fund Annual Report:
 - The risk framework; and
 - The Pension Administration Strategy;
- d. Emerging results of actuarial review;
- e. Update on any pension related complaints; and
- f. Consideration of development of the role of the Board arising from the Brent Pension Fund Annual Report and draft annual accounts.

3.5 Other Changes

It has also been agreed that the Board will meet three times, rather than the twice in 2015/16.

David Ewart
Independent Chair Brent Pensions Board
June 2016.

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 Brent	<p>Pensions Fund Sub-Committee 27 July 2016</p> <p>Report from the Chief Finance Officer</p>
For Information Purposes	Wards affected: ALL
Brent Pension Fund: Annual Report and Accounts 2015/16	

1. INTRODUCTION

- 1.1 This is the Draft Annual Report and Accounts 2015/16 for the Pension Fund.

2. RECOMMENDATIONS

- 2.1 The Pensions Board is recommended to note this report.

3. DETAILS

- 3.1 All Details contained within the statutorily required document.

4.0 Financial Implications

- 4.1 Not Applicable

5.0 Legal Implications

- 5.1 Not Applicable

6.0 Diversity Implications

- 6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, Investment and Pensions Section, Finance, on 020 8937 6567, Gareth.Robinson@brent.gov.uk at Brent Civic Centre

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Brent Pension Fund

Annual Report and Accounts 2015/16

Pensions Regulator Scheme Number: 10272080

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Chairman's Foreword

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2015/16.

The Fund has 6,143 contributors, 6,241 pensioners and 7,805 deferred pensioners.

The scheme is administered locally and is a valuable part of the pay and reward package for employees working in Brent Council or working for other employers in the Borough participating in the scheme.

Against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the value of the Fund's net investment assets £638.0m (2014/15 £639.4m).

Total contributions received from employers and employees totalled £46.3m for the year, an increase on the previous year's £45.3m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £37.9m, an increase on the previous year's £36.2m.

The Fund remains in a positive cash flow position, with a net £8.6m addition from dealing with scheme members (£6.3m previous year) to invest in order to meet the Fund's future pension liabilities.

The last actuarial valuation of the Fund was at 31 March 2013, and employer contribution rates were set for three years from 2014/15 onwards. The Pension Fund Sub-Committee will review the investment managers' performance and review its investment strategy for the coming years in the light of this recent valuation, making changes as it considers necessary.

In conclusion, I would like to extend my thanks and appreciation to all members of the Pension Fund Sub-Committee and officers for their continued input to the strong governance and management arrangements of the Fund.

Cllr George Crane
Chairman, Brent Pension Fund Sub-Committee

Management Structure

Administering Authority:	Brent Council Civic Centre Engineers Way Wembley Middlesex HA9 0FJ
Brent Pension Fund Officers:	Gareth Robinson, Head of Finance
Legal Advisers:	In-house
Custodian:	BNY Mellon
Actuary:	Hymans Robertson
Independent Adviser:	Peter Davies, AllenbridgeEpic Investment Advisers Limited
Fund Managers:	Legal & General Henderson Capital Dynamics Yorkshire Fund Managers Baillie Gifford Aviva Dimensional Alinda
Banker:	NatWest
Auditor:	KPMG
Performance Measurement:	WM
AVC Providers:	Prudential Clerical Medical Equitable Life (legacy only)

The Local Government Pension Scheme

The Government Pension Scheme (LGPS) is a statutory pension scheme.

This means that it is very secure as its benefits are defined and set out in law.

Under regulation 34 of The Local Government Pension Scheme (Administration) Regulations 2008 No. 239, all LGPS funds are required to publish an Annual Report.

This document is the Annual Report and Accounts of the Brent Pension Fund for 2015/16.

The LGPS in brief

- The LGPS is one of the largest public sector pension schemes in the UK, with 4.6 million members.
- It is a nationwide pension scheme for people working in local government or for other types of employer participating in the scheme.
- The LGPS is administered locally by 99 regional pension funds – one of which is the Brent Pension Fund.
- It is a funded scheme, which means that Fund income and assets are invested to meet future pension fund commitments.
- Benefits are defined and related to members' salaries, so they are not dependant on investment performance. Ultimately the local authority and local taxpayers are the final guarantors.
- The scheme is regulated by Parliament.

Governance

Governance Statement

The Brent Pension Fund publishes a Governance Statement each year. The latest version of this document is at page 56.

The Governance Statement reflects the Fund's commitment to transparency and engagement with employers and scheme members.

We monitor, review and consult where appropriate to ensure that our governance arrangements continue to be effective and relevant.

Administering Authority

Brent Council is the Administering Authority of the Brent Pension Fund and administers the LGPS on behalf of its participating employers.

- Brent Council has delegated its pensions functions to the Pension Fund Sub-Committee
- Brent Council has delegated responsibility for the administration and financial accounting of the Fund to the Chief Finance Officer
- This report supports Brent Council's Annual Governance Statement, which is published at page 56.

Governance Compliance

The Brent Pension Fund is fully compliant with the principles set out in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) Regulation 31.

The full compliance statement is at page 59.

Pension Fund Sub-Committee

The Pension Fund Sub-Committee is responsible for the strategic management of the assets of the Fund and the administration of benefits. The Pension Fund Sub-Committee meets quarterly to:

- ensure compliance with legislation and best practice
- determine policy for the investment, funding and administration of the Fund

- monitor performance across all aspects of the service
- consider issues arising and make decisions to secure efficient and effective performance and service delivery
- appoint and monitor advisers
- ensure that arrangements are in place for consultation with stakeholders as necessary.

Pension Fund Sub-Committee Membership as at 31 March 2016

Chair: Cllr Shafique Choudhary

Vice Chair: None appointed

Other Members: Cllr Ahmad Shahzad
Cllr Mary Daly
Cllr Sabina Khan
Cllr Tom Miller
Cllr Kana Naheerathan

Employee representatives: Francesca Hammond (UNISON) and Stephen Holley (College of North West London)

Other attendees: Conrad Hall, Chief Finance Officer
Gareth Robinson, Head of Finance
Peter Davies, Independent Financial Adviser

Pension Fund Sub-Committee Training

Training is business driven, therefore the programme is flexible. This allows us to effectively align training with operational needs and current agenda items, helping to support Member decision making.

Member training is supplemented by attendance at pensions investment conferences and other associated events.

Conflict of Interests

There is a standing agenda item at each Pension Fund Sub-Committee meeting for Members to declare any personal or prejudicial interests.

Accountability and Transparency

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at www.brent.gov.uk.

Pension Fund Sub-Committee meetings are open to members of the public.

Scheme Administration

The Brent Pensions Team

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

The Pensions Team is accountable to the Pension Fund Sub-Committee, participating employers and scheme members. The team are fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to delivering excellent customer care.

The team's responsibilities include the following:

- ensuring the accuracy of pensions records, including the preparation and distribution of the Annual Benefit Statements to all scheme members
- the timely collection of contributions
- advice and guidance to scheme members
- advice and guidance to employers
- early retirement schemes for Fund employers.

Operational costs

The Fund's operational costs are monitored throughout the year by the Fund's management team and reported in the Pension Fund Annual Accounts.

Communications

The Brent Pension Fund is committed to delivering a consistently high level of performance and customer service. Excellent communication is core to this commitment.

In all our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information
- carefully listen, consider and respond to communications we receive
- use plain English where possible and avoid unnecessary jargon
- use the communication method that best suits the audience and the information being passed on.

The Council's Communication Policy Statement can be found at page 62.

The Statement sets out who our main customers and contacts are, detailing how and when we communicate with them. We continually review and monitor our communications and the Statement is formally reviewed and endorsed each year by the Pension Fund Sub-Committee.

Actuarial Position

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary. The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013.

The purpose of this is to establish that the Brent Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of accrued liabilities.

In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable employer contributions to be kept as stable as possible and at reasonable cost; and
- maximise the returns from investments within reasonable risk parameters.

The most recent valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £554m, were sufficient to meet 56% of the £997m liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £442m.

During 2015/16, the most commonly applied employer contribution rate within the Brent Pension Fund was 29.4% of pensionable pay. Other employers have different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

Investment Review 2015/16

Economic Background

Growth in the UK economy slowed to 2.3% in 2015, while US growth remained steady at 2.4%. In both Japan and the Eurozone growth showed an improvement on 2014, but China slowed from 7.4% to 6.9%. One consequence of the Chinese slowdown was a sharp reduction in their demand for copper, iron ore and coal, which all fell sharply in price during the year. Oil continued to become cheaper as the Gulf producers maintained production levels, and the price of Brent crude fell from \$55 to \$40 per barrel during the year – having reached a low point of \$28 in January 2016. The weakness in commodity prices ensured that the rate of inflation was below 1% in most countries other than China.

Greece's tortuous negotiations with its creditors were finally resolved in August when the government – having held a referendum which rejected the terms offered – agreed to the conditions of the bailout. Investors then became concerned by the extreme gyrations of the Chinese stockmarket, which had risen by 150% in eighteen months before falling by 30% in the month to mid-July. In August the Chinese central bank suddenly announced it would allow the currency to weaken slightly, having been strong for the previous two years. Although the yuan/dollar rate eased by just 4%, the change of policy was interpreted as a sign that China was worried about its deteriorating balance of trade, and this created doubts about the sustainability of China's 7% GDP growth rate. After two weeks of worldwide equity market nerves, the Chinese authorities intervened by easing interest rates and lowering bank reserve requirements, as well as banning the short-selling of shares.

The US Federal Reserve had been expected to raise interest rates in September, but the uncertainty generated by the China situation caused a delay until December when US rates were raised by ¼%. At the time the Fed indicated that they expected to make four more ¼% rises during 2016, but the subsequent global economic slowdown is likely to limit this to two (or fewer) rises during the year. Meanwhile the European Central Bank had introduced a negative rate of interest on central bank deposits - in order to encourage banks to step up their lending - and increased the volume of Quantitative Easing. The Bank of Japan similarly brought in a negative interest rate in January, and by the end of March a significant proportion of short- and medium-dated government bonds were giving a negative yield.

Market Returns

Global Equities gave a negative return of 0.5% in sterling during the year to March, after sharp declines in August/September 2015 and early 2016, caused largely by fears about China's economy, were swiftly recouped. The only region to record a gain was North America (+3.6%), while

Developed Market regions suffered losses of 3-8%, and Emerging Markets fell by 9%. Emerging Markets had been hit hard by the Chinese currency moves, and their currencies and share markets suffered heavy falls in the second half of 2015.

[Source of equity market returns: FTSE All-World Total Return series (£)]

While the US dollar had been strong until December, there was an unexpected development in early 2016 when the euro and the yen appreciated despite the negative interest rates in their regions. For the full year both rose by some 10% against the pound, while the dollar rose by 3.3%.

Government Bond yields continued to trade at historically low yields, and the combination of muted inflation and signs of worldwide economic slowdown in early 2016 generated small gains in price for government bonds during the year. Corporate Bonds, however, weakened slightly on fears that falling oil and commodity prices would have a severe impact on companies in the Energy and Materials sectors.

UK Commercial Property achieved double-digit returns for the third consecutive year, albeit at a slower rate than in the previous two years. The IPD All Property Monthly Index returned 11.7%, with total returns of over 15% being achieved in the Office and Industrial sectors.

The Brent Pension Fund achieved a total return of 2.6% for the year, compared with a 2.4% return on its benchmark.

Outlook

The uncertainty over the outcome of the forthcoming UK referendum on membership of the EU is clouding the outlook for sterling and for UK companies, while on a global level GDP growth in 2016 is forecast to be about 0.3% lower than in 2015. This is likely to restrict corporate profits growth, but also maintain inflation and interest rates at subdued levels. Against this background, significant gains in either equities or bonds may be hard to achieve in the coming year.

Peter Davies

Senior Adviser – AllenbridgeEpic Investment Advisers

Investment Policy and Performance

Fund Performance Review for the year 2015/16

Introduction

The Administering Authority invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2015/16, nine external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Henderson (fixed income, UK smaller companies equities and private equity)
- Capital Dynamics (private equity)
- Yorkshire Fund Managers (private equity)
- Baillie Gifford (diversified growth fund)
- Aviva (property)
- Dimensional (emerging market equities)
- Alinda (infrastructure)

The Fund's cash balance is held in an interest bearing instant access deposit account with NatWest.

2015/16 Investment Results

Volatility finally caught up with markets, after years of Central Banks' infusion of liquidity and support of asset prices, which had the effect of dampening volatility to extreme lows.

The collapse in the oil price in 2H14 was followed by foreign exchange (FX) volatility, which heralded the start of a continued slide in emerging market currencies and assets, leading to a renewed deflation scare at the start of 2015.

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2016 is shown below:

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	2.6 %	[2.4%]	Not available
3 years	4.7%	6.7%	Not available
5 years	5.3%	6.7%	Not available

In absolute terms, the Fund's investment assets have achieved a return of [2.6%] over the 12 months to 31 March 2016. This represented an over performance of 0.2% relative to its annual benchmark of 2.4%.

The Fund's investment performance in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 31 Mar 16	Period ended 31 Dec 2015
1 year	Not available	100 th
3 years	Not available	96 th
5 years	Not available	98 th
10 years	Not available	100 th

The comparative statistics show that the Fund has been one of the lower performing LGPS funds and has consistently underperformed for a number of years. In the last year, the fund's investment performance was +10.3%, which compared to the local authority average return of 13.2%.

However, the Brent Pension Fund has continued to benefit from positive real term investment returns during the financial year ended 31 March 2016.

In particular, the relative immaturity of the Fund's longer term asset classes of private equity and infrastructure investments had previously been a drag on overall performance, although these investments gave a welcome boost to performance over the last year.

It is important to consider the risk framework in which the investment results are achieved. If the Fund takes more risk in its asset allocation decisions, it offers the potential for higher returns but it also increases the

uncertainty of the outcome, potentially increasing the chances of a negative downside. The Fund is committed to on-going review of its asset allocation and achieving an appropriate balance between risk and reward. While the Fund is a long term investor of capital through investment cycles, it is also committed to holding investment managers to account for the results they achieve.

Funding Strategy Statement

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found at page 65.

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the policy which determines how the Fund invests its assets. The Scheme rules require that we publish a SIP that covers our policy on:

- the types of investment to be held
- the balance between different types of investments
- attitude to risk and approach to its management
- the expected return on investments
- the extent to which social, environmental or ethical considerations are taken into account.

We publish a SIP which can be found at page 105.

Pension Fund Accounts for 2015/16

Brent Pension Fund Account		2014/15	2015/16
	Notes	£'000	£'000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(45,371)	(46,387)
Transfers in from other pension funds	8	(1,782)	(2,455)
		(47,153)	(48,842)
Benefits	9	36,392	37,918
Payments to and on account of leavers	10	1,427	4,221
Administration and Management expenses	11	7,615	7,664
		45,434	49,803
Net (additions)/withdrawals from dealings with members		(1,719)	961
Returns on investments			
Investment income	12	(2,097)	(2,728)
Taxes on income	13	554	686
(Profits) and losses on disposal of investments and changes in the market value of investments	15a	(72,673)	(17,806)
Net return on investments		(74,216)	(19,848)
Net (increase)/decrease in the net assets available for benefits during the year		(75,935)	(18,887)
Net Assets Statement			
		31 March 2015	31 March 2016
	Notes	£'000	£'000
Investment assets	15	639,487	638,051
		639,487	638,051
Current assets	20	18,504	38,117
Non-current assets	21	100	0
Current liabilities	22	(1,041)	(231)
Net assets of the fund available to fund benefits at the period end		657,050	675,937

Notes to the Brent Pension Fund accounts

1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Brent Council. The Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Brent Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies within the borough area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Brent Pension Fund Sub-Committee, which is a committee of Brent Council.

b) Membership

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

Organisations participating in the Brent Pension Fund include:

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

There were 37 employer organisations with active members within the Brent Pension Fund at 31 March 2016, listed below:

Scheduled bodies

London Borough of Brent
Alperton High School
ARK Academy
ARK Franklin Academy
ARK Elvin Academy
Brent Housing Partnership
Capital City Academy
Claremont High School
College of North West London
Convent of Jesus & Mary Language College
Crest Academy
Gladstone Park School
Islamia Primary School
Kingsbury High School
Michaela Community School
North West London Jewish day School
Preston Manor High School
Queens Park Community School
St Andrews and St Francis School
St Gregory's RC High School
Sudbury Primary School
Wembley High Technology College
Woodfield School

Admitted bodies

Brent MENCAP
Capita Business Services Limited
Civica
Europa Facility Services Limited
National Autistic Society
Local Employment Access Project (LEAP)
Sudbury Neighbourhood Centre
Wetton Cleaning Services
Thames Reach
Conway Aecom Limited
Sanctuary Housing
Veolia
Xerox (UK) Limited
Barnados

Brent Pension Fund	31 March 2015	31 March 2016
Number of employers with active members	34	37
Number of employees in scheme		
Brent Council	4,179	4,236
Other employers	1,724	1,904
Total	5,903	6,140
Number of pensioners		
Brent Council	5,311	5,414
Other employers	761	827
Total	6,072	6,241
Deferred pensioners		
Brent Council	5,601	6,603
Other employers	1,127	1,202
Total	6,728	7,805

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. During 2015/16, the most commonly applied employer contribution rate within the Brent Pension Fund was 29.4% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary.	No automatic lump sum.

In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Brent Pension Fund's website: <https://www.mylgspension.co.uk/>

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

LGPS 2014

A reformed Local Government Pension Scheme (LGPS) was introduced from April 2014. The main elements of the new scheme are:

- a pension scheme design based on career average;
- 1/49th accrual rate with revaluation of active members' benefits based on Consumer Prices Index (CPI);
- scheme normal pension age to be equal to the state pension age for both active members and deferred members;
- the earliest point at which retirement benefits can be taken is age 55;
- contributions based on actual pay (including part time employees) with an average member contribution yield of 6.5%, as now, with tiered contributions. Higher earners paying a higher proportion of their earnings in contributions than lower earning colleagues;
- a low cost option allowing members to pay 50% contributions for half the main benefits;
- all accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme;
- vesting period when members can get a refund on their contributions if they leave the scheme will be increased from three months to two years.

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment management expenses

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

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

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) Financial assets

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

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

- i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
 - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
 - Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
 - Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

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

j) Derivatives

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

k) 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.

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

n) Additional voluntary contributions

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

4. Critical judgements in applying accounting policies

Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2016 was £129m (£126m at 31 March 2015).

Pension fund liability

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

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £89m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £12m, and a one-year increase in assumed life expectancy would increase the liability by approximately £30m.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity/infrastructure	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £126m. There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the Balance Sheet date

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

7. Contributions receivable

By category

	2014/15 £'000	2015/16 £'000
Employers	37,028	37,961
Members	8,343	8,426
Total	45,371	46,387

By authority

	2014/15 £'000	2015/16 £'000
Scheduled bodies	43,648	44,625
Admitted bodies	1,723	1,762
Total	45,371	46,387

8. Transfers in from other pension funds

	2014/15 £'000	2015/16 £'000
Individual transfers	1,782	2,455
Total	1,782	2,455

9. Benefits payable

By category

	2014/15 £'000	2015/16 £'000
Pensions	30,674	32,037
Commutation and lump sum retirement benefits	5,409	5,293
Lump sum death benefits	309	588
Total	36,392	37,918

By authority

	2014/15 £'000	2015/16 £'000
Scheduled bodies	35,055	36,365
Admitted bodies	1,337	1,553
Total	36,392	37,918

10. Payments to and on account of leavers

	2014/15 £'000	2015/16 £'000
Payments to and on account of leavers	1,427	4,221
Total	1,427	4,221

11. Administration expenses

	2014/15 £'000	2015/16 £'000
Administration costs	662	643
Investment management expenses	6,861	6,903
Oversight and Governance costs	92	118
Total	7,615	7,664

12. Investment income

	2014/15 £'000	2015/16 £'000
Fixed interest securities	0	0
Equity dividends	0	0
Pooled property investments	1,645	2,069
Interest on cash deposits	48	62
Private equity/infrastructure	404	597
Total	2,097	2,728

13. Taxes on income

	2014/15 £'000	2015/16 £'000
Withholding tax - equities	554	686
Total	554	686

14. Investment management expenses

	2014/15 £'000	2015/16 £'000
Administration costs	662	643
Investment management expenses	6,861	6,903
Oversight and governance costs	92	118
Total	7,615	7,664

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

NB Management fees 2014/15 have been amended to reflect the reporting of Management fees as per CIPFA recommendation.

15. Investments

	Market value 31 March 2015 £'000	Market value 31 March 2016 £'000
Investment assets		
Pooled investments	476,369	469,432
Pooled property investments	37,006	39,269
Private equity/infrastructure	126,112	129,350
Total investments	639,487	638,051

a) Investments

	Market value 1 April 2015 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2016 £'000
Pooled investments	476,369	34,150	34,779	(5,946)	469,432
Pooled property investments	37,006	0	0	2,263	39,269
Private equity/infrastructure	126,112	10,628	27,817	21,851	129,350
Net investment assets	639,487	44,778	62,596	18,168	638,051

a) Investments

	Market value 1 April 2014 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value 31 March 2015 £'000
Pooled investments	414,424	20,012	672	42,967	476,369
Pooled property investments	34,944	0	216	2,278	37,006
Private equity/infrastructure	112,715	17,215	31,246	27,428	126,112
Net investment assets	562,083	37,227	32,34	72,673	639,487

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

b) Analysis of investments

	31 March 2015	31 March 2016
	£'000	£'000
Fixed interest securities		
UK		
Public sector quoted	0	0
Corporate quoted	0	0
Overseas		
Public sector quoted	0	0
	0	0
Equities		
UK		
Quoted	0	0
	0	0
Pooled funds – additional analysis		
UK		
Fixed income unit trust	86,005	86,592
Unit trusts	116,646	113,700
Diversified growth funds	69,376	68,793
Overseas		
Unit trusts	204,342	200,347
	476,369	469,432
 Pooled property investments	 37,006	 39,269
Private equity/infrastructure	126,112	129,350
	163,118	168,619
	<hr/> 639,487	<hr/> 638,051

Investments analysed by fund manager

Market value

31 March 2015			31 March 2016		
£'000	%		£'000	%	
254,280	39.8	Legal & General	287,596	45.1	
0	0	London CIV	150	0	
113,334	17.7	Henderson	112,893	17.7	
94,321	14.7	Capital Dynamics	96,199	15.1	
798	0.1	Yorkshire Fund Managers	645	0.1	
69,376	10.9	Baillie Gifford	68,793	10.8	
37,006	5.9	Aviva	39,269	6.2	
40,708	6.4	Dimensional	0	0	
29,664	4.6	Alinda	32,506	5.1	
639,487	100.0		638,051	100.0	

All the above companies are registered in the United Kingdom.

Concentration of investments

During the year, no individual investment exceeded 5% of the total value of the Fund's net assets.

c) Stock lending

The Brent Pension Fund does not operate a Stock Lending programme.

16. Financial instruments

a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2015			31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
476,369			469,432		
37,006			39,269		
126,112			129,350		
	17,080			36,184	
	1,489			1,933	
639,487	18,569	0	638,051	38,117	0
Financial Liabilities					
		(1,041)			(231)
639,487	18,569	(1,041)	638,051	38,117	(231)
Totals			Totals		

b) Net gains and losses on financial instruments

31 March 2015	31 March 2016
£'000	£'000
Financial assets	
72,673	17,806
72,673	17,806
Total	

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2015			31 March 2016	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
Financial assets				
639,487	639,487	Fair value through profit and loss	638,051	638,051
18,604	18,604	Loans and receivables	38,117	38,117
658,091	658,091	Total financial assets	676,168	676,168
Financial liabilities				
(1,041)	(1,041)	Financial liabilities at amortised cost	(231)	(231)
(1,041)	(1,041)	Total financial liabilities	(231)	(231)

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

d) Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	508,701		129,350	638,051
Loans and receivables	38,117			38,117
Total financial assets	546,818	0	129,350	676,168
Financial liabilities				
Financial liabilities at amortised cost	(231)			(231)
Total financial liabilities	(231)	0	0	(231)
Net financial assets	546,587	0	129,350	675,937

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	513,375		126,112	639,487
Loans and receivables	18,604			18,604
Total financial assets	531,979	0	126,112	658,091
Financial liabilities				
Financial liabilities at amortised cost	(1,041)			(1,041)
Total financial liabilities	(1,041)	0	0	(1,041)
Net financial assets	530,938	0	126,112	657,050

17. Nature and extent of risks arising from financial instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

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

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

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset type	Potential market movements (+/-)
Fixed interest	2.3%
UK equities	9.5%
Overseas equities	9.7%
Property	2.3%
Alternative investments	5.1%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at 31-Mar-16 £'000	Percentage change %		Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	36,184	0		36,184	36,184
Investment portfolio assets:					
Fixed interest	86,592	2.2	1,948	88,540	84,644
UK equities	113,550	9.5	10,799	124,349	102,751
Overseas equities	200,347	9.8	19,594	219,941	180,753
Property	39,269	2.3	915	40,184	38,354
Alternative investments	198,143	5.1	10,185	208,328	187,958
Total	674,085			717,525	630,645

Asset type	Value at 31-Mar-15 £'000	Percentage change %		Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	17,080	0		17,080	17,080
Investment portfolio assets:					
Fixed interest	86,005	1.9	1,694	87,699	84,311
UK equities	116,646	9.5	11,081	127,727	105,565
Overseas equities	204,342	9.1	18,575	222,917	185,767
Property	37,006	2.6	958	37,964	36,048
Alternative investments	195,488	4.4	8,758	204,246	186,730
Total	656,567			697,634	615,500

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2015	31 March 2016
	£'000	£'000
Cash balances	17,080	36,184
Fixed interest securities	86,005	86,592
Total	103,085	122,776

Asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash balances	38,184	380	-380
Fixed interest securities	86,592	865	-865
Total change in assets available	124,776	1,245	-1,245

Asset type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash balances	17,080	170	-170
Fixed interest securities	86,005	860	-860
Total change in assets available	103,085	1,030	-1,030

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous period end:

Currency exposure – asset type	Asset value at 31 March 2015 £'000	Asset value at 31 March 2016 £'000
Overseas unit trusts	204,342	200,347
Overseas pooled property investments	3,424	3,748
Overseas private equity/infrastructure	126,112	129,350
Total overseas assets	333,878	333,445

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 8%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2016	Change to net assets available to pay benefits	
	£'000	8% £'000	-8% £'000
Overseas unit trusts	200,347	216,375	184,319
Overseas pooled property investments	3,748	4,048	3,448
Overseas private equity/infrastructure	129,350	139,698	119,002
Total change in assets available	333,445	360,121	306,769

	Asset value as at 31 March 2015	Change to net assets available to pay benefits	
	£'000	+8% £'000	-8% £'000
Overseas unit trusts	204,342	220,689	187,995
Overseas pooled property investments	3,424	3,698	3,150
Overseas private equity/infrastructure	126,112	136,516	116,023
Total change in assets available	333,878	360,588	307,168

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria. Given the relatively low level of cash held by the Pension Fund at any one time, it is not considered necessary to place deposits with other banks and financial institutions to provide diversification.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2016 was £36.1m (31 March 2015: £17.0m). This was held with the following institutions:

	Rating	Balances as at 31 March 2015 £'000	Balances as at 31 March 2016 £'000
Bank deposit accounts			
NatWest	A-	17,080	36,184
Total		17,080	36,184

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

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 than three months to convert into cash. At 31 March 2016 the value of illiquid assets was £168.6m, which represented 26% (31 March 2015: £163.1m, which represented 26%) of the total fund assets.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 22 years from 1 April 2013 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the Fund was assessed as 56% funded (61% at the March 2010 valuation). This corresponded to a deficit of £442m (2010 valuation: £294m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2017 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

Year	Employers' contribution rate
2014/15	28.4%
2015/16	29.4%
2016/17	30.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Fund's website.

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

The main actuarial assumptions used for the March 2013 actuarial valuation were as follows:

Discount rate	4.6% p.a.
Price inflation	3.3% p.a.
Pay increases	4.1% p.a.
Pension increases	2.5% p.a.

Mortality assumptions

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

Mortality assumption at age 65	Male	Female
Current pensioners	22.0 years	24.3 years

Commutation assumption

It is assumed that 50% of future retirements will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

19. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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

The actuarial present value of promised retirement benefits at 31 March 2016 was £1,307m (31 March 2015: £1,396m). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Inflation/pensions increase rate	2.2%
Salary increase rate	4.0%
Discount rate	3.5%

Longevity assumption

The average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.0 years	24.3 years
Future pensioners*	24.4 years	26.8 years

* Future pensioners are assumed to be currently aged 45

Commutation assumption

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

20. Current assets

	31 March 2015 £'000	31 March 2016 £'000
Debtors:		
- Contributions due – employees	249	331
- Contributions due – employers	1,140	1,342
- Sundry debtors	35	260
Cash balances	17,080	36,184
Total	18,504	38,117

Analysis of debtors

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	0	0
Other local authorities	1,388	1,932
Other entities and individuals	1	1
Total	1,389	1,933

21. Non current assets

	31 March 2015 £'000	31 March 2016 £'000
Non- current assets	100	0
Total	100	0

Non- current assets comprises of contributions due from employers, repayable later than a year of the Balance Sheet date.

22. Current liabilities

	31 March 2015 £'000	31 March 2016 £'000
Sundry creditors	1,041	231
Total	1,041	231

Analysis of creditors

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	12	67
Other entities and individuals	1,029	164
Total	1,041	231

23. Additional voluntary contributions

	Market value 31 March 2015 £'000	Market value 31 March 2016 £'000
Clerical Medical	1,303	1,221
Equitable Life	173	167
Prudential	15	15
Total	1,491	1,403

AVC contributions of £34k were paid to Clerical Medical during the year (2014/15: £26k). The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

24. Related party transactions

Brent Council

The Brent Pension Fund is administered by Brent Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.652m (2014/15: £0.732m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £31.1m to the Fund in 2015/16(2014/15: £31.4m). All monies owing to and due from the Fund were paid in year.

Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund.

Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

Key management personnel

Paragraph of the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* (the Code) exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Brent Pension Fund.

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

25. Contingent liabilities

The Fund had no contingent liabilities at 31 March 2016.

26. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2016 totalled £40.2m (31 March 2015: £30.5m).

	31 March 2015 £'000	31 March 2016 £'000
Capital Dynamics	28,001	23,260
Alinda	2,517	16,992
Total	30,518	40,252

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

27. Contingent assets

Seven non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31 March 2015 £'000	31 March 2016 £'000
Bilfinger (previously Europa)	136	136
Capita Business Services Limited	123	123
Conway Aecom	111	111
Xerox (UK) Limited	29	29
Sanctuary	8	8
ThamesReach	5	5
Total	412	412

28. Impairment losses

The Fund had no impairment losses at 31 March 2016.

Statement of Responsibilities

The Fund's responsibilities

The Fund is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. At Brent Council, the Chief Finance Officer fulfils that responsibility.
- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets
- approve the Brent Pension Fund's statement of accounts.

Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for preparing the Brent Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 ('the Code of Practice').

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

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records, which are up to date
- taken reasonable steps to prevent fraud and other irregularities.

Chief Finance Officer's statement

I certify that the statement of accounts as set out on pages 16 to 51 presents a true and fair view of the financial position of the Brent Pension Fund as at the accounting date and its income and expenditure for the year ended 31 March 2016.

Conrad Hall CPFA
Chief Finance Officer

Independent Auditor's Report

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Appendices

Annual Governance Statement

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require the Fund to maintain a Governance Policy Statement.

The Council, as Administering Authority for the Brent Pension Fund, has delegated responsibility for managing the Fund's investments to its Pension Fund Sub-Committee.

The Pension Fund Sub-Committee oversees the proper administration and management of the Pension Fund. It is responsible for:

- undertaking statutory functions on behalf of the Local Government Pension Scheme and ensuring compliance with legislation and best practice
- determining policy for the investment, funding and administration of the Pension Fund
- considering issues arising and making decisions to secure efficient and effective performance and service delivery
- appointing and monitoring all relevant external service providers:
 - fund managers
 - advisers
 - custodian
 - actuary
 - all other professional services associated with the structure and functions of the Pension Fund
- monitoring performance across all aspects of the service
- ensuring that arrangements are in place for consultation with stakeholders as necessary
- considering the annual statement of Pension Fund accounts
- considering and approving the Pension Fund actuarial valuation.

The Pension Fund Sub-Committee normally meets four times each year. These meetings are used mainly for discussions with the Fund's investment managers, using reports on their strategies and performance prepared by the Chief Finance Officer, any views of the independent adviser, and presentations prepared by the managers themselves. The Pension Fund Sub-Committee will also consider reports from the Chief Finance Officer, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the Statement of Investment Principles, training, and proposals for scheme change.

The Pension Fund Sub-Committee is constituted to reflect the views of:

- the Council as Administering Authority and the largest employer with 74% of the contributing membership
- other employers with 26% of the membership, and
- the Fund's contributors.

The Pension Fund Sub-Committee consists of:

- seven Brent councillors
- a representative of other employers
- a representative of the Fund's contributors.

There is also an independent adviser who attends all Pension Fund Sub-Committee meetings.

Training

Members of the Pension Fund Sub-Committee and Brent officers have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending is charged to the Pension Fund.

Use of advisers

The Chief Finance Officer advises the Pension Fund Sub-Committee on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Pension Fund Sub-Committee on investment matters.

The Pension Fund Sub-Committee uses the Fund's actuary, Hymans Robertson, and other consultants as necessary, for advice on matters when in-house expertise is not available. The Pension Fund Sub-Committee takes advice from the actuary, the fund managers or specialist consultants or advisers as required on asset allocation, selecting managers, and investment performance targets.

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for the Fund's employers. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

Governance Compliance Statement

This statement shows how Brent Council as the Administering Authority of the Brent Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Administration) Regulations 2008.

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Brent Council's constitution sets out the terms of reference for the Pension Fund Sub-Committee.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
B	Representation	
a.	<p>That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, eg admission bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (ad-hoc basis only). 	<p>Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.</p> <p>The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.</p>

Ref.	Principles	Compliance and comments
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Sub-Committee have full voting rights, but the Sub-Committee works by consensus without votes being required.
E	Training/facility time/expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Sub-Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Sub-Committee and training logs are maintained for all such training undertaken.
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance. The Pension Fund Sub-Committee meets at least four times a year on a quarterly basis to fit its business needs.

Ref.	Principles	Compliance and comments
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Sub-Committee includes lay members. Road shows are arranged for employers.
G	Access	
a.	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Sub-Committee deals with fund administration issues as well as fund investment.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- Employing authorities
- The Fund's contractor for pension administration services, Capita Employee Benefits
- Brent Pensions Team staff
- Other bodies, for example prospective employing authorities.

We are committed to communicating clearly and effectively and we provide a high-quality service to all our stakeholders.

Our communication with scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the scheme and their own benefits.

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation. We intend to develop the website as the prime source of information on the pension scheme. This should ensure timely, up-to-date and easy-to-access information for all our stakeholders.

The *Employee's Guide* is the main reference point for current scheme members. Each new employee gets a copy from their employer. We update it regularly, usually annually when regulations are changed. It is available from our website. Other scheme literature is available from employers or direct from us.

We have a general query call centre which operates during office hours. A voice-mail service takes messages out of hours, and we return these calls the next working day. We also have a general email address for all queries.

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. These are usually issued between May and September each year.

We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. A payslip is also sent to pensioners if there has been a change of more than £3 in their monthly payment.

An annual newsletter is sent to pensioners each March.

The Brent Pension Fund's annual report and full accounts are available to members via our website.

Our communication with employing authorities

We communicate with employing authorities in several ways to help them meet their responsibilities as scheme employers.

We give the *Employer Manual* to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from ourselves.

A copy of the Brent Pension Fund annual report and accounts is made available to each employer via the website. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Pension Fund Sub-Committee approving any significant amendment.

We send the full actuarial report on the triennial valuation to employers when they are available.

Our communication with Capita Employee Benefits

It is vital that regular communication takes place with Capita Employee Benefits, to ensure that the Fund's contractor for pension administration services delivers to the requisite quality and cost.

Our communication with Brent Pensions Team staff

It is essential that our staff are kept up to date with all changes to the scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Our communication with other bodies

We provide information to members' representatives on request.

The Pension Fund Sub-Committee receives reports from the Chief Finance Officer. Although these usually concern investment issues, they will advise the Sub-Committee on changes to administrative arrangements or scheme rules where relevant.

Any prospective employing authority will receive a letter outlining the costs of joining the scheme and a copy of the *Employer Manual*.

Funding Strategy Statement

- 1 Introduction
- 2 Basic funding issues
- 3 Calculating contributions for individual employers
- 4 Funding strategy and links to investment strategy

Appendix A – Regulatory framework

Appendix B – Responsibilities of key parties

Appendix C – Key risks and controls

Appendix D – The calculation of employer contributions

Appendix E – Actuarial assumptions

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Brent Pension Fund (“the Fund”), which is administered by Brent Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson, and after consultation with the Fund’s employers and investment f adviser. It is effective from 1 April 2014.

1.2 What is the Brent Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Brent Pension Fund, in effect the LGPS for the Brent area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e., a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;

- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an elected member whose Council participates in the Fund: you will want to be sure that the Council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for Council money;
- a Council Tax payer: your Council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to adequately fund benefits to secure the Fund's solvency;
- to help ensure that sufficient resources are available to meet all liabilities (i.e., members'/dependants' benefits) as they fall due for payment. One particular way this is approached is by using a prudent long term view in managing solvency;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e., deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed;
- B. who is responsible for what;
- C. what issues the Fund needs to monitor, and how it manages its risks;
- D. some more details about the actuarial calculations required;
- E. the assumptions which the Fund actuary currently makes about the future.

If you have any other queries please contact Julian Pendock, Investment and Pensions Manager, in the first instance at e-mail address julian.pendock@brent.gov.uk or on mobile telephone number 07884 997633.

2 Basic funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that

the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect Council and employer service provision, and Council Tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced Council spending, which in turn could affect the resources available for Council services, and/or greater pressure on Council Tax levels;
- Contributions which academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting Council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the Council will wish to minimise the extent to which Council Tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1).

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e., the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Council	Academies	Other	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	22 years	22 years	22 years	15 years	Future working lifetime of active members	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority				Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	None
Review of rates –	Administering Authority reserves the right to review contribution levels, and the level of any specific security					Particularly reviewed in

Note (f)	provided by the employer to the Fund, at regular intervals between valuations	last 3 years of contract
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New employer	n/a	Note (g)	n/a	Note (h)	Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g., using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, an employer whose contribution rates have been "stabilised" (and which may therefore be currently paying less than its theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g., significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

The eligibility criteria for stabilisation are that the employer is large, stable, with tax-raising powers, and open to new entrants. Currently the only eligible Fund employer is the London Borough of Brent's Council Pool, although Academies will pay the same rate as the Council for at least the three years beginning 1 April 2014 (see Note (g)).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details for the Council Pool are as follows:

- Notional contribution rate increased at 1% of payroll each year, from the 2013-14 rate of 27.4%, up to a maximum of 30% of payroll;
- Actual contribution rate split between % of pay element and £ lump sum element each year;
- % of pay element = future service rate for the Council Pool as calculated at 2013 valuation;

- £ lump sum element = amount calculated as balance of notional contribution rate that year, when applied to payroll increased from 2013 in line with valuation assumption (as opposed to actual payroll that year).

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the Council's membership profile, whether stabilisation should continue to apply (and if so, whether this should be extended to other employers), and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

The period lengths have changed since the 2010 valuation as follows:

- Scheduled Bodies: reduced from 25 years to 22 years, with a view to further reducing this to 20 years at the next valuation;
- Community Admission Bodies: typically increased from 3 years to 15 years (if open to new entrants) or future working lifetime (if closed).

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Deficit Recovery Payments)

The deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e., has a large deficit recovery contribution rate (e.g., above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

Phasing is the gradual stepping from the current contribution rate in 2013-14 to the full calculated rate resulting from the 2013 valuation. It is often used to help keep employer contribution rates as nearly stable as possible from one year to the next.

In any given case the Administering Authority will discuss with the actuary whether phasing is appropriate given the risks involved (see 3.2 above), including the Administering Authority's view of the strength of the employer's covenant.

Where phasing is applied this will normally result in three equal annual steps.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to:

- significant reductions in payroll;
- altered employer circumstances;
- Government restructuring affecting the employer's business; or
- failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

The Fund's policies on academies' funding issues are as follows:

- a) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- b) The new academy will be allocated an initial asset share from the Council's assets in the Fund. This asset share will be calculated using the Council's estimated funding position at the date of academy conversion. The academy asset share will be based on the active members' funding level, having first allocated assets in the Council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- c) The new academy's theoretical contribution rate will be calculated using market conditions, Council funding position, and membership data, all as at the day prior to conversion;
- d) The new academy's actual contribution rate will be as per the Council rate, but expressed purely as a percentage of pensionable pay. This applies whether or not the theoretical rate is above the Council rate. All other things being equal, this will mean some academies taking longer to pay off their deficit (where the theoretical rate is higher than the Council rate), or paying off the deficit more quickly (where the theoretical rate is below the Council rate).

The Fund's policies on academies, particularly (d) above, are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, in line with the Fund's funding strategy generally, these policies will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

- allowance for the risk of asset under-performance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as the Council or an Academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The *quid pro quo* is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- i. *Pooling*
The contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.
- ii. *Letting employer retains pre-contract risks*
The letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.
- iii. *Fixed contribution rate agreed*
The contractor pays a fixed contribution rate throughout the term of the contract, and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other on-going employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the on-going basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an on-going basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics, with the consent of the employers concerned. This will always be in line with its broader funding strategy. In particular:

- With the advice of the Actuary, the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service;
- Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool;
- Transferee Admission Bodies are usually also ineligible for pooling;
- Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree;
- Schools are generally pooled with the Council. However this does not apply to academies, specialist schools or independent schools.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority, or on the basis of actuarial modelling carried out for an employer which the Administering Authority deems to have sufficiently strong covenant.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g., the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (N.B. the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the Fund in the financial year following the award of an early retirement. In exceptional circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding three years. If this is agreed, interest will be charged using factors provided by the Actuary.

3.7 Ill health early retirement costs

Ill health early retirements can give rise to very large "strains" on the Fund, as the cost of immediate (and possibly enhanced) benefit payments will be greater than the reserve previously being

targeted. This strain will normally fall on the employer concerned. (The strain cost may be mitigated by insurance: see 3.8 below).

The cumulative cost of ill health retirements between actuarial valuations will in effect be reflected in the employer's results at the next valuation.

Where a different approach is adopted (e.g., regularly monitoring ill health experience and requesting contributions between valuations), details will be included in each individual employer's Admission Agreement.

3.8 Ill health insurance

An employer may arrange an insurance policy covering ill health early retirement strains, in which case it should provide satisfactory evidence to the Administering Authority of this. In such cases, the employer's required minimum contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total minimum employer contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter, it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation, the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund;
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written on-going commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to

seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities.

However, the Fund may permit shortfalls to arise on bulk transfers if the Administering Authority is satisfied that the employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

- Active members switching employment from one Fund employer to another will result in assets equal to the past service liabilities being re-allocated between the employers, i.e., a "fully funded transfer". This means that the deficit at the point of transfer is retained by the ceding employer.

However, in the case of schools converting to Academy status (i.e., the members switch from Council employment to the new Academy), the process is instead as per Note (g) to section 3.3 above. This is because the guidance from the Department for Education and the Department for Communities and Local Government anticipates that the past service deficit will be inherited by the new Academy.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each

actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund Actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset out-performance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e., keeping employer rates affordable) is best achieved by investing in higher returning assets, e.g., equities. However, equities are also very volatile (i.e., go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's Actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e., changes in the relationship between asset values and the liabilities value, annually. It reports this in its published Brent Pension Fund Annual Report and Accounts.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *“to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s Actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with Council Tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in early February 2014 for comment;
- b) Comments were requested within 10 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, in late February 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.brent.gov.uk;
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers;
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pension Fund Sub-Committee and would be included in the relevant Pension Fund Sub-Committee meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.brent.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's Actuary of material changes which could affect funding (this is covered in a separate agreement with the Actuary); and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The individual employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund.	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e., proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Deteriorating patterns of early retirements.	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments.	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules, e.g., changes arising from public sector pension reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g., large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards, e.g., for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving elected members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>

<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>
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Appendix D – The calculation of employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund’s Actuary is required by the regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s Actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ future service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the

contribution rate applicable to the pool as a whole. The calculation is on the “on-going” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e., only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g., because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e., ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the on-going basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g., mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's Actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund Actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “on-going basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the on-going basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation, for all employers, and for all periods pre- and post-retirement. (At the 2010 valuation a more optimistic assumption was made, and different assumptions applied to different employers and periods).

In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this new 1.6% p.a. asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards.

Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set at 0.8% per annum above the retail prices index (RPI). This is a change from the previous valuation, which assumed pay growth of RPI plus 1.5% per annum.

There is an added allowance for promotional increases.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010 (which was 0.5% p.a.).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund at this valuation and endorsed by the Actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation. This is a change from the 2010, when standard actuarial tables were adopted.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the on-going valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2010 valuation approach, is an average life expectancy around 1½ - 2 years lower than at 2010. The approach taken is considered reasonable in light of the Fund-specific analysis, the data available from Club Vita more broadly, the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Statement of Investment Principles

Introduction

This is the Statement of Investment Principles (SIP) adopted by Brent Council (the Administering Authority of the Fund) in relation to the proper management of the investment of assets of the Brent Pension Fund.

The SIP meets the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“The Regulations”).

The Council, as Administering Authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council’s Pension Fund Sub-Committee which monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and professional advisers. In addition, the Sub-Committee requires managers to periodically attend its meetings. The Sub-Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government.

The Pension Fund Sub-Committee has delegated the management of the Fund’s investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored.

The Government and the pension fund industry have developed a set of high level principles that set a model for good practice in pension fund investment decision-making and governance. These six principles are as follows:

- effective decision-making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting.

Effective decision-making

Administering authorities should ensure that:

Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Brent Council is the Administering Authority with overall responsibility for the Brent Pension Fund, which it delegates to its Pension Fund Sub-Committee.

Responsibilities are allocated to ensure that the managers are given authority to manage their portfolios, but that there is monitoring and review both at individual portfolio and at total Fund levels. The Pension Fund Sub-Committee at Brent Council is responsible for:

- a) determining the overall investment strategy and strategic asset allocation
- b) appointing the investment managers, the Independent Adviser, the Actuary and the global custodian
- c) reviewing investment manager performance and processes regularly.

As well as councillors, the Pension Fund Sub-Committee includes representatives of a large employer (the College of North West London) and of employees (the GMBU) as non-voting, but participating, observers.

The Chair of the Pension Fund Sub-Committee is responsible for ensuring that councillors taking investment decisions are familiar with investment issues and that the Pension Fund Sub-Committee has sufficient members for that purpose.

Members of the Pension Fund Sub-Committee are encouraged to undertake learning and development activities on a regular basis to suitably equip them to undertake their role. In particular, there will be regular training opportunities through attendance at conferences and seminars, and training sessions provided by the incumbent investment fund managers at the quarterly Pension Fund Sub-Committee meetings.

The Pension Fund Sub-Committee takes proper advice from persons who are reasonably believed to be qualified by their ability in and practical experience of investment matters to enable them to fulfil their overall responsibility for the management of the Fund and its investment strategy, and individual decisions about investments.

The Chief Finance Officer at Brent Council is responsible for:

- a) advising and reporting to the Pension Fund Sub-Committee
- b) reviewing the activities of the investment managers on a regular basis
- c) keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

The investment managers are responsible for:

- a) the investment of Pension Fund assets in accordance with legislation, the Statement of Investment Principles (SIP) and the individual investment management agreements
- b) preparation of monthly and quarterly reports detailing activity, investment performance and future strategy, and attendance at the Pension Fund Sub-Committee.

The Actuary is responsible for:

- a) undertaking a triennial revaluation of the assets and liabilities of the Fund
- b) providing annual FRS17 / IAS19 valuations
- c) providing advice on the maturity of the Fund.

The Independent Adviser is responsible for the provision of advice to the Pension Fund Sub-Committee and the Chief Finance Officer on all investment issues, in particular asset allocation, new developments and the monitoring of manager performance against the agreed benchmarks.

Clear objectives

An overall investment objective should be set out for the Fund that:

Takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers; and

The attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions.

The key investment objective of the Fund is to maximise performance and so minimise the level of employer contributions required to meet the cost of pension benefits, subject to an appropriate level of risk and liquidity. Over the long term, it is expected that the Fund's investment

returns will be at least in line with the assumptions underlying the actuarial valuation.

It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The assets of the Fund are mostly in "growth assets", i.e., those expected to generate additional ('excess') returns over the long term. These include publicly quoted equity, private equity and infrastructure. The asset allocation also has a small allocation to "cash flow matching" assets in the form of bonds.

The table below shows the asset allocation structure:

Asset Class	Allocation	Benchmark	Approach
Fixed income	15%	4% absolute return	Active
UK equities	20%	FTSE All Share	Passive
UK & Irish smaller companies	5%	FTSE Small Cap	Active
O/seas equities – developed	20%	FTSE AW ex UK	Passive
Property	0%	IPD	Active
Private equity	10%	8% absolute return	Active
Infrastructure	8%	8% absolute return	Active
Diversified growth	21%	Base Rate + 3.5%	Active
Cash	1%	Base Rate	Active
Total	100%		

The above allocations, ranges and management structure comply with the limits set out in Schedule 1 of the Regulations. The achievement of these benchmark returns should attain a real rate of return of 3% - 4% above inflation per annum over rolling three-year periods. The 2013 Actuarial Valuation assumed a return of gilts plus 1.6% per annum, giving a total return of 4.6% per annum.

The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against the benchmark with the investment manager. A number of fund managers are appointed to give diversification of investment style and spread of risk.

The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity and infrastructure managers are remunerated through fees based on commitments and also performance related fees.

The investment strategy is considered at least annually, with the last major review of asset allocation undertaken in February 2014 following the triennial actuarial valuation.

Actual asset allocations are monitored against the above structure and re-balanced as appropriate. The Chief Finance Officer has delegated authority to undertake a quarterly re-balancing of the asset classes should they materially diverge from their target allocations.

For UK equities, the manager holds stocks in proportion to their weighting in the FTSE All Share index (known as index tracking, or passive, management). For overseas equities (developed markets), the manager tracks the FTSE AW Developed World (excl.UK) index. Index tracking has been chosen because passive management is less expensive than active management and the extent to which active management out-performs passive management is unclear, particularly in developed markets.

Active management has been chosen for exposure to overseas equities (emerging markets), UK & Irish smaller companies, because it is considered that there are opportunities for the managers to outperform through stock and sector selection. Active management has also been chosen for fixed income, affording the manager discretion to change the asset allocation using a range of bond-like instruments as permitted to improve performance.

For fixed income, property, UK equities, overseas equities, emerging market equities, infrastructure, diversified growth and private equity, the Fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

The current fund managers are:

UK equities	Legal & General
Overseas equities	Legal & General (developed markets) Dimensional (emerging markets)
Fixed income	Henderson
Property	Aviva
UK smaller companies	Henderson
Private equity	Capital Dynamics Yorkshire Fund Managers
Diversified growth	Baillie Gifford / London CIV
Infrastructure	Alinda Partners Capital Dynamics

A management agreement or subscription agreement is in place for each fund manager, setting out the benchmark and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council.

The Regulations also specify certain limits on investments to promote diversification and access a wider range of asset classes both to spread risk and add to returns. The Pension Fund Sub-Committee has decided that the Brent Pension Fund may not:

- a) invest more than 10% of the Fund in any single holding
- b) invest more than 35% of the Fund in unit trusts managed by any one body
- c) excluding loans to the Government, lend more than 10% of the value of the Fund to any one borrower
- d) invest more than 15% of the Fund in unlisted securities of companies
- e) contribute more than 5% of the Fund to any single partnership
- f) contribute more than 30% of the Fund to partnerships.

The Brent Pension Fund has also imposed a number of restrictions to reduce risk and to maintain control of fee levels. The managers may not:

- a) invest in any in-house fund without prior consent
- b) exceed the limits set out in the asset allocation ranges detailed in the benchmark
- c) borrow
- d) engage in underwriting or sub-underwriting on behalf of the fund
- e) enter into soft commission arrangements, by which business is directed to brokers in exchange for other services such as research or systems.

Managers may use derivatives to facilitate asset allocation decisions and trading, and to obtain exposure to markets / assets, to reduce trading costs. All open and completed transactions will be included in monthly transactions and quarterly reports.

The restrictions are designed to aid transparency, avoid speculative investments, reduce the volatility of returns, and facilitate the realisation of investments. However, research has indicated that indiscriminate restrictions reduce managers' opportunities to use skill to add value. On this basis, restrictions are kept to a minimum.

Managers are given wide discretion over both stock selection and asset allocation within the restrictions detailed above. This allows clear accountability for decisions. The managers have established procedures to monitor and control risk, and to research market trends.

The Fund does not operate a Stock Lending programme.

Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should:

Take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of covenant for participating employers, the risk of their default and longevity risk.

The Fund is required to take investment risk compared to the liabilities to achieve the out-performance required in the assumptions underpinning the actuarial valuation.

The key risks taken are in strategic asset allocation and active management. The sources of return are diverse and to some extent uncorrelated which reduces the overall level of risk.

There are three main definitions of risk:

- a) severe market decline and funds losing value (absolute risk), as occurred in 2008
- b) under-performance when compared to a peer group (WM local authority universe) or relevant stock / bond markets (relative risk)
- c) not meeting the liabilities set out in the LGPS. The Fund had a deficit of £442m when valued in 2013, and is following a 22-year recovery period.

To reduce absolute risk the Fund is diversified between managers, asset classes, markets and sectors so that investments are not concentrated in one theme or country / region. Investment managers are also to observe the Brent Pension Fund's investment restrictions, which are designed to reduce risk.

To add value, the Fund seeks exposure to a variety of risks. The search for out-performance will involve the risk of under-performance through the adoption of counter-cyclical positions. The extent of any under-performance has been reduced by diversification and the use of index-tracking with regard to publicly quoted equities.

The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways:

- 1) To enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, re-invest income from dividends or interest received.

- 2) Assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the Fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met.
- 3) The Brent Pension Fund is mature, there being many more pensioners than working members - to the extent that 66% of assets are 'owned' by pensioner liabilities. Therefore, there is a need to consider the risks involved in pursuing a long-term equity-based strategy when a market correction, and lower dividend payments, could reduce the value of the Fund. There is currently a 'mismatch' between the allocation of around 85% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the Fund. However, this is balanced by the expectation that equities will generate additional returns to facilitate the payment of pensioners', active and deferred members' benefits. Contributions from employers and employees are calculated on the basis that they will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to re-invest income and change their stock selections without concern about the need to realise assets quickly. However, most assets (around 75%) are liquid and invested in recognised stock exchanges.

As a long term investor, the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

If the Chief Finance Officer becomes concerned that there may be an imminent severe market correction, that person is authorised in consultation with the Chair of the Sub-Committee and the Independent Adviser, to amend the Fund asset allocation and reduce exposure to those assets classes that may be affected.

The Pension Fund maintains a cash balance both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit this cash balance with the Council's banker, NatWest, in an interest-bearing instant access account in the name of the Fund.

Performance assessment

Arrangements should be in place for:

The formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

In setting the overall investment objective and asset allocation and in the award of mandates to individual investment managers, the Pension Fund Sub-Committee has set benchmarks for each asset class.

The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's investment objectives.

The Fund engages the WM Company to provide an independent measurement of investment managers' returns at quarterly and annual intervals. These are used for comparison purposes against specific and peer group benchmarks. The reporting from the WM Company also comprises performance attribution broken down by asset class, and the impacts of asset allocation and stock selection.

LGPS regulations state that the administering authority should review, at least every three months, the investments made by managers and should have regard to professional advice. The Myners' review has emphasised the importance of monitoring dealing costs – these will be reviewed with other aspects of investment.

Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms in relation to their benchmark over a 'substantial' period (defined as two years), a review of the mandate will be considered.

The Chief Finance Officer monitors managers' activity on a daily, monthly and quarterly basis, and is in regular contact with investment houses. The Pension Fund Sub-Committee receives quarterly reports from the investment managers and the Chief Finance Officer detailing activity and investment performance.

The Pension Fund Sub-Committee will review the performance of the Fund's Independent Adviser on a triennial basis, looking at the quality of advice and inputs made.

The Pension Fund Sub-Committee (trustees) will agree an annual and three year business plan to ensure that all areas of activity, including member training and development, are adequately examined and reviewed. The Pension Fund Sub-Committee will review its own performance on an annual basis, looking at the performance of the Fund overall and progress against the business plan.

The appointment of the investment managers will be reviewed regularly by the Pension Fund Sub-Committee to consider the desirability of continuing or terminating the appointment. Decisions will be based on monitoring the investment performance and processes at quarterly and other meetings.

Amongst the criteria by which managers will be selected are:

- a) Investment process, including investment philosophy, research, the asset allocation process, controls on stock selection, and risk controls
- b) Past performance, including spread of results and volatility
- c) Personnel, including levels of experience, staff turnover, and the individual managers offered
- d) Administration, including systems, contacts, references from other customers, and the ability to meet requirements on reporting
- e) Resources, including the number of professionals employed, the number of funds serviced, the number of funds gained or lost over the last 5 years, and the controls on over-rapid growth
- f) Professional judgement.

A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent under-performance over a two-year period would automatically place the manager's mandate under review.

Responsible ownership

Administering authorities should:

Recognise and ensure that their partners in the investment chain adopt the Financial Reporting Council's (FRC) UK Stewardship Code;

Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and

Report periodically to scheme members on the discharge of such responsibilities.

The Pension Fund Sub-Committee has instructed its managers to exercise the Fund's responsibility to vote on corporate governance issues wherever possible. They have also been instructed to intervene in companies that are failing and thus jeopardising the Fund's interests, by voting or by contacting company management direct.

All managers adopt the Council of Institutional Shareholders' Committee Statement of Principles on 'The Responsibilities of Institutional Shareholders and Agents'. Managers do not make moral judgements on individual stocks.

The Brent Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk. However, the Fund recognises that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities. The Fund has delegated to the external investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments.

Each investment manager is asked to work positively with companies to promote forward-looking social, environmental and ethical standards. This should not, however, deflect from the primary objective of achieving the best possible financial return for the Fund, in accordance with the Fund's fiduciary duty.

In line with the above, fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products, due to the risk that tobacco companies may face large liabilities from outstanding court actions.

Transparency and reporting

Administering authorities should:

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and

Provide regular communication to scheme members in the form they consider most appropriate.

The decision-making structure for the Fund has been set out earlier. The key decision-making forum is the Pension Fund Sub-Committee. The minutes of this Sub-Committee are available to the public through the Brent Council website at: www.brent.gov.uk.

The Fund's SIP and other documents relating to investment decision-making and performance will be made available to stakeholders on request.

In accordance with LGPS (Administration) Regulations 2008, the Brent Pension Fund has published a Communications Policy Statement which describes the Fund's policy on:

- providing information to members, employers and representatives
- the format, frequency and method of distributing such information
- the promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

Business Plan

Introduction

The Business Plan details the actions to be taken in order further to strengthen governance, administration and investment, on a structural basis. The aim is to be compliant on all key governance fronts, and to further improve the

1. Governance: Global custodian appointment

Brent PF used the National Framework Agreement to tender for a Global custodian and appointed Northern Trust to improve the monitoring of the fund. The appointment of a Global Custodian has moved Brent in line with LGPS best practice.

2. Governance: Involvement with developing CIV structure

Pension Officers will continue to engage in the debate surrounding the development of Collective Investment Vehicles (CIVs). Once the final structure of the CIV emerges, Brent will use the CIV to cut fund management costs and pool fund management monitoring and search resources where possible. The timetable will be dependent on external bodies and regulatory authorities. Brent Pension Fund aims to use the CIV from inception.

3. Asset allocation review

The asset allocation should be agreed, forming the foundation on which the review of existing and potential fund managers is conducted. The framework should be agreed at the sub-committee meeting of the 29th July.

4. Review of existing fund managers

A review of fund managers is to be completed, to identify managers who are not performing satisfactorily. The review has already taken place.

5. Short list of fund managers to be hired, or as replacement for existing fund manager

Short list fund managers who fulfil the strict criteria for new mandates, as produced by the asset allocation review. The short list should be presented to the committee members in 3Q14.

6. Appointment of new fund managers

The committee will interview and select fund managers from the short list. This process should start at the 2nd sub-committee meeting.

7. Focus on costs: internal and external

The focus on costs is not a one-off, but a continual process, and hence no one target date can be given; the process has started. This means reviewing the costs of external suppliers, and also looking to see where collaboration within the LGPS network (whether through a CIV or an ad hoc basis), will yield cost savings. The Brent PF Annual Report is moving to greater disclosure of costs, by detailing non-cash costs as far as possible.

The value for money of existing fund managers will be under scrutiny. Some fund managers are reducing costs “voluntarily”, i.e. before they are forced to do so. In other cases, Pension Officers will explore all available ways of reducing fees if the performance of the fund manager simply does not justify the fees.

Internally, attention must be paid to the direct and indirect costs allocated to the fund. The cost of administering the collection of pensions and pension member data, as well as the quality of the service provided, must be closely monitored in accordance with the Pensions Administration Strategy.

It should be noted that the reporting requirements of LGPS Pension Fund Annual Reports are moving rapidly towards the need for greater transparency with regard to the breakdown of all costs.

Risk Framework

Brent Pension Fund constantly monitors risk at all levels. In investment, risk is defined as the permanent loss of capital. Risks are assessed at market level, and also at the fund manager level. Fund managers may employ a range of measures to mitigate risk, wherever possible. This may range from a process which avoids overpaying for an asset, or fund manager's risk committees and investment committees, which meet regularly to review and challenge the fund manager's approach and assumptions. Fund managers must contend with the potential mispricing of risk, caused by the hunger for yield.

Brent Pension Fund monitors the fund managers at least every quarter, when they report their performance. At this stage, it is not just the net returns which are studied, but also the attribution, i.e. the way in which the returns were achieved. The returns should be measured against the expected returns given prevailing market conditions and the investment process, in order to ensure that the fund manager is not tending towards "investment drift" or "style drift". Particular attention is paid to the actions taken by funds when market conditions change.

Pension Fund Officers ensure that all tasks carried out are compliant with best practise as detailed in the Statement of Investment Principles. This is in order to mitigate any governance risk (such as acting *ultra vires*).

Pension Fund Officers document meetings with fund managers, and report back to the Pension Fund Sub-Committee on a quarterly basis.

The key risks and controls in place to mitigate investment risks are included in the Funding Strategy Statement.

Third party risks such as payments of contributions are robustly monitored, as laid out in the Pensions Administration Strategy.

Assurance over third party operations is sought by requesting relevant documentation, such as AAF 01/06 assurance reports on the internal controls of these service organisations.

An on-going framework of inspection and review by the Fund's internal auditors (Deloitte) and external auditors (KPMG) supports and assists with the management of risks.

PENSION ADMINISTRATION STRATEGY (PAS)

The commencement date for this Strategy is 1 September 2014.

This document sets out the framework for the Pensions Administration Strategy of London Borough of Brent Pension Fund (the Fund), outlining the policies and performance standards to be achieved when providing a cost effective, inclusive and high quality pensions administration strategy. The delivery of the service is a joint partnership arrangement between employers and the administering authority.

1 Introduction

The Local Government Pension Scheme (LGPS) Administration Regulations 2008, enables an administering authority' to introduce an administration strategy for the purpose of improving pension administration matters and facilitating the delivery of effective and efficient pension administration services to all scheme members.

The extent to which the levels of performance established under this Strategy have been achieved will be published in the Brent Pension Fund Annual Report.

This PAS includes:

- an overview of the administration of the Brent Pension Fund;
- the Regulations;
- review process for this Strategy;
- the responsibilities of Scheme employers and the administering authority;
- policy on charging employers for poor performance.

Administration of the Brent Pension Fund

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The Team is a contact point for employees who wish to join the Scheme, for advice on procedures and for general enquiries and complaints.

The Fund's administration costs are monitored throughout the year by the Fund's management team and reported in the Pension Fund Annual Accounts.

The Regulations

This Strategy is made under regulation 65(1) of the Local Government Pension Scheme Regulations 2008 (formerly Regulation 76C of the Local Government Pension Scheme Regulations 1997). Related legislation include:

- the LGPS (Benefits, Membership & Contributions) Regulations 2007;
- the LGPS (Transitional Provisions) Regulations 2007;
- the Local Government (Early Termination of Employment)(Discretionary Compensation)(England and Wales) Regulations 2000;
- the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 – amended by the Occupational Personal & Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010.

In addition, Regulation 43 of the (Administration) Regulations allows an administering authority to recover all costs from an employing authority where they are directly relating to:

- Level of performance of the employing authority
- Extra costs incurred by the administering authority due to no data, poor quality data or the timeliness of the data submitted by the employing authority.

Interest

- 44.—(1) An administering authority may require an administering or employing authority from which payment of any amount due under regulations 39 to 42 (employers' contributions or payments) or regulation 86 (changes of fund) is overdue to pay interest on that amount.

Review of this Strategy

The Fund will review the strategy every three years or sooner following a material change in policies which affect the content of the document. All employers will be consulted and informed of the changes.

Employer responsibilities

The delivery of high quality and cost effective pension administration service is dependent on joint working relationship between the Fund, Capita, and employers. Each Scheme employer shall nominate a representative who will act as the primary contact responsible for ensuring that all documentation and/or instructions are forwarded to the Brent Pension Fund in accordance with the agreed timescales.

This partnership arrangement should encompass the following key activities:

- a) Ensure an excellent working relationship between the Fund and appropriate staff within an Employer e.g. HR, Pensions teams, Payroll teams and Finance teams are established and maintained.
- b) Ensure that standards and levels of service are maintained.
- c) Ensure the timely submissions of data to the Fund by the Employers and jointly with the Fund provide assurance with regard to data quality.
- d) Ensure that details of all nominated employer signatories are correct and notify the Fund of any changes immediately.
- e) Assist and liaise with the Fund on promotional events and scheme (Fund) literature to increase knowledge about the overall benefits of LGPS to all members.
- f) Inform the Fund of any alternative service arrangements which ensure equitable member access to the pension service.

Each employer is required to produce, publish and update a statement of policy regarding discretionary functions as part of the LGPS regulations. All employers must send the policy statement to the Fund including any regular revisions.

Administration Standards

New Starters

Employer Responsibility	Fund Responsibility
To provide new/prospective Scheme members with pension information and the Scheme guide or refer them to the Fund website within 5 working days of commencement of employment or change in contractual conditions.	To update pension information leaflets on line in accordance with regulatory changes.
To ensure that pension information is included as part of the induction process	To provide employers on request with appropriate tools for induction.

To notify the Fund of new starters within two months of the employee joining, or such shorter period as required by any auto-enrolment obligations. Data should be submitted via Hartlink Exchange allowing the employer to transfer member data directly to Capita's administration system, Hartlink by way of a secure encrypted website.	To accurately record and update member records on pension's administration system.
To ensure that all employees subject to contractual admission are brought into the scheme from the date of appointment. Where there is more than one employment with the same employer, each membership shall be maintained separately.	To accurately record and update member records on pension administration systems.
To send opt out form and store copy of opt out form with employers records for that employee.	To accurately record and update. member records on pension administration systems within four weeks of receipt of document
Change in circumstances Active Members	
Employer Responsibility	Fund Responsibility
<p>To ensure that fund is informed of any changes in circumstances of employees</p> <p>Status :</p> <ul style="list-style-type: none"> • Change of name • Marital Status • NI Number <p>Conditions of Service:</p> <ul style="list-style-type: none"> • Contractual hours • Pensionable Pay • Contribution Rate • Department and payroll number • Date joined scheme <p>Absence :</p> <ul style="list-style-type: none"> • Maternity / Paternity Leave • Paid / Unpaid absence • Industrial Action • Any other material periods of absence 	To record and update member records on pension administration system
End of Year Data	
To provide the Fund with full and up to date information on members working	To provide data to the Fund Actuary and Government

hours, breaks in service and pensionable pay, in accordance with agreed timescales.	Actuary's Department to enable employer contribution rates to be accurately determined and new cost sharing arrangements applied.
To ensure that all errors highlighted from the annual contribution posting exercise are responded to and corrective action taken promptly.	To provide a copy of the valuation report and contributions certificate to each employer and answer any questions arising.
Annual Benefit Statements	
To provide an initial point of contact (Pension Officer or helpline number) for handling queries – this will be printed on the annual benefits statements sent to members.	To produce annual benefit statements for all active members at financial year-end and post to members' home addresses.
Annual Benefits - AVCs	
To collect from employee payroll, contributions and to arrange prompt payment directly to the appropriate provider according to the published schedule and to be no later than the 19th of the month following deduction.	To provide information and offer alternative Scheme-negotiated providers that offer a portfolio of additional voluntary contribution (AVC) options. To review provision to ensure services offered are reasonable.
Annual Benefits ARCs	
To collect from employee payroll, contributions and arrange the prompt payment to the Fund according to published schedule and to be no later than the 19th of the month following the deduction.	To provide information and quotations to a Scheme member on the option of making additional regular contributions. (ARCs)
Members electing to opt out of scheme after three months of membership	
Employer Responsibility	Fund Responsibility
To send the Fund a completed opt out form signed by any eligible employees subject to automatic entry, who do not wish to join, or elect to leave the Scheme after three months of appointment.	To accurately record and update member records on pension administration systems within four weeks of receipt of document.
Members leaving employment/retiring	
To provide members retiring with relevant forms at least two months before retirement.	Pre-retirement events.
If benefits are to be brought into	To notify member of their

payment on the member leaving their employment (i.e. retirement, including flexible retirement) the employer is to notify the Fund, ideally in advance of the leaving date but no later than four weeks following the actual date of leaving to enable payments to be made promptly.	retirement options within ten working days. To pay the retirement lump sum within five working days of receipt of the completed option form.
To inform the Fund within four weeks of any changes affecting former employees, especially re-employment and retrospective pay awards.	To accurately record and update member records on pension administration systems within two months of the event.
To keep a record of all tier 3 ill-health retirements particularly in regard the 18 month review of their gainful employment and any subsequent appointment with an occupational medical officer for a further medical certificate.	To notify the employer of their legislative responsibility to review tier 3 ill-health cases at 18 months.
Death in Service	
To inform the Fund immediately on the death of an employee.	To assist employers and the next of kin in ensuring the pension options are made available and that the payment of benefits are expedited in an appropriate and caring manner.

The Brent Pensions Team is available for day to day contact to discuss any aspect of the administration of the Scheme. It publishes and keeps up to date an *Employer Manual* which contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request.

The service objective is to operate in 90% (or better) accordance with standards that are in summary as below:

Task	Target (days)
Letter detailing transfer-in quote	10
Letter detailing transfer-out quote	5
Process refund and issue payment voucher	10
Letter notifying estimate of retirement benefit	3

Letter notifying actual retirement benefit	2
Process and pay lump sum retirement grant	3
Letter acknowledging death of member	3
Letter notifying amount of dependant's benefits	3
Calculate and notify deferred benefits	15
Pensions forecasts issued for deferred members as at 31 March each year	By the first week of May annually
Pensions forecasts issued for active members as at 31 March each year	By 31 st August annually

Results of these key performance indicators are published in the Brent Pension Fund Annual Report, for the previous financial year.

The pensions team use this data to target areas of improvement in service provision and it helps us to understand the specific service pressures that the Fund faces and to operate as effectively and efficiently as possible.

Employers Performance

In consultation with employers and as part of this strategy, the Fund will develop arrangements for reporting all performance measures quarterly. This approach will facilitate regular engagement with employers.

The pensions team will work closely with employers to identify where performance should be improved and provide training where possible. In the event that there is no improvement in performance and /or no remedial action is taken by the employer the Fund will seek to recover any administrative costs. Additional costs incurred by the Fund include: fines imposed by the Ombudsman, extra charges in respect of actuarial fees, additional printing and distributing costs.

Glossary

Active Management

A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with passive management that seeks to replicate the performance of a selected benchmark.

Actuarial assumptions

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.

Actuarial Valuation

A review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

Actuary

An independent qualified consultant who carries out the Actuarial Valuation and advises on new investment strategies.

Administering Authority

A local authority with statutory responsibility for running a pension fund under LGPS regulations, in effect the Fund's "trustees". Within the geographical boundary of the London Borough of Brent this is Brent Council.

Admitted Bodies

An organisation, which, under the Pension Scheme Regulations, is able to apply to the Administering Authority to join the Scheme (e.g., a contractor providing services to the Council or another scheduled body). Upon acceptance, an Admission Agreement is prepared which sets out the employer's obligations and admits the organisation to voluntarily participate in the Fund and allowing its employees to join.

Alternative Investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Asset Allocation / Asset Mix

The apportionment of the Fund's assets between asset classes and/or markets. Asset allocation may be either strategic, i.e., long term, or

Tactical, i.e., short term, aiming to take advantage of relative market movements.

Auditor

An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

AVCs

Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Clerical Medical and Equitable Life).

Benchmark

A “notional” fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g., for a global equity fund the benchmark against which it will be measured could be made up 70%/30% by overseas equities/UK equities. A target return is generally expressed as some margin over the benchmark.

Bond

A certificate of debt, paying a fixed rate of interest for a defined period of time, issued by companies, governments or government agencies.

Bulk Transfer

A transfer of a group of members agreed by and taking place between two pension schemes.

Cessation Valuation

A calculation carried out by the Actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

Common contribution rate

The Fund-wide future service rate plus past service adjustment. It should be noted that this will differ from the actual contributions payable by individual employers.

Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

Contingent Liability

A possible loss, subject to confirmation by an event after the Balance Sheet date, where the outcome is uncertain in terms of cost.

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Deficit

The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Discount rate

The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.

Dividends

Income to the Fund on its holdings of UK and overseas shares.

Emerging Markets

The financial markets of developing economies.

Equities

Shares in UK and overseas companies that can be traded on public markets.

Final Pay

This is the figure used to calculate most of a member's pension benefits and is normally their pay in the last year before they retire, or one of the previous two years' pay if that amount is higher. For a part-time employee, the figure used is normally the pay they would have received had they worked whole time.

Fixed Interest Securities

Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

FTSE

A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund Manager

A firm of professionals appointed by the Pension Fund Sub-Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.

Funding Level

The ratio of assets value to liabilities value.

Funding Target

The amount of assets which the Fund needs to hold at any point in time to meet all benefits promised.

Future service rate

The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.

Gilts

Fixed-interest bonds issued by the British government, i.e., a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. They are the equivalent of U.S. Treasury securities.

Global Custodian

A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

Guarantor

A body which guarantees to pay for an Admitted Body's liabilities in case of default. For any new Admitted Body wishing to join the Fund, the Administering Authority will require a Guarantor. The presence of a Guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its Guarantor's.

Hedge Fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Hedging

A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.

Income Yield

Annual income on an investment divided by its price and expressed as a percentage.

Index

A measure of the value of a stock market based on a representative sample of stocks. An index is often used as a benchmark for the performance of a group of shares or bonds.

Index-Linked Securities

Investments which generate returns in line with an index.

Investment Adviser

A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS

Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme. Government Regulations dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g., regarding investment strategy, employer contributions and choice of advisers.

Liabilities

The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.

LIBOR

London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.

Mandate

A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g., targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).

Market Value

The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Orphan Liabilities

Residual liabilities of employers from whom no further funding can be obtained.

Outperformance / underperformance

The difference in returns gained by a particular fund against the "average" fund or an index over a specified time period, i.e., a target for a fund may be outperformance of a given benchmark over a three-year period.

Past service adjustment

The part of the employer's annual contribution which relates to past service deficit repair.

Performance

A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the "average" fund of a particular benchmark.

Pooled Investment Fund

A collective investment scheme that works by pooling money from different individual investors.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Portfolio

Term used to describe all investments held.

Private Equity

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not

easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e., current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Recovery Period

Timescale allowed over which surpluses or deficiencies to the Fund can be eliminated.

Regulations

The Scheme is governed by Regulation approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.

Risk

Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more "stable" investments before investors will buy them.

Scheduled Bodies

These are organisations as listed in the Local Government Pension Scheme Regulations 1997 (Schedule 2) who must be offered membership of their local LGPS Fund as of right. These include Councils, colleges, universities, academies, police and fire authorities, etc., other than employees who have entitlement to a different public sector pension scheme (e.g., teachers, police and fire officers, university lecturers).

Securities

Investment in company shares, fixed interest or index-linked stocks.

Solvency

When the Fund's assets are greater than or equal to 100% of the Funding Target, which is the liabilities value.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Statement of Investment Principles

Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g., risk, balance between real and monetary assets, realisability of assets, etc.).

Theoretical contribution rate

The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.

Transfer Value

Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.

Unit Trust

A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Yield Curve

A graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. For bonds, it typically compares the two- or five-year Treasury with the 30-year Treasury.



Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	<p>London CIV</p> <p>The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the LGPS. London Local authorities and their pension funds have been working together for over 3 years to bring the benefits of pooling of investments in London. The work done in London has been widely recognised as performing a seminal role in the wider pooling agenda and demonstrating how collaboration can work in practice. This has all been done on a voluntary basis. It is gratifying that all 33 London Local Authorities have now committed to what started as a ground-breaking voluntary project.</p>
Participating authorities	<p>London Borough of Barking and Dagenham</p> <p>London Borough of Barnet</p> <p>London Borough of Bexley</p> <p>London Borough of Brent</p> <p>London Borough of Bromley</p> <p>London Borough of Camden</p> <p>City of London Corporation</p> <p>London Borough of Croydon</p> <p>London Borough of Ealing</p> <p>London Borough of Enfield</p> <p>Royal Borough of Greenwich</p> <p>London Borough of Hackney</p> <p>London Borough of Hammersmith and Fulham</p> <p>London Borough of Haringey</p> <p>London Borough of Harrow</p> <p>London Borough of Havering</p> <p>London Borough of Hillingdon</p>

	<p>London Borough of Hounslow</p> <p>London Borough of Islington</p> <p>Royal Borough of Kensington and Chelsea</p> <p>Royal Borough of Kingston upon Thames</p> <p>London Borough of Lambeth</p> <p>London Borough of Lewisham</p> <p>London Borough of Merton</p> <p>London Borough of Newham</p> <p>London Borough of Redbridge</p> <p>London Borough of Richmond upon Thames</p> <p>London Borough of Southwark</p> <p>London Borough of Sutton</p> <p>London Borough of Tower Hamlets</p> <p>London Borough of Waltham Forest</p> <p>London Borough of Wandsworth</p> <p>Westminster City Council</p>
<p>Individual London Authority Responses</p> <p>Appendix 9</p>	<p>The template response has been completed by the London CIV as the pool for London Local Authorities. Where London Funds have wanted to provide a supplementary response and have arranged for a copy of their response to be given to the London CIV, these have been included as appendices.</p> <p>Responses from individual funds are:</p> <ul style="list-style-type: none"> ➤ London Borough of Barnet ➤ City of London ➤ London Borough of Ealing ➤ London Borough of Hackney ➤ Royal Borough of Kensington & Chelsea ➤ London Borough of Lambeth

	<p>➤ London Borough of Sutton</p> <p>➤ London Borough of Tower Hamlets</p>
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Criterion A: Asset pools that achieve the benefits of scale

1. The size of the pool once fully operational.	
(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	<p>£28.4 bn.</p> <p>NB – assumes all assets transferred by 2033 with the exception of cash held for operational reasons</p>

2. Assets which are proposed to be held outside the pool and the rationale for doing so.
<p>(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).</p> <p>Up to £700m or 2.4% of total assets under management as at 31.03.15 to be held as individual cash holdings across the London Local Authorities for operational reasons. Rationale for all other assets transferring to the pool – additional fund structures to be established alongside the ACS to hold other investments which either can't be held in ACS or aren't economical to do so.</p> <p>However in the interim, we anticipate that approximately 12.6% of the assets may be in illiquid assets and are therefore likely to remain outside of the pool in the short to medium term. This is comprised of:</p> <ul style="list-style-type: none"> • Property £2.1bn or 7.2% AUM • Private Equity £0.6bn or 2% AUM • Hedge Funds £0.6bn or 2% AUM • Infrastructure £0.2bn or 0.7% AUM

- Other illiquid assets e.g. partnerships £0.3bn or 0.7% AUM

In addition the government's list of exemptions for the immediate future includes life funds. Whilst the CIV has been working to transition these to an ACS structure, in the light of this new exemption and some of the complexities faced in moving to ACS structures from life companies, the CIV is reappraising its approach to this asset class, where possible it will continue with an ACS approach, but will blend with maintaining life policies where appropriate to do so. Within London this represents £7.5bn or 25.9% of AUM as at 31.03.15. Whilst recognising that a proportion of these can continue to be held at a local level as life policies, the CIV at a pool level will provide the management and reporting for these assets as outlined in the asset exemptions paper.

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Attached as ANNEX number
Annex 01 – Illiquid Assets held across London Local Authority Pension Fund
Annex 02 – Passive Life Policies across London Local Authority Pension Funds

3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618.

Approval for the structure has been signed off by the 33 participating London Local

Authorities with each authority formally approving the decision to join the London CIV

- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

The London CIV is a UK authorised and regulated tax transparent fund (TTF) structured as an ACS open to qualified investors. The legal ownership of assets is with the depository and beneficial ownership of the assets will remain with each of the investing local authorities; the London CIV is the fund manager.

- The composition of the supervisory body.

Annex 5 sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

At the company level for London CIV, (second chart), it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers.

Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

Attached as ANNEX number
[Annex 3 - Shareholders Agreement](#)
[Annex 4 - London CIV Articles of Association](#)
[Annex 5 - London CIV Governance Structure](#)

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment

management from inception):

1. Selection, appointment and termination of 3rd party fund managers (in-house fund management is an option that will be considered in future)
2. Investment Oversight of external 3rd party fund managers
3. Operations Management and oversight of 3rd party service providers
4. Compliance and Risk Management (fund and company)
5. Client Reporting
6. Website Management
7. Financial Management and Budgeting
8. Fund Oversight, controlled functions support (2018?)

(b) To procure externally (for example audit services):

1. External Fund Managers – to be procured as and when required
2. Audit Services (Deloitte) – Contract in place
3. Legal Services (Eversheds) – Contract in place
4. Asset Service Provider (Northern Trust) – Contract in place
5. Depository (Northern Trust) – Contract in place
6. Fund Oversight, controlled functions support (Capita) – Contract in place – likely to move internal over a period of time
7. Communications support (London Councils) – Contract in place
8. ICT Support Services (London Councils) – Contract in place
9. Payroll and Pension Services (City of London) – Contract in place
10. Bookkeeping Services (PWC) – Contract in place
11. Investment Consultancy – to be procured as and when required
12. Transition Management – to be procured as and when required

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.

(a) Please provide assurance that the structure summarised in 3 above will be in place by

01.04.2018 assuming: x, y and z (add caveats).	
<p>Confirmed YES/NO</p> <p>YES – Structure already in place and operational</p> <p>However, London CIV now dependent on government progress the Investment Regulations as some funds will be at risk of breaching current regulatory limits in the near future.</p>	<p>Anticipated date structure will be in place:</p> <p>Established and operational 2015 with first assets under management December 2015</p>
<p>(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.</p>	<p>Attached as ANNEX number</p> <p>An indicative timetable for bringing assets under management is attached at Annex 6. However this is heavily dependent on a range of factors including but not limited to:</p> <ul style="list-style-type: none"> ➤ Ability of FCA to approve opening of London CIV funds in a timely manner ➤ Ability to open additional Fund structures outside of the ACS to facilitate transfer of less liquid assets ➤ The treatment of life funds going forwards ➤ Ability of suppliers to meet timescales for opening sub-funds for the CIV, particularly when other Pools start the process of sub-fund openings ➤ Sufficient resources available both internally, externally and at a Local Authority level to transition assets ➤ It should be recognised that the draft

	<p>timeline is inevitably very high level at this stage. We recognise that this timeline has of necessity to be flexible, because it will depend to a large extent on meeting the needs of the London Local Authority investment strategies particularly as they review their asset allocation following the triennial valuation. Depending on appetite this may also result in earlier moves into property and infrastructure.</p>
<p>(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)</p>	<p>Attached as ANNEX number See comment above and Annex 6</p>
<p>(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.</p>	
<p>Total value of assets estimated to be held in pool as at: -</p> <p>Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.</p> <p>31.3.2021: £25.9bn Est 31.3.2024: £28.4bn Est</p>	

31.3.2027: £28.4bn Est

31.3.2030: £28.4bn Est

31.3.2033: £28.4bn Est i.e. all AUM held by London Local Authorities with the exception of cash held for operational reasons

Criterion B: Strong governance and decision making

6. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.

- a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

The governance structure of the CIV and the role that Authorities play in this is crucial to understanding how decisions are made in the CIV and the interaction that there has to be. All participating London Local Authorities are both shareholders and investors in the London CIV company and as such the CIV is accountable to the Authorities at both levels. The governance structure of the CIV has been designed to ensure that there are formal and informal routes to facilitate engagement with all the Authorities. This is achieved through a combination of the London Councils' Pensions Sectoral Joint Committee (PSJC), comprising nominated elected Member representatives Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both Treasurers and Pension Officers from a representative sample of Authorities.

The share structure of London CIV provides for equal voting rights for each authority on a one share one vote basis, this is a key tenet of the decision making process.

- b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

- As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.
- The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism

for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

- Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.
- Pensions Boards – The role of Pension Boards is to assist the Administering Authority in ensuring compliance with the regulatory framework which the Fund operates in. Whilst in the first instance the CIV will be accountable to the relevant Pensions Committees of its shareholders and investors, if they are unable to receive the necessary assurance, then the Pensions Board can in turn seek to gain that assurance direct that the Administering Authority is compliant with the regulations.
- External Audit – Deloitte have been appointed to undertake external audit of both the company (London CIV) and the ACS Fund and will provide an annual governance statement which will be publicly available on the website.
- Depositary – The formal structures that the London CIV has put in place including FCA registration and the appointment of a Depositary (Northern Trust) helps to provide additional scrutiny on the CIV in providing monitoring and regulatory oversight of the company and a range of services including:
 - Safe custody of assets
 - Oversight of key systems and processes
 - Due-diligence review of the Operator (London CIV), and the Custodian, Fund Accountant, and Transfer Agent (Northern Trust)

7. The mechanisms by which authorities can hold the pool to account and secure assurance

that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

- London CIV has gone beyond ‘intention’ and has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.
- As already described above there are three levels of interaction between investing authorities and London CIV as the operating company; the PSJC, the IAC and regular contact through formal and informal interaction at borough level. It is embedded in the culture of London CIV that everything is being done ‘for and on behalf of’ the investing authorities and, while London CIV must ultimately take decisions independently of investors (for regulatory reasons) those decisions will be taken with appropriate levels of collaboration and the best interest of the investing authorities at heart. Formal agreements and documentation include:
 - The Shareholders Agreement which sets out the terms and conditions of the joint venture and regulates their relationship with each other and certain aspects of the affairs of and dealings with the Company. The Company has agreed with the Shareholders that it will comply with the terms and conditions of the Agreement insofar as it relates to the company and provided it is legal to do so. (See annex)
 - The PSJC is established under London Councils’ governance arrangements.
 - The PSJC has specific Terms of Reference which include the following:

“....to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate

*these decisions to the Board of the ACS Operator company. These include:
the appointment of directors to the ACS Operator board of directors;
the appointment and removal of auditors of the company;
agreeing the Articles of Association of the company and consenting to any amendments to these;
receiving the Accounts and Annual Report of the company;
exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;"*

- As an FCA authorised contractual scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme.
- A service level agreement is also currently being drafted which will set out in more detail agreed service levels between the CIV and the Authorities which will help to further enable the CIV to be held to account for ensuring that borough investment strategies are being implemented and the timescales.

(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.

Attached as ANNEX number
Annex 3 - Shareholders Agreement
Annex 4 - Articles of Association
Annex 7 - Terms of reference – PSJC
Annex 8 - Prospectus of London
LGPS CIV ACS

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

- See comments above and relevant Annexes

8. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The overall control of each individual authority pension fund stays at the local level and Authorities will continue to set their fund investment strategy and decide the most appropriate asset allocation mix in conjunction with advice from their officers, Consultants and Advisors. Therefore, Individual Pension Committees will continue to make all the key decisions as they do now in relation to asset allocation and investment strategy.

Funds will therefore continue to make decisions around:

- Funding
- Asset Allocation
- Investment Strategy
- Appointment of advisers
- Governance structures for the Fund
- Setting their own Responsible investment strategy
- Preparing and ratifying relevant Fund policy statements in accordance with the regulations e.g. Funding Strategy Statement, Investment Strategy Statement, etc.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

Decision Making – London CIV Ltd. Level (FCA Authorised & Regulated AIFM)

- Appointment of external 3rd party managers
- Removal of external 3rd party managers
- Implementation and optimisation of investment strategies
- Appointment of other external 3rd party service providers
- Decisions on sub-fund structures and fund launches

- Management Structure
- All FCA Regulated Activities
- The CIV will, where appropriate consider investing in other pools in order to facilitate access to different investment strategies where other pools have capacity and we don't or can't build capacity (generally for reasons of limited demand within the London Pool). Likewise we will be open to accepting investments from other pools where we offer strategies that the other pool doesn't.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

Decision Making – Supervisory Body – London Councils' Sectoral Joint Committee

- Oversight and scrutiny of the pool
- Shareholder representative body
- Recommending strategic overall strategy and sub-fund requirements to meet the needs of Shareholders
- Policy decisions including stewardship and voting at a pool level

9. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

Principles:

The shared principles of the London CIV established when the London Local Authorities came together are unchanged despite the government's more mandatory stance, namely:

1. Investment in the ACS should be voluntary, both entry and withdrawal (although it is recognised that the voluntary nature is now more constrained by the forthcoming investment regulations).
2. Authorities choose which asset classes to invest into and how much.
3. Authorities should have sufficient control over the ACS Operator
4. Investing authorities will take a shareholding interest in the operator
5. Shareholders will have membership of the Pensions Sectoral Joint Committee

<p>6. ACS Operator will provide regular information to participating Authorities</p> <p>7. ACS will not increase the overall investment risk faced by the Authorities.</p>	
<p>(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.</p>	
<p>Policies:</p> <ul style="list-style-type: none"> ➤ High level policy on responsible investment to include compliance statement with the Stewardship Code to be developed by end December 2016 ➤ Voting Policy – to vote in accordance with LAPFF recommendations – Agreed by the PSJC – 27th May 2015 ➤ The London CIV is working closely with other Pools to consider approaches to responsible investment and ESG issues can be addressed by the pools to ensure effective stewardship 	
<p>(c) If available please attach as an ANNEX any draft or agreed policies already in place.</p>	<p>Attached as ANNEX number</p>

10. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.

<p>(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u></p>	<p>Implementation costs -</p> <p>Approximately £1.8m to establish core structure and open first sub-funds</p> <p>Ongoing costs - The budget for the financial year ending 2017 has costs of £2.3m growing by 8% for the following year and 2.7% for the year after. At this time the budget for the longer term outlook is</p>
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currently under review.

Assumptions:

Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.

The budget that has been agreed by the Board and the PSJC for 2016/17 and the following 3 years, however, it has become necessary to consider resources in particular in the light of the move to mandatory pooling and the timeframe in which this has to be delivered.

The London CIV is aware of a range of benchmarking exercises which would indicate that for investment management organisations of the size and scope of the London CIV a greater level of resourcing is required and will need to take this into account as it considers its longer term budget.

Capital adequacy is based on either 25% of annual expenditure or 0.02% of AUM subject to a max of £10m whichever is the higher in line with regulatory requirements.

Whilst in theory there may be reduced costs at a Local Authority level to come through in terms of resources allocated to managing investments and the relationships with individual managers, there will still be an ongoing requirement to monitor performance of the London CIV as well as any investments which continue to be held outside of the CIV at least in the short to medium term. Furthermore, in

London, there are very limited numbers of staff dedicated solely to the function of pension investments, it usually forms part of an individual's job role, estimated at 0.35 FTE for most authorities for this exercise, which could lead to 11 FTE's over the course of pooling (approximate saving of £660k p.a. based on a staff cost of £60k p.a.) However, it should be noted that any savings at a local level are highly unlikely to follow through given earlier comments on ongoing monitoring plus additional regulatory requirements elsewhere, for example increased oversight requirements from Pensions Board and the Pensions Regulator, which is likely to mean that resourcing at a local level is not reduced as a result of pooling of investments.

Reduced costs at a Borough level should follow through from a reduction of investment manager searches at individual fund authorities as this will now be conducted at a pool level. It has been assumed that this will give rise to savings at a London-wide level in the region of £825k p.a. (based on a search costing £25k and approximately 33 investment management searches being conducted on behalf of London funds each year based on historic data)

Comments

- The long term budget for the London CIV is subject to strategic review and a revised budget and financial plan are being drafted over the next 2 months for approval by the London CIV Board and PSJC.
- Surplus funds can be used to support additional resource requirements going forwards.
- Reduced costs at a Borough level will include reduced investment management fees, but this will also be dependent on the types of assets that Authorities may choose to allocate to and in some instances could actually increase e.g. moving assets from passive to infrastructure.

(b) Please provide an estimate of the staff numbers and the skills/expertise required, split

<p>between implementation and ongoing. Please state any assumptions made to arrive at that estimate.</p>	
<p>Assumptions</p> <ul style="list-style-type: none"> ➤ The near term business plan currently assumes 12 full time equivalent (FTE) staff to March 2017 and recruitment is underway to take the CIV up to this complement of staff. However, it is recognised that as assets under management grow and the complexity of those assets increases, there will be additional resourcing requirements which could see staffing at least double over the next few years. ➤ The CIV is aware of the CEM benchmarking work on the level of staffing required for investment management organisations which use external managers. This would indicate a staffing ratio of 0.36 FTE investment and front office staff per £1bn AUM with additional back office/support and governance staff of 1.8 FTE for every front office staff. If this level of staffing were to be reflected for the CIV with £29bn AUM this would indicate staff levels of 10.4 investment front office FTE and 18.8 FTE in supporting and governance roles. ➤ The CIV will have to consider the level of resources required to manage the growing asset base and complexity of those assets, recognising that it is providing services to 33 underlying clients, but will do so in a measured way recognising the need to deliver pooling in the most cost effective and efficient way. ➤ Staffs in key roles are required to have the requisite skills and expertise to be able to fulfil FCA regulated functions, e.g. CF1, CF3, CF10, CF11 and CF30. 	
<p>Comments</p> <ul style="list-style-type: none"> ➤ With the London CIV having been established and transition of assets underway, it is more a case of business as usual going forwards, although there will be additional implementation costs in the next 2-3 years. ➤ However, it is likely that going forwards any release of resource from implementation will transfer to other areas and to ensure that switching of asset 	

allocation and investment strategy by the London Funds is carried through in a timely efficient manner.

- In addition the ongoing monitoring of existing managers and potential new managers and investment opportunities, means that going forwards the addition and removal managers will still require resources to undertake strategic implementation decisions.

8. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.

(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

Confirmed

The London CIV pool is committed to reviewing its approach to being responsible long term investors including becoming signatories to the Stewardship Code.

A cross cutting stewardship working group has been formed as a sub group of the PSJC to review this area, in addition to a working group of the IAC officer group to work with the CIV to develop stewardship policies and approaches which can be taken forwards.

If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.

Attached as ANNEX number

9. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.

(a) Please confirm that the pool will publish annual net performance in each asset class

<p>on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.</p>	
<p>Confirmed</p> <ul style="list-style-type: none"> ➤ The London CIV is committed to providing performance information publicly and the website is already operational and reporting of sub-funds available: http://londonciv.org.uk/ ➤ Performance reporting is already taking place on the funds that are operational ➤ Quarterly and Annual report to Sectoral Joint Committee (public papers) on both sub-fund and overall performance at a pool level ➤ Quarterly performance reporting to the company Board ➤ Individual quarterly performance reports to each investor ➤ The CIV is already working on the first interim report and accounts, which will also be put on the website with an annual report and accounts published in spring next year. This will include both the financial information relating to the CIV as a company along with the performance of all the relevant sub-funds. <p>If no please attach an ANNEX setting out how the pool will report publically on its performance.</p>	<p>Attached as ANNEX number</p>

10. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

- Performance at individual fund level net of fees and relative to relevant benchmark,

quarterly, annual and longer term performance to include since inception and 3 and 5 years.

- Where funds migrate to the same investment strategy with the same underlying manager, longer term performance records to be maintained.
- Full disclosure of fees and investment costs
- Budgeted and Actual costs for the London CIV
- Benchmarking – use of external provider/ collaborate with other pools to review options – looking at options for a National LGPS Framework Procurement exercise to procure providers in this area.
- Scheme Advisory Board reporting requirements both at Fund and Pool levels

Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	£67.6m (Published costs) 28.16 bps
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	£108.6m (CEM Benchmarking) 48.34 bps
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted. All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent	

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	£107.19m (Published costs) 36.84 bps
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	£135.6m (CEM Benchmarking) 48.16 bps
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above. All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent.	

The accounting treatment has meant greater transparency for the reporting of costs between 2013 and 2015 and is not necessarily reflective of higher fees paid to external managers, which is probably reflected in the constant level of bps charge shown by the CEM benchmarking.

3. A detailed estimate of savings over the next 15 years.

- (a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at 3 year intervals commencing from 2018

Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes across 33 London Local Authorities, along with the changing structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.

Whilst recognising that fee savings are one aspect of improving the level of return which pension funds achieve, this has to be put into the context of the levels of risk and return delivered. Targeting higher levels of return are inevitably going to increase risk but also the cost of accessing greater returns.

If, as seems likely Funds require more complex investments to deliver returns and cashflow as they mature including accessing infrastructure assets, then the cost savings may well fall significantly short of the estimated savings being suggested. As funds adjust their asset allocation and investment strategy to meet their funding needs, it may well not be possible to evidence the fee savings set out below.

Further, if as seems likely, we are entering an environment where both economic growth and market returns are structurally and materially lower, then investment returns will by definition be lower. This will also be impacted by the likely move into more expensive cash-flow generating assets. In sum, the shifting needs and

requirements of the local authority pension funds, allied to broader shifts in the economic and investing environment, may mean that the CIV overall will report lower growth in capital values and higher fees than has been the case in recent years.

The table below sets out the estimated savings on 3 year basis with both high and low estimates of the savings that might be achieved based on the AUM and asset allocation as at 31/03/15. The average saving per annum is based on the 3 years accumulated saving averaged over 3 years and then assumes each of the 33 authorities achieve the same level of saving.

However, it is recognised that funds start in very different places in terms of the AUM and the asset allocation and the fee levels paid for those investments. It is only possible to calculate savings at a fund level once all relevant information is taken into account at the

time of

3 years to	Low Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000	High Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000
2021	27,856	281	63,596	642
2024	33,836	342	80,121	809
2027	34,736	351	83,022	839
2030	34,736	351	83,022	839
2033	34,736	351	83,022	839

transition.

- (a) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

Standard assumptions have been made on basis point savings in each asset class – this reflects both experiences from recent negotiations with external managers, but also echoes the work undertaken by Project Pool. A high and low estimate has been provided to reflect the fact that fee savings are likely to vary significantly depending on the investment strategy within individual asset classes and the capacity and demand for

products with each external provider.

Assumptions - bps savings on fees paid to external managers			
	AUM	Low Estimate	High Estimate
Passive Equity	7,537,293	2	4
Active Equity	9,697,638	5	12
Fixed Interest	4,938,727	3	5
Multi-Asset	2,635,633	5	12
Property	2,094,598	5	15
Alternatives	1,566,590	10	30
Cash & Other	626,735	-	-
TOTAL	29,097,214		

- Project Pool – estimated savings in the range £140-185m p.a. by year 10 based on asset values today
- LGPS AUM £217bn at 31/03/15
- London = 13.4% AUM
- Low estimate of savings = 8.3%
- High estimate of savings = 15.0%

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

Attached as ANNEX number

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

As noted in a previous response the London CIV has gone beyond 'intention' and has formal agreements and arrangements in place and is already in the process of pooling investments for the London Local authority pension funds and delivering fee savings to funds.

The estimated implementation costs were £1.8m and have already been incurred.

At this time the London CIV budget is under review with a revised budget to be presented to the PSJC and the Board at meetings in the autumn. Until such time as the revised budget is available, it will not be feasible to provide break-even point and an update will be provided in the autumn.

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

Total transition costs at this time are estimated at £30.4m (low estimate) up to £103.6m (high estimate), with a mean cost of £53.3m these are based on average transition costs supplied by Russell. A proportion of current AUM has been assumed as being transferred in-specie.

ASSET CLASS	AUM £000s	Mean Estimated Costs			Low Estimated Costs			High Estimated Costs		
		% in-specie	Bps	£000s	% in-specie	Bps	£000s	% in-specie	Bps	£000s
Passive Equity	7,537,293	85%	20	4,522	90%	10	1,507	80%	30	9,045
Active Equity	9,697,638	60%	30	23,274	70%	24	13,965	50%	36	34,911
Fixed Interest	4,938,727	40%	25	14,520	50%	20	9,680	30%	29	20,328
Multi-Asset	2,635,633	60%	15	3,163	70%	12	1,898	50%	18	4,744
Property	2,094,598	85%	100	6,284	90%	80	3,351	80%	300	25,135
Alternatives	780,999	95%	100	781	100%	-	-	90%	300	4,686

Private Equity	589,456	95%	100	589	100%	-	-	90%	300	3,537
Infrastructure	196,135	95%	100	196	100%	-	-	90%	300	1,177
Cash & Other	626,735									
Total £000s	29,097,214			53,330				30,401		103,563
Total % (based on total AUM)				0.18%				0.10%		0.36%

*NB Estimated transition cost assumptions provided by Russell based on AUM and estimated turnover

But transition costs will be heavily dependent on each individual transition taking into account:

- Timing of transition – volatility in markets can have a significant impact on these costs
- Where the assets are being transitioned from and to e.g. passive to passive is relatively low cost and may be largely in-specie, alternatively, emerging market to emerging market with no in-specie will be at the higher cost end
- How much in-specie transition is feasible i.e. where there are common mandates or holdings which can be moved between investment managers.
- Stamp duty costs

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.

Attached as ANNEX number

(d) Please explain how the implementation costs will be met by the participating authorities.

- London Local Authorities provided initial set up capital of £75k per participating authority to establish the London CIV and cover the initial implementation costs including legal and advisers' costs.
- Transition costs will be met by each individual fund as it transitions assets across to the London CIV. Funds are provided with estimated transition costs in advance of transition taking place and then a post trade report showing costs of implementation.

5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

As assets are transferred either in-specie or in cash into a sub-fund, individual authorities will be provided with the costs of transition.

The CIV will look to disclose at a pool level the costs of transition and savings to its broader investment and shareholder base on an annual basis as a minimum, but will be reporting to the Board and PSJC on a quarterly basis

(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

- Authorities will be provided with quarterly reporting from the London CIV which will encompass both their investment performance and the fees paid by them, including any fund charges
- At a pool level, shareholders will be provided with an annual report setting out performance and costs for each individual sub-fund including net performance as well as at a pool level
- Quarterly reporting and annual reporting will be provided to individual Authorities in a written report
- In addition performance of sub-funds will be covered on the CIV website.
- Quarterly and Annual reporting will also be reviewed at the IAC and PSJC meetings as well as at the Company Board meetings and the Company Investment Oversight Committee.

(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

- As above

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”	
(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	0.7%
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	1%
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	


2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.	
<p>(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p> <p>Aim of the Cross Pool Collaboration Infrastructure Group:-</p> <p>To develop a collaborative infrastructure framework that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer Funds (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p>	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	<p>Confirmed Yes</p> <p>The CIO of the London CIV sits on the Cross Pool Infrastructure Group and will continue to play an active role as this group develops options for infrastructure investments</p>

	Details attached as ANNEX number
(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.	Attached as ANNEX number In addition to the Cross Pool group, consideration is also being given to a range of ways to access infrastructure including co-investment, direct funds and working closely with other investors in this area.

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.

(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	3-10% Where funds have indicated to the Pool an interest in allocating to infrastructure, the range is between 3-10%, but this remains a local asset allocation decision
(b) Please describe the conditions in which this allocation could be realised. The allocation to infrastructure will be a decision which is made at the London Local Authority level when determining overall asset allocation; however the CIV will ensure that it has the mechanisms in place and the opportunities for the relevant Funds to meet their asset allocation requirements when deciding to invest in infrastructure. The CIV will target infrastructure opportunities that offer the appropriate levels of risk/return for the London Local Authorities to be able to make informed decisions about their asset allocation to this asset class. The CIV will ensure that it works closely with other pools and with individual funds and their advisors to ensure that the requisite knowledge and skills are available to make informed decisions.	

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 Brent	Pensions Fund Sub-Committee 27 July 2016 Report from the Chief Finance Officer
For Information Purposes	Wards affected: ALL
Capita Performance Report	

1. INTRODUCTION

1.1 This is an update on Capita's Performance.

2. RECOMMENDATION

2.1 The Pensions Board is recommended to note this report.

3. DETAILS

3.1 All Details contained within the statutorily required document.

4.0 Financial Implications

4.1 Not Applicable

5.0 Legal Implications

5.1 Not Applicable

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, Investment and Pensions Section, Finance, on 020 8937 6567, Gareth.Robinson@brent.gov.uk at Brent Civic Centre

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Pension Administration Contract Performance 1 October 2015 to 31 March 2016

Capita's overall performance at the mid point of the contractual year is 95.2%.

Every month reports are produced to assist with monitoring the performance of the contract looking at both the individual month and the overall trend, the focus is primarily on three key areas:

- Timeliness of one off payment
- Percentage of core KPI's (accuracy and timeliness) delivered in reference to the contract rebate scheme
- Issue logs

The table below shows key performance measures and outcomes


Case Type	Number of Cases	Number of Cases Correct/On time	Performance	Contractual Requirements
Timeliness of cases involving payments	326	201	61.66%	Transfer value (out) – 5wd Redundancy – 3wd Lump sum on retirement – 3wd Death grant – 3wd Refund of contributions – 10wd
Accuracy of cases involving payments	326	325	99.69%	100%
Timeliness of Correspondence answered	625	616	98.56%	Contractual timescale 5 wd
Accuracy if individual estimates and transfer quotes	524	524	100.00%	100%
Timeliness of estimates and transfer quotes	524	499	95.23%	Transfer in and out quote – 10wd Estimate of benefits (member request) – 5wd Estimate of benefits (employer request) – 3wd Bulk employer estimates (more than 9 cases) – 10wd
Accuracy - Deferred Benefits (Early Leaver)	298	298	100.00%	100%
Timeliness - Deferred Benefits (Early Leaver)	298	285	95.64%	Contractual timescale 10 wd
Timeliness of new starters	702	701	99.86%	Record to be created within 10wd of receipt of appropriate notification
Total	3623	3449		

Overall Performance %

95.2%

Based on Accumulative figure to 31 March 2016

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 Brent	Pensions Fund Sub-Committee 27 July 2016 Report from the Chief Finance Officer
For Information Purposes Wards affected: ALL	
Update on Re-enrolment	

1. INTRODUCTION

1.1 This is a report noting progress on re-enrolment

2. RECOMMENDATIONS

2.1 The Pensions Board is recommended to note this report.

3. DETAILS

3.1 All Details contained within the statutorily required document.

4.0 Financial Implications

4.1 Not Applicable

5.0 Legal Implications

5.1 Not Applicable

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, Investment and Pensions Section, Finance, on 020 8937 6567, Gareth.Robinson@brent.gov.uk at Brent Civic Centre

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Re-enrolment Update

As people are living longer they need to plan and save for their retirement. To assist them in doing this the Government introduced legislation in 2012 requiring employers to assess their workforce and automatically enrol eligible job holders into a qualifying pension scheme if they are not already in one. An employer must also continuously review their employees and are required to undertake a re-enrolment exercise every three years.

The Council's original staging date was 1 March 2013 and an exercise was done on 1 June 2013 to automatically enrol staff into the Local Government, Teachers and NHS Pension Schemes administered by Brent Council. The legislation also requires that employers must carry out re-enrolment every three years.

The Council's re-enrolment date was 1 March 2016 and officers in the Council chose to bring forward the re-enrolment date to 1 February 2016 in order to avoid re-enrolment at year end.

The Council's workforce includes the staff directly employed by the Council and those staff who are working in maintained schools but not those staff in foundation or voluntary aided schools. This made the re-enrolment process more complex as the Council does not provide a payroll service to the 39 maintained schools who were subject to the re-enrolment date of the Council.

On the 1 February 2016 there were 4780 workers employed by London Borough of Brent, including the 39 maintained schools.

4184 were already employed in an eligible workplace pension

259 were enrolled into the Local Government Pension Scheme(LGPS)

147 were enrolled in to the Teachers' Pension Scheme(TPS)

2 were enrolled into the NHS Pension Scheme (NHS)

188 workers were not eligible job holders so did not meet the requirements to automatically join a workplace pension. For example some were over State Pension Age, under 23, had opted out within the previous 12 months or earned less than an annualised figure of £10,000 per annum.

In the following two months 65 staff opted out, 54 from the LGPS, 1 NHS and 10 from TP. More opt outs were received after this time and are being dealt with as they occur under normal opt out procedures.

A further 10 staff who were contributing to the 50:50 section of the LGPS were enrolled into the main scheme with effect from 1 February 2016, 7 of whom made a new election to carry on with the 50:50 section of the scheme.

The process was not without its challenges and one of the payroll providers who a number of schools used had some technical difficulties that resulted in 102 eligible job holders not being enrolled into a qualifying pension scheme on 1 February 2016. The payroll provider contacted the affected staff, apologised for the error and put measures in place to rectify the situation. The Pension Regulator was notified of the Council's failure to implement re-enrolment successfully.

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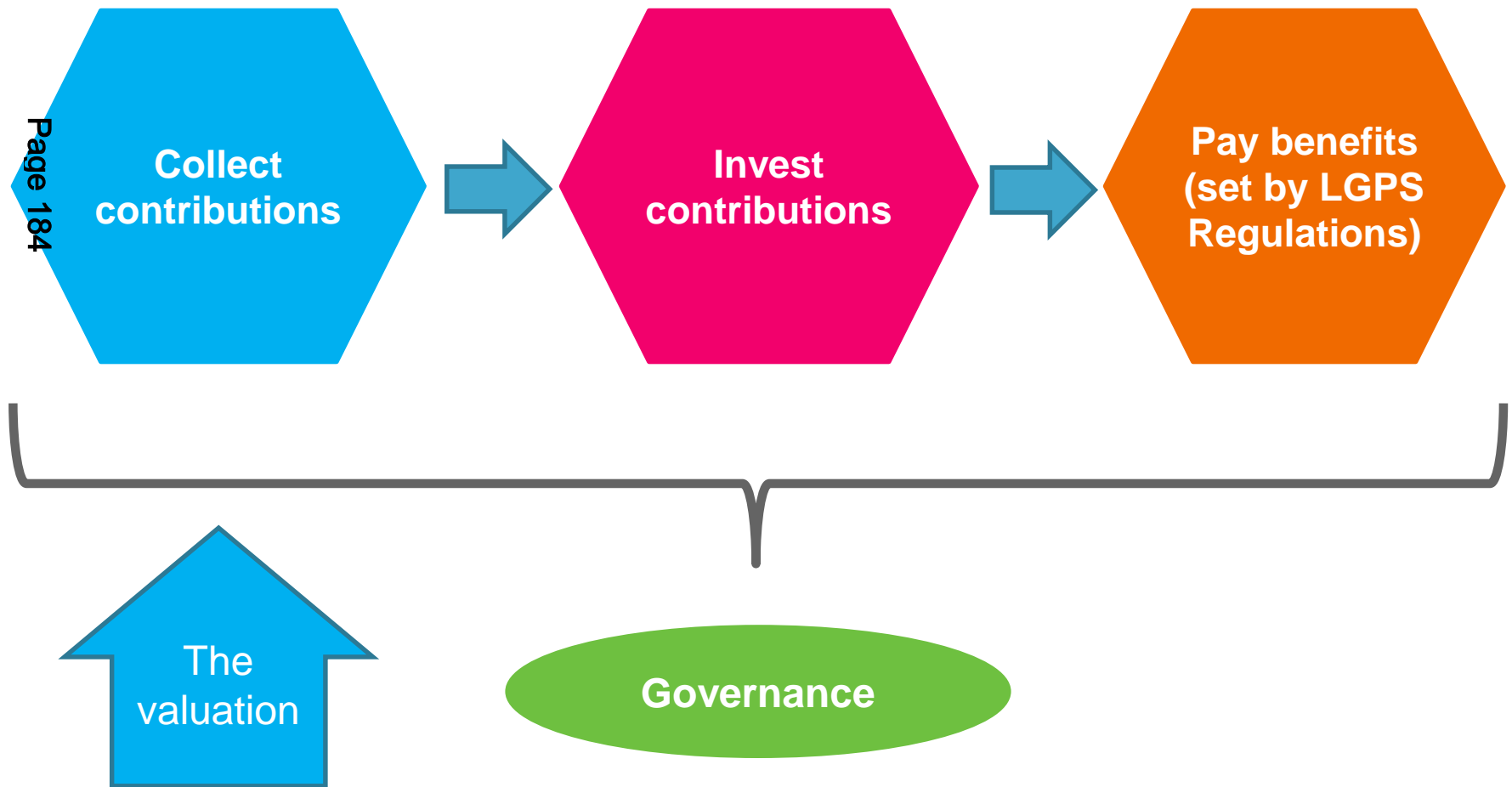
London Borough of Brent Pension Fund The 2016 Actuarial Valuation

Pension Sub-Committee & Local Pension Board training

CONFIDENTIAL

- Douglas Green FFA
- Lynne Ogilvie
- 28 June 2016

The basics of a funded pension scheme

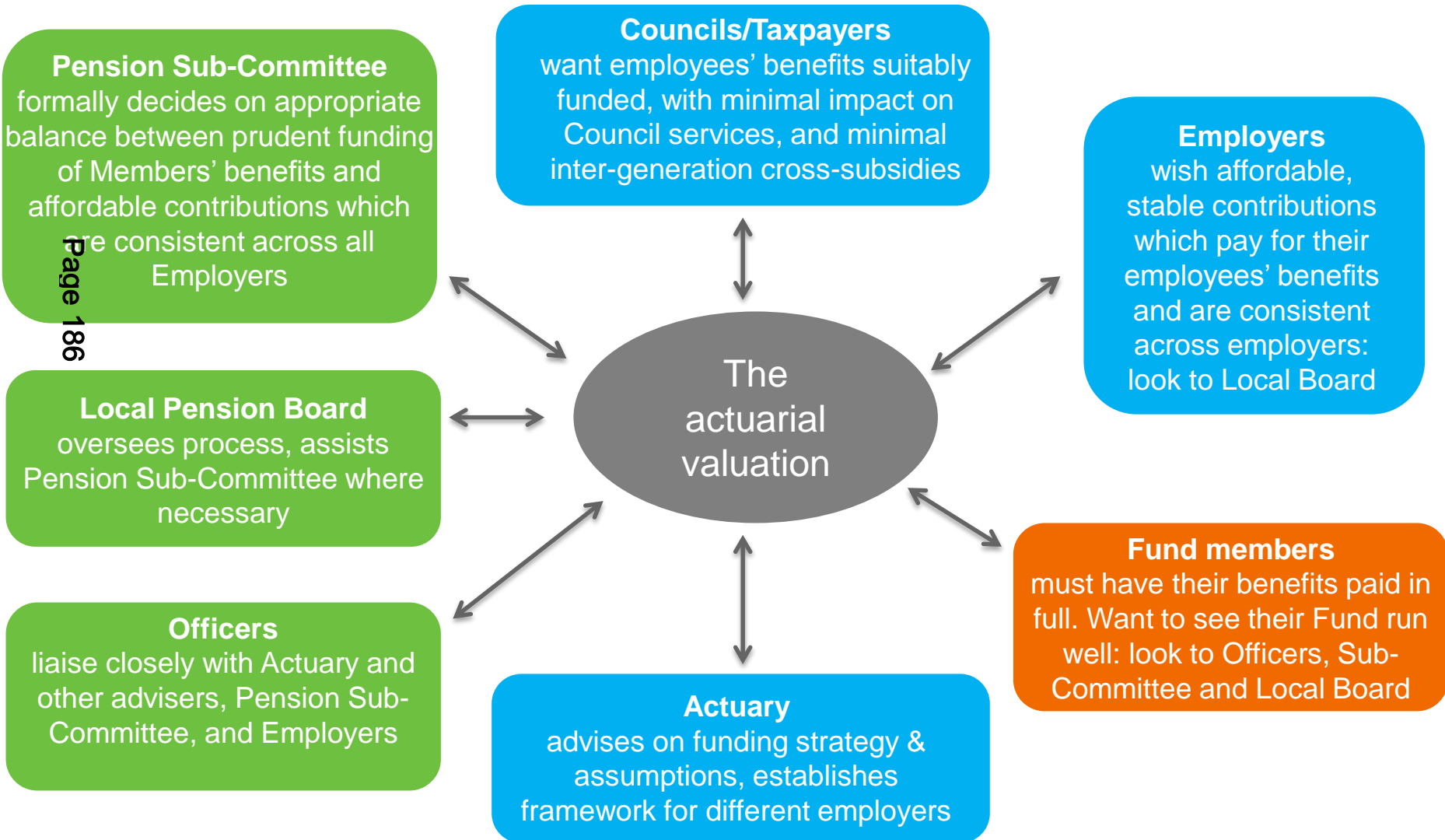


Why do we do a valuation?

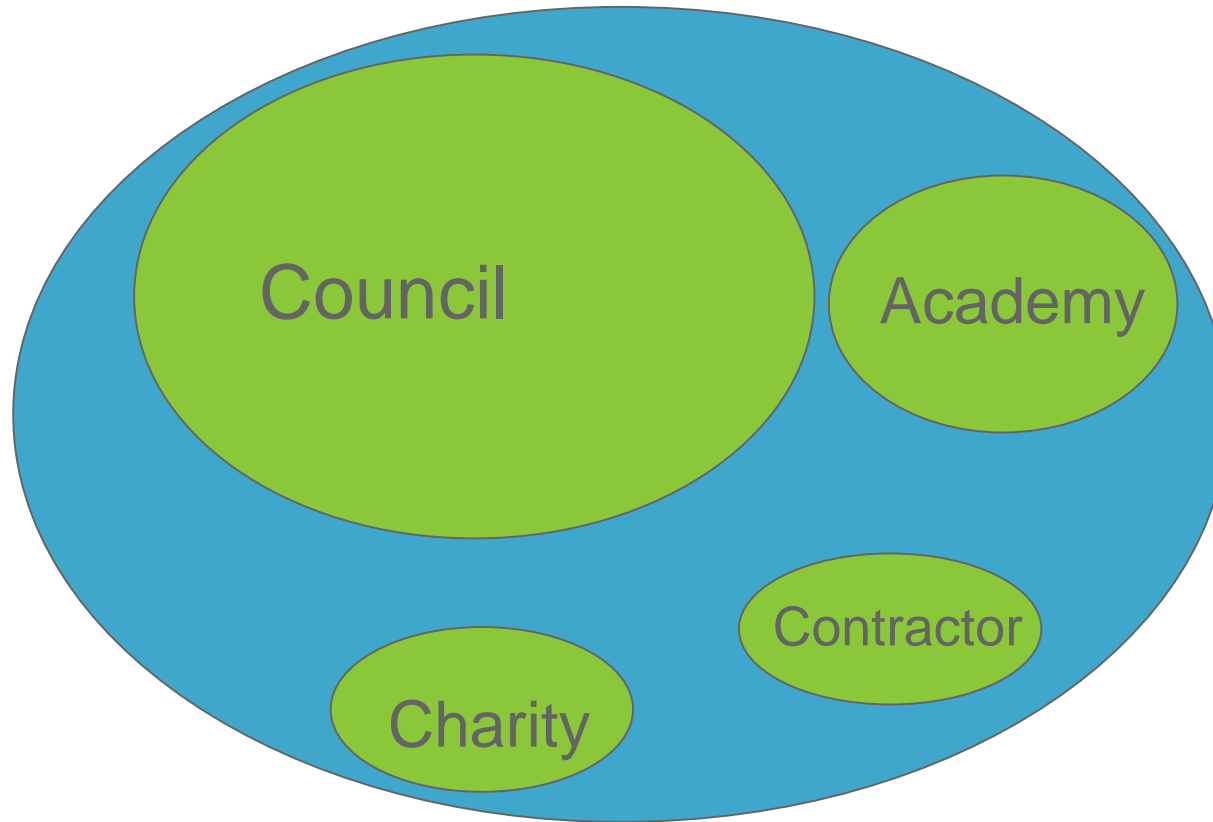
- **Assess** how well pension promises are covered
- **Monitor** experience vs. assumptions
- Set **credible** funding plan and contribution rates
- Consider potential **risks** to the Fund & employers
- Every 3 years: current one as at **31 March 2016**

Central part of risk management of the Fund

The actuarial valuation: Interested parties



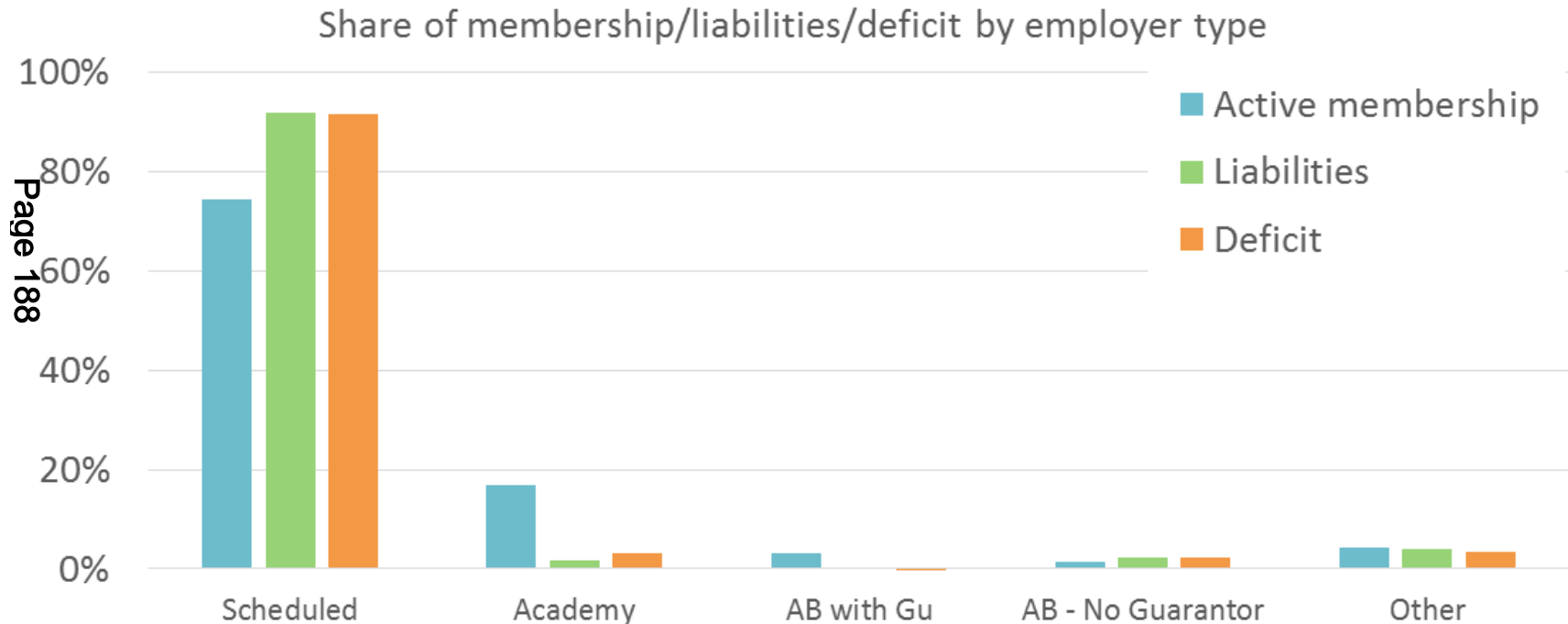
One big pot of assets



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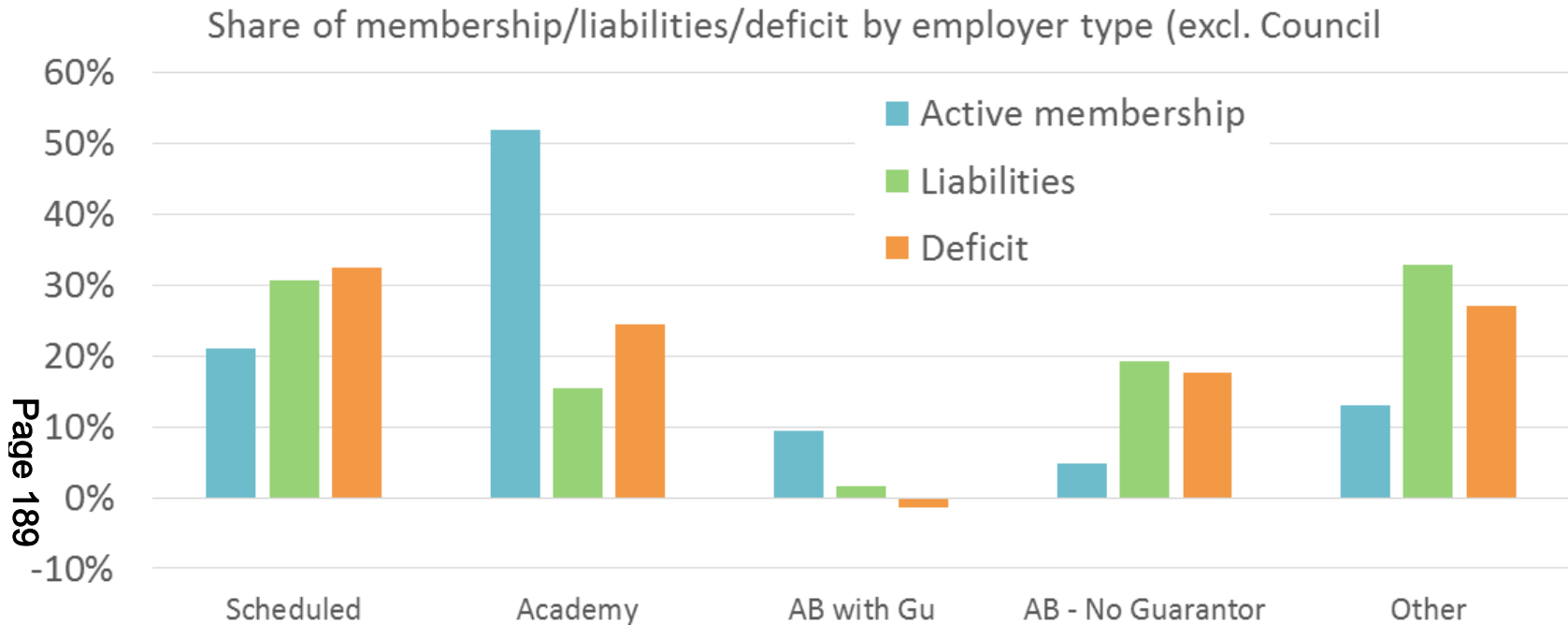
Ring-fenced employer assets and liabilities
Actuary calculates allocation every three years

Split by employer type (incl Council)



Council accounts for c.75% of the Fund's active membership, but c.90% of the liabilities and deficit, due to headcount reduction exercises

Split by employer type (excl Council)



- Non-Council Scheduled Bodies (mainly Brent Housing): relatively mature employers
- Academies: established with low funding levels & relatively immature employers
- Admission bodies with guarantor (contractors): in surplus in aggregate
- Admission bodies without guarantor (charities etc) & “Other” (mainly College): very mature & more poorly funded

Setting our goals



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1. What is the employer's funding target?

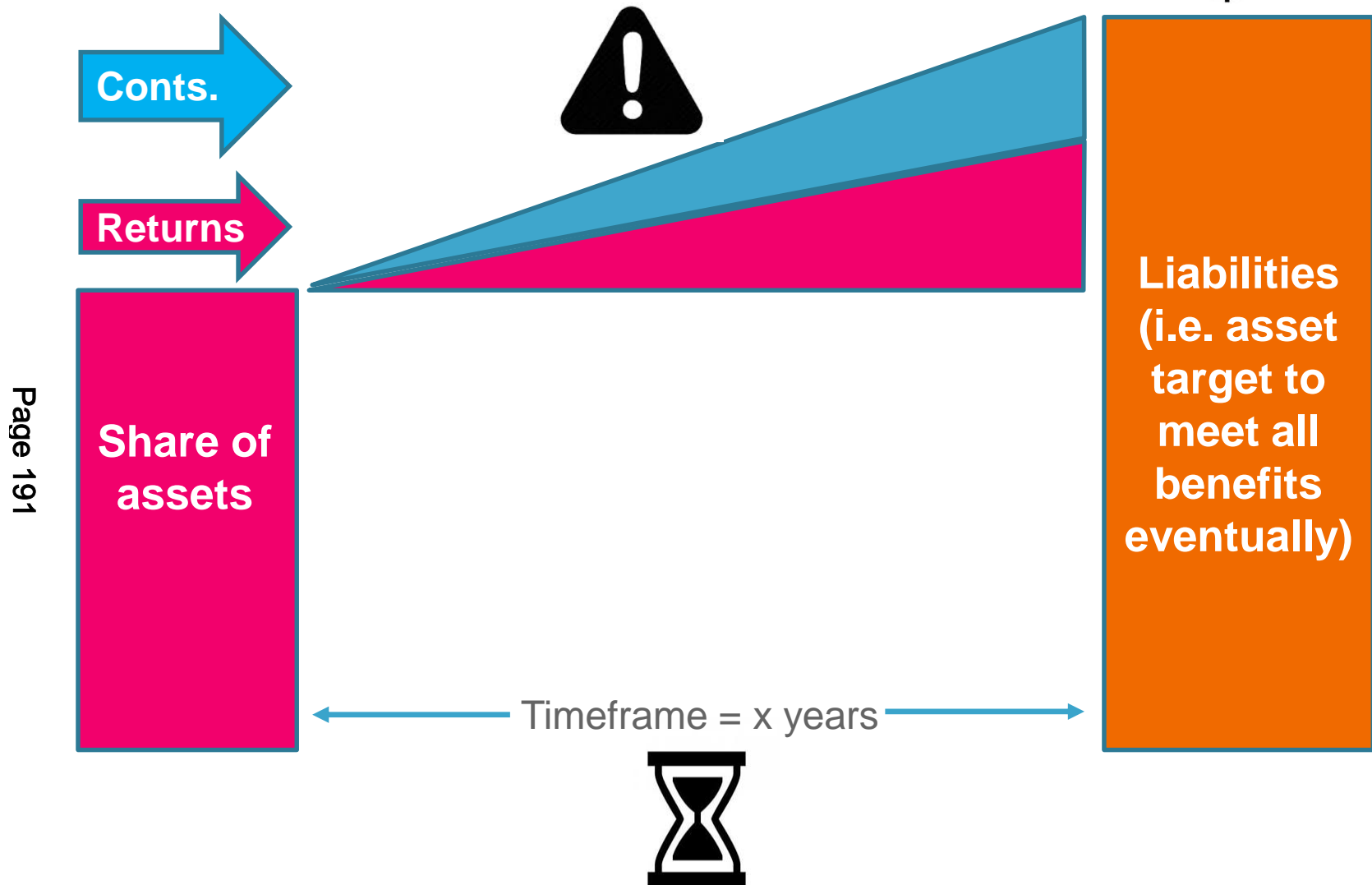


2. How long does the employer have to hit target?

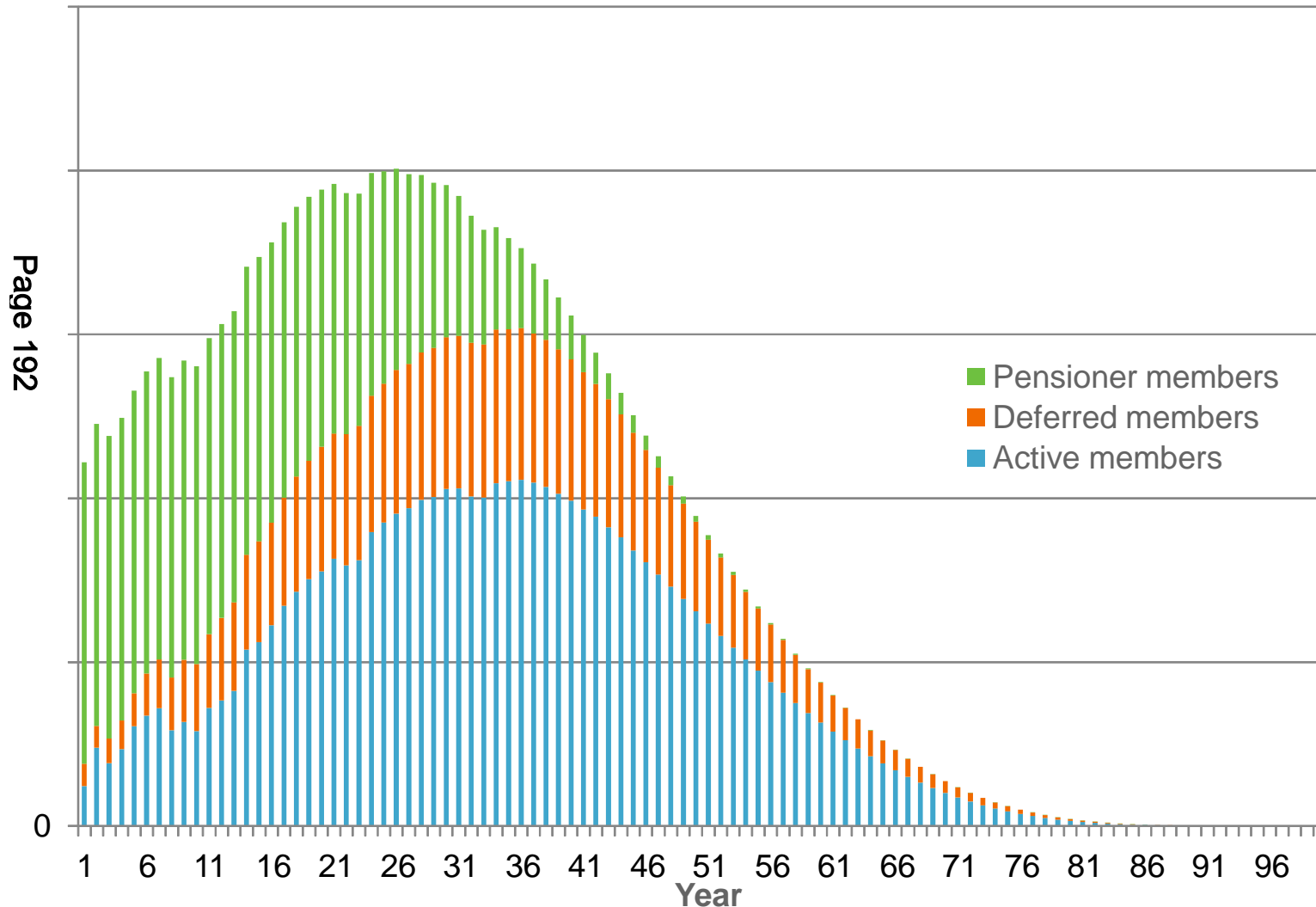


3. How sure do we want to be that employer hits target?

In principle



Liabilities = Projected pension payments



Liabilities: valuing those payments



- Actual cost of a Scheme will depend on the **pensions actually paid**
- A valuation **estimates** how much money will be needed to pay the pensions
- Estimate is based on assumptions
 - projected **amounts** of benefit payments
 - projected **probability** of benefits being paid



Liability valuation assumptions

Amounts paid and **probability** of payment

Financial assumptions:

- Investment return
 - Inflation
- Pay increases
- Pension increases

Consider:

Economic outlook
Actual scheme assets
Historical pay growth

Demographic assumptions:

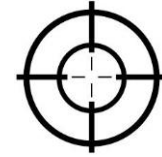
- Life expectancy
- Retirement age/cause
 - Withdrawals
- Marriage statistics

Consider:

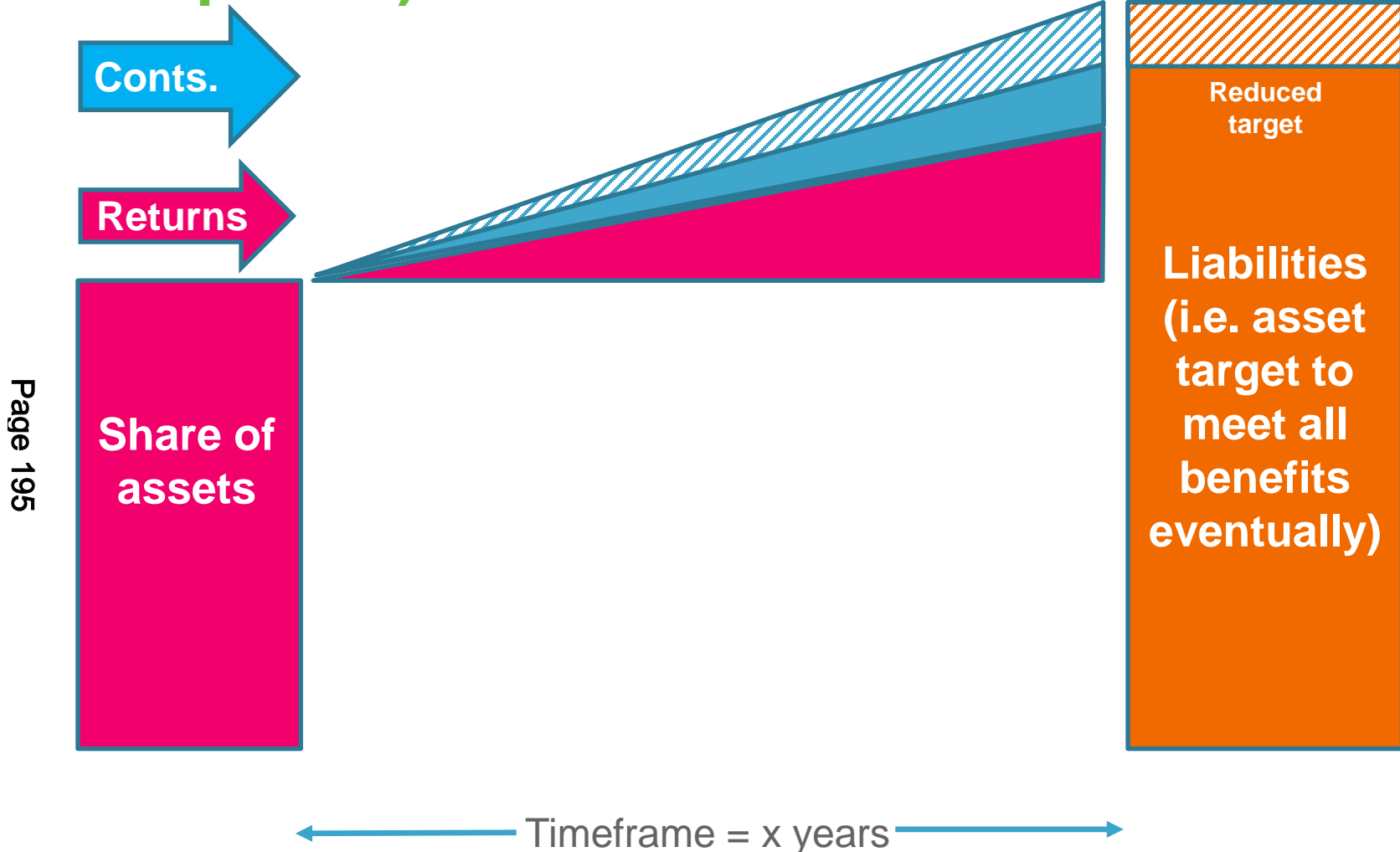
Population trends
Members' social status
Past scheme experience

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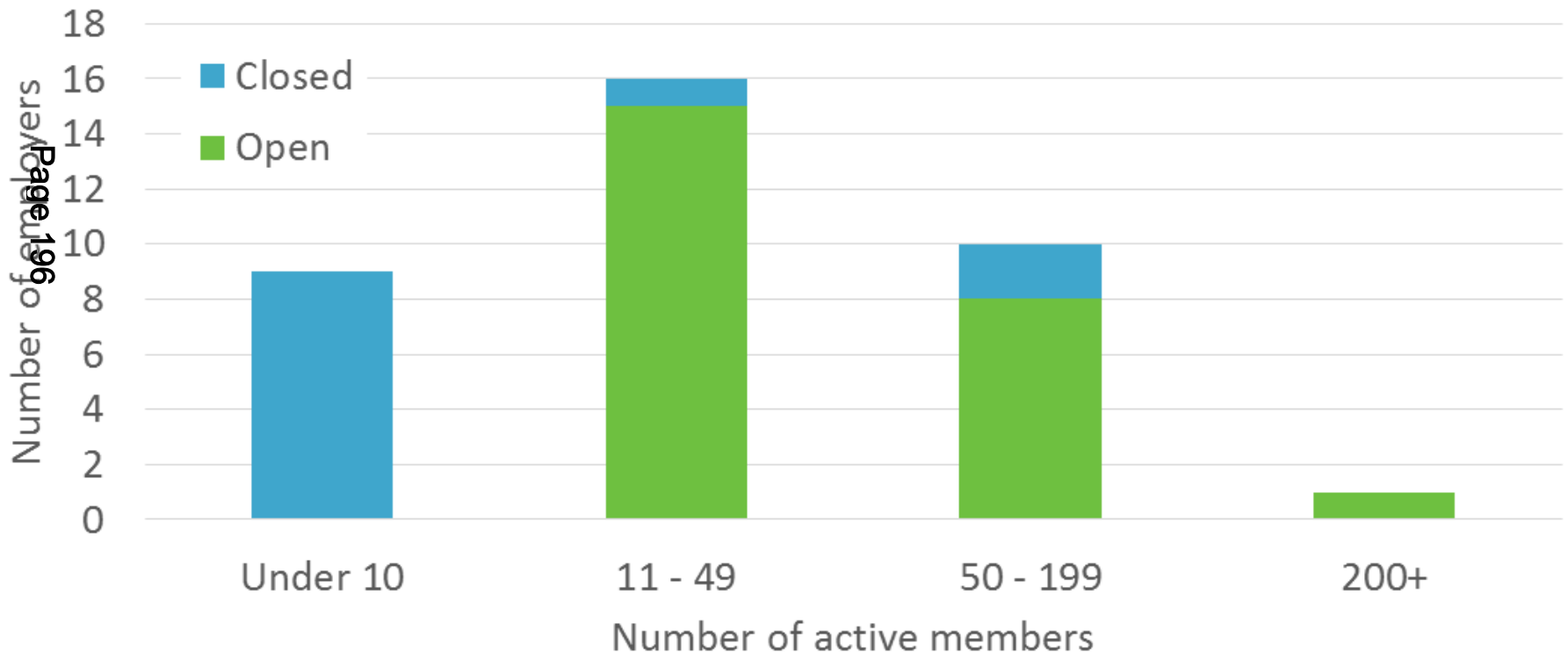




1. Varying the target (eg altered assumptions)



Fund employers by size & open/closed status

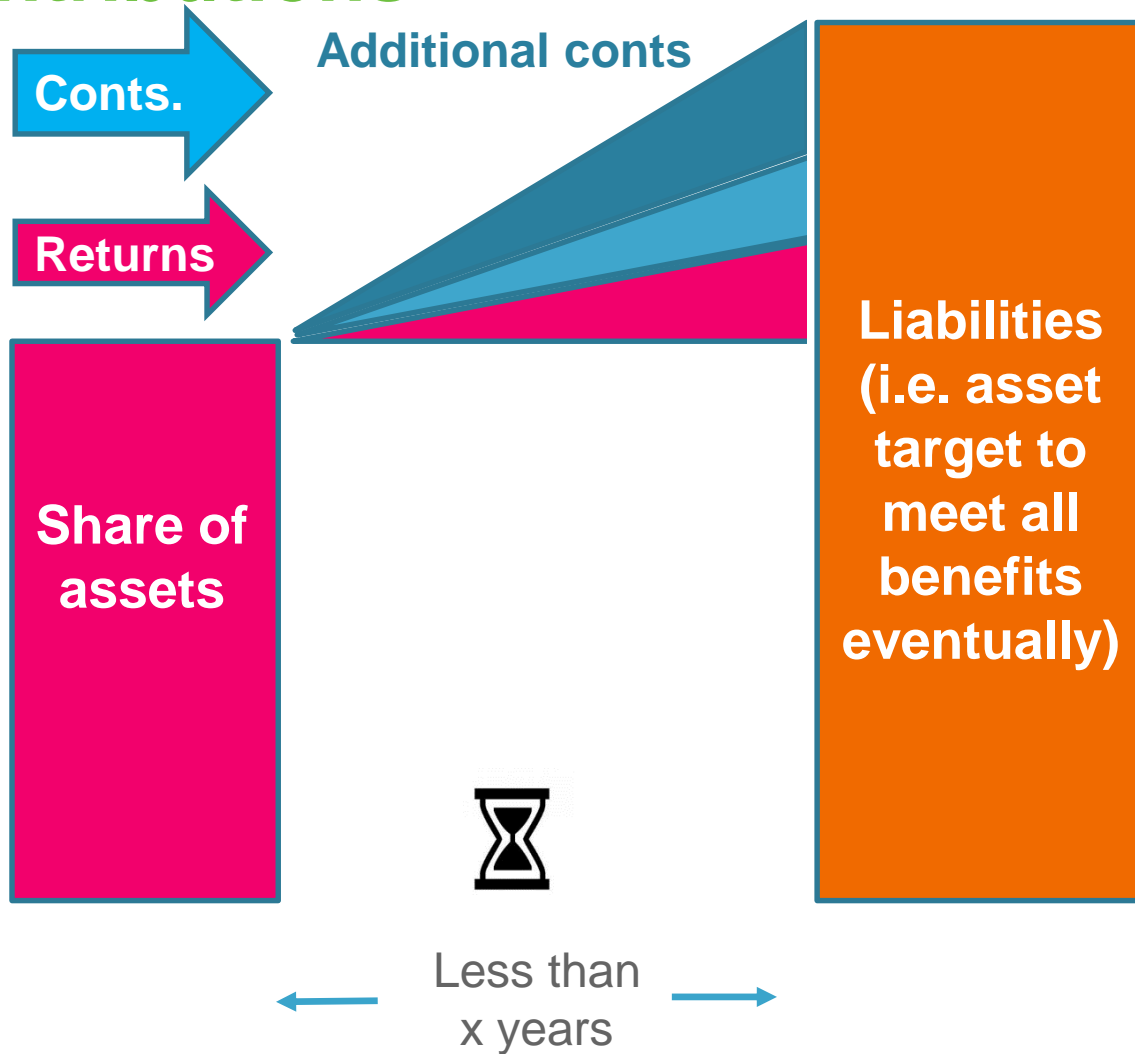


Officers closely watching small closed employers, particularly those without guarantor (non-contractors)



2. Shorter timeframe requires higher contributions

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3. Different employers: different risks to the Fund



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Feature	Implications for funding strategy
Type of body	Can the employer cease? What will happen if it does?
Funding level	Is there a deficit? How big is it?
Cashflow position	Is the employer's asset share growing or shrinking?
Active membership	How many active members are there? Is the membership falling? How many deferred/pensioner members are the actives supporting?

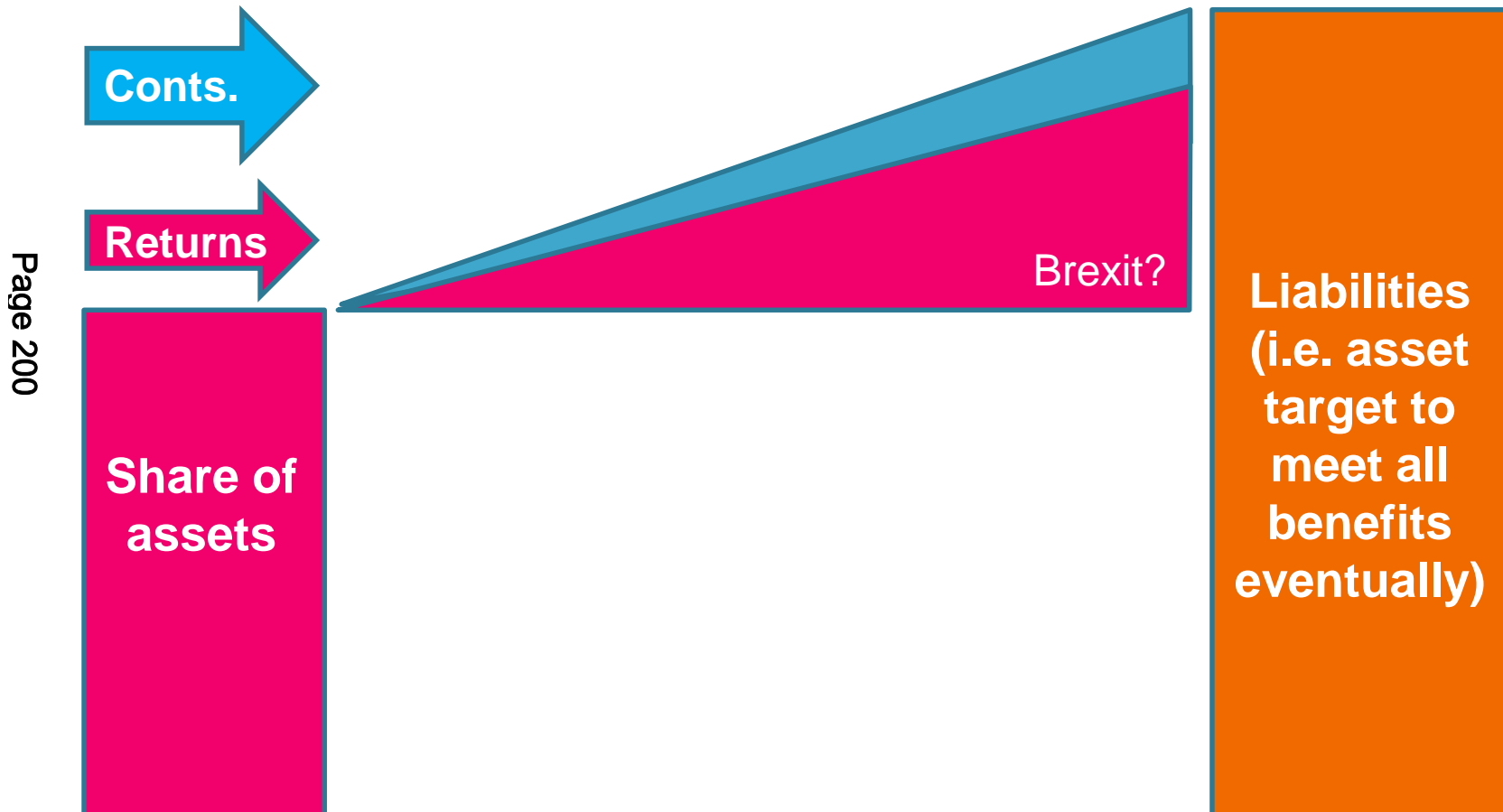
These factors have been used to assign a risk rating
(green, amber, red)

Risk scores by employer type



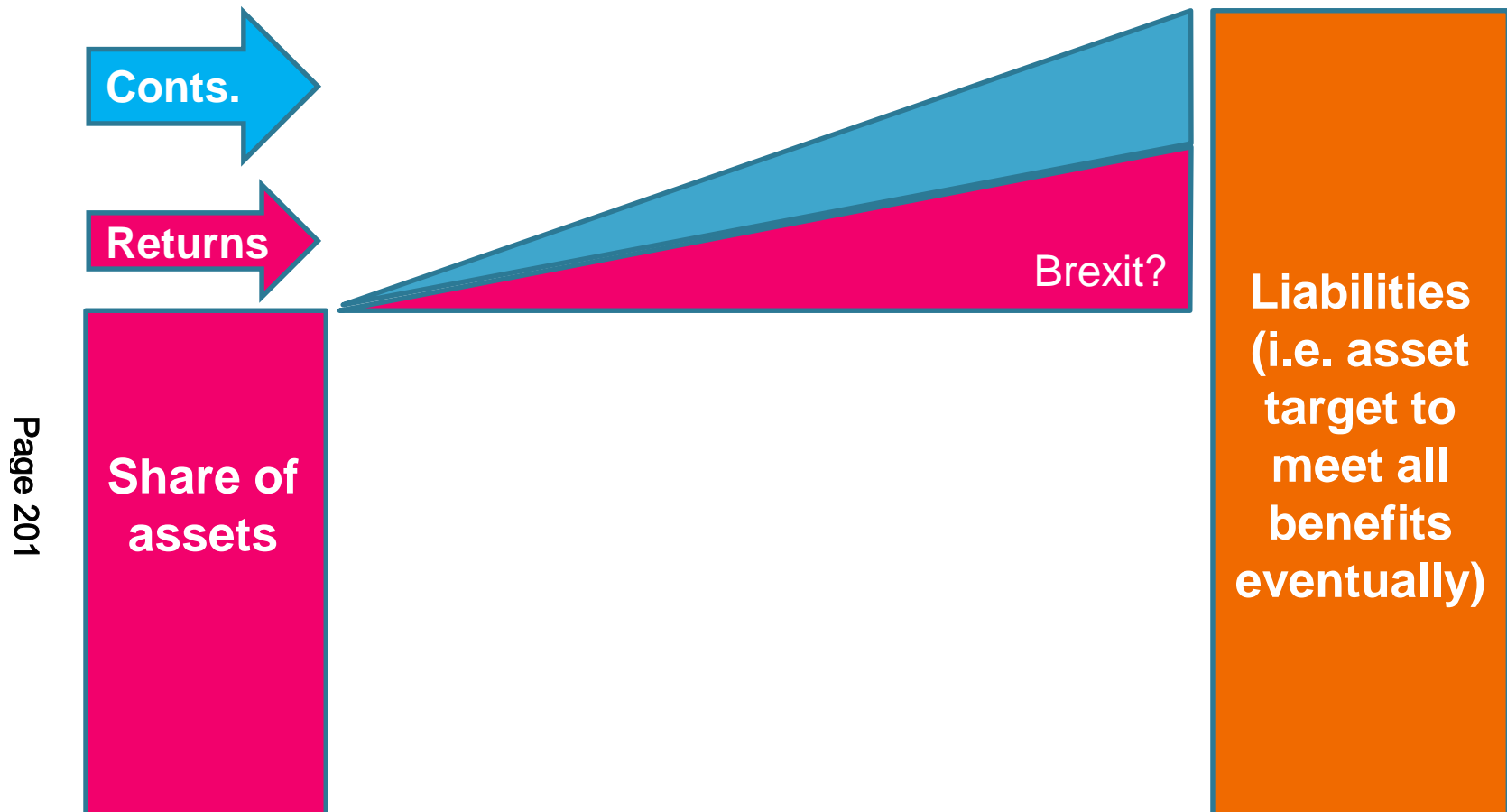
- Some employers are amber because they have low funding levels and/or are cashflow negative and/or have no guarantor
- Academies either green or amber, despite low funding level, due to immature status & DfE guarantee
- Contractors green due to good funding level and guarantor backing
- Admission bodies with low funding levels **and** cashflow negative **and** no guarantor are considered high risk so a large proportion of them are red

Varying the risk/probability - Green



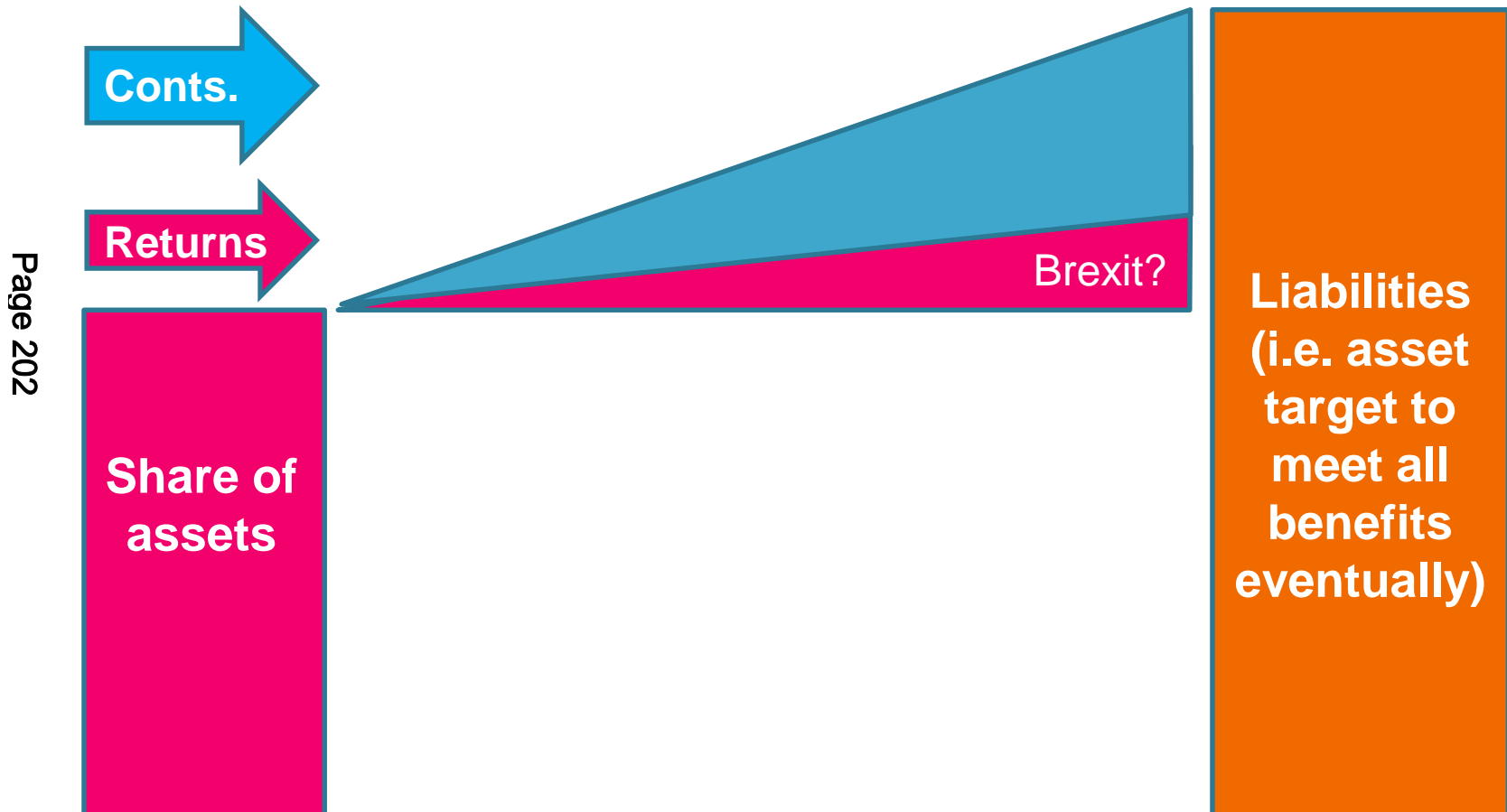
Employer profile links to contributions

Varying the risk/probability - **Amber**



Employer profile links to contributions

Varying the risk/probability - Red



Employer profile links to contributions




All brought together in the Funding Strategy Statement (FSS)

➤ Purpose

- establish a clear and transparent fund-specific strategy,
- how contributions are set for different types of employer,
- how contributions vary in different circumstances.

➤ Outline

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- Target / assumptions 
- Timeframes 
- Differentiation between employers 



➤ Principles agreed with C'ee & LPB

➤ Details agreed between Officers & Actuary

Expected 2016 valuation timeline

2015 & early 2016

Valuation discussions with Fund

May/June 2016

Data cleansed and submitted by Fund to actuaries.

October 2016

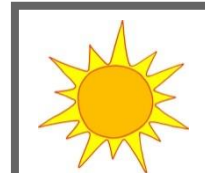
Initial results and assumptions discussed and agreed with Fund.

December 2016

Employer results and funding strategies agreed in principle.
Employer forum and surgeries held.

March 2017

Final valuation report signed off by 31 March 2017.



30 April 2016

Data submitted by employers.

July – September 2016

Actuarial calculations processed.
Results sent to Scheme Advisory Board by 30 Sep

November 2016

Individual employer results calculated and issued. FSS consultation.

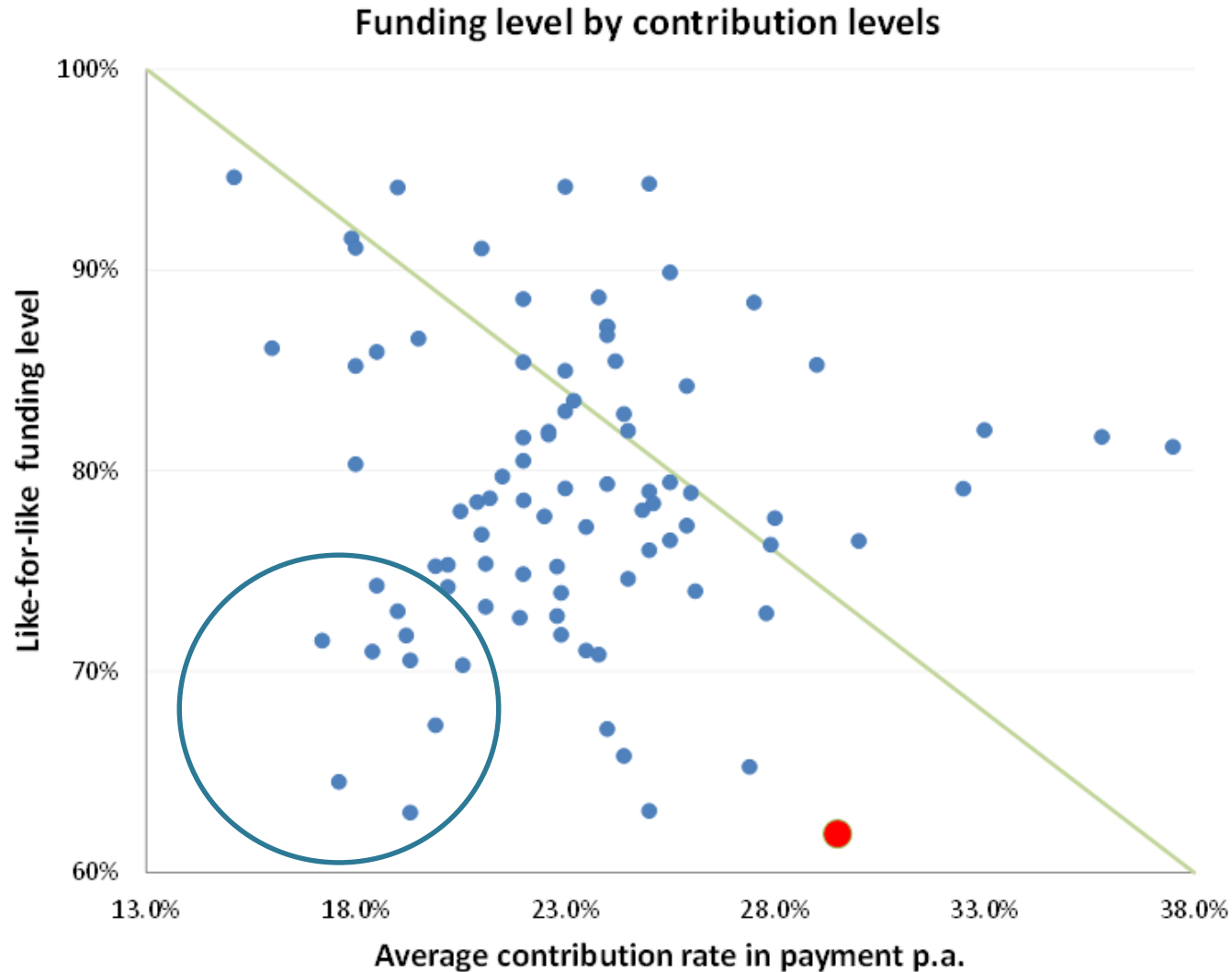
February 2017

End of employer consultation.
Final employer results and FSS agreed.

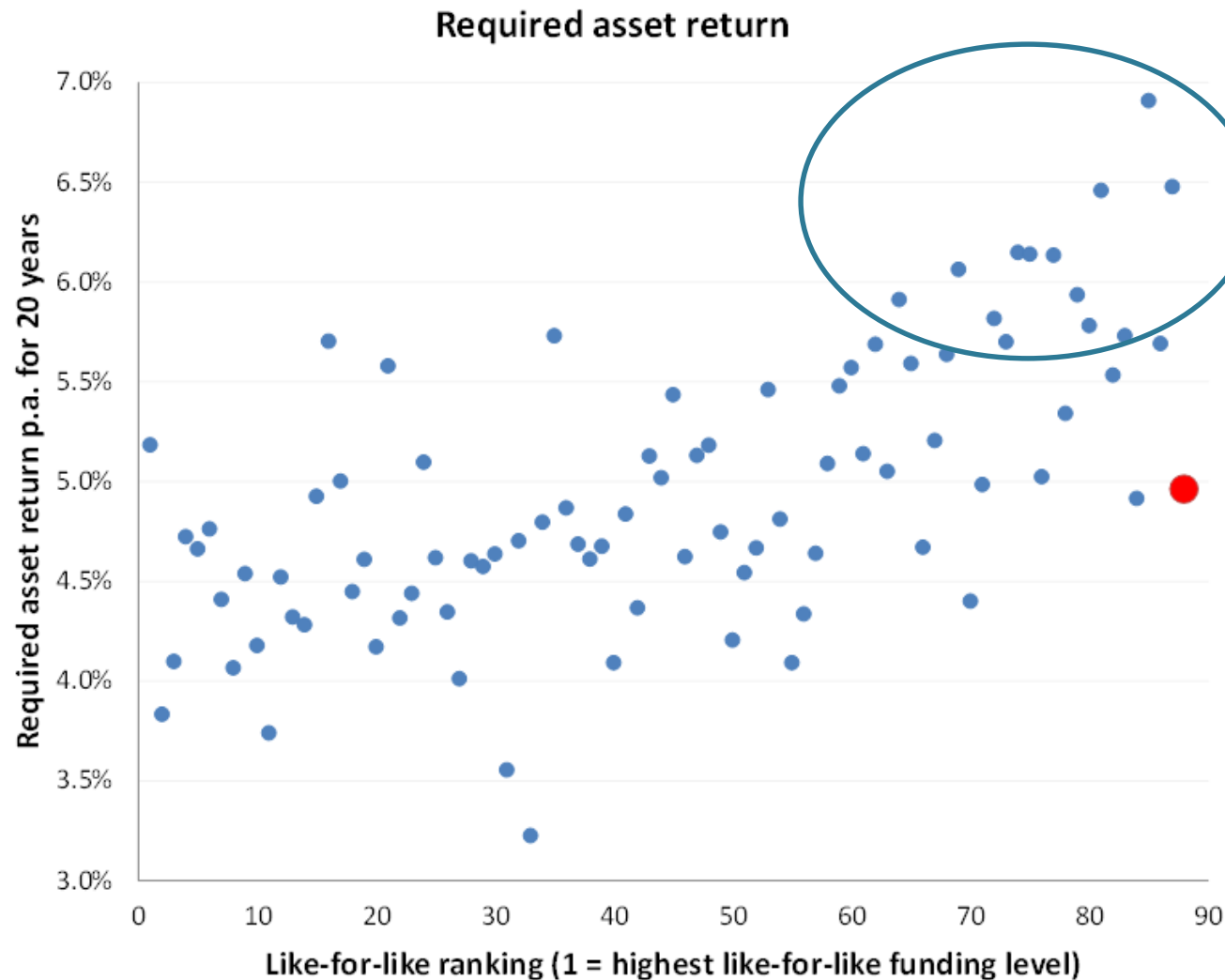
1 April 2017

New contributions start to be paid.

How does Brent compare to the rest of the LGPS?



How does Brent compare to the rest of the LGPS?




Reliances and Limitations

This presentation :

- is addressed to the London Borough of Brent as Administering Authority to the London Borough of Brent Pension Fund and not for the purposes of advice to any other party; Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness.
- discusses the approach to the 31 March 2016 actuarial valuation and was prepared purely for discussion and illustration purposes. Hymans Robertson LLP accepts no liability for any other purpose of this presentation.
- does not constitute advice to any employer, in particular does **not** advise the Council as a Fund employer: it is encouraged to speak to the Fund officers and/or seek independent advice before making material decisions.
- contains confidential information and is not for sharing outside this meeting.

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 <p>Brent</p>	<p>Pensions Board 27 July 2016</p> <p>Report from the Chief Finance Officer</p>
<p>For Information Purposes</p>	<p>Wards affected: ALL</p>
<p>Smaller Admitted Bodies and the Triennial Review</p>	

1. INTRODUCTION

- 1.1 The purpose of this briefing note is to update members on the impact of the Triennial Review and the increasingly differentiated risks attached to the Various Bodies. It is also to update members on the review and planned actions that officers are starting to take to ensure that risks are addressed.

2. RECOMMENDATIONS

- 2.1 The Pensions Board is recommended to note this report.

3. DETAILS

- 3.1 Brent's Pension Fund includes many different organisations, of which the largest is Brent Council. Depending on the level of the deficit each organization has with respect to the Pension Fund and local circumstances, different organisations will have different contribution rates and different timescales to clear that deficit. However, all admitted bodies are still required to contribute to the Fund appropriate levels of contributions to meet their share of the underlying deficit in an appropriate timescale.
- 3.2 Scheduled bodies are tax-raising bodies or agencies of tax raising bodies. A full listing is provided in the LGPS Regulations 2013 - SI2013-2356.
- 3.3 Admitted bodies are those allowed to maintain employees within the pension fund. Some are scheduled bodies, while other have become permitted due to providing

services on behalf of a scheduled bodies. Most of these smaller bodies in the Brent Pension Fund are educational institutions but some are housing associations or charities. It is normal for employers with employees who TUPE'd over to these bodies upon outsourcing or transitioning to academies to obtain admitted body status.

- 3.4 Admitted bodies come in a variety of have different statuses and some have higher risks than others. Tax-raising bodies (often referred to as scheduled bodies) such as the Council are regarded as lower risk than colleges that are reliant on government funding and there are increasing examples of such institutions having financial difficulties. Not having a guarantee is the greatest risk of all to the Pension Fund.
- 3.5 It is important to recognise that members' responsibility on this Pensions Board and the Sub-Committee is to the Pension Fund and not to individual admitted bodies. While plans to manage the reduction of the deficit can to some limited extent be tailored to fit local need, they must be prudent and sustainable in order to protect the interests of all members of the Fund.
- 3.6 Hymans Robertson LLP, Brent's actuaries, conducted a risk-based review of the smaller admitted bodies, some of whom have larger deficits than the Council and have far fewer resources to manage those deficits. The actuaries assessed the bodies against many criteria including but not limited to number of active members, cashflow, active liability as a % of total liability, funding level and closed or open status.

3.7 Please see table below for anonymized details:

Organisation	Funding Level as at 31 March 2016 (%)	Net annual Cashflow as % of Current Assets	Closed to New Entrants	Change in active membership since 2013	Active members as at 31 March 2016	Active liability as % of total liability	Type of Body	Total Risk Score
Brent Council	52%	0%	N	-31%	2903	40%	Scheduled	35
Academy	84%	29%	N	60%	72	94%	Scheduled	10
Academy	72%	14%	N	10%	45	82%	Scheduled	15
College	57%	3%	N	-31%	161	54%	College	40
Academy	69%	10%	N	31%	34	73%	Scheduled	25
Academy	65%	15%	N	33%	24	63%	Scheduled	25
BHP	64%	2%	N	0%	117	64%	Scheduled	25
Private	167%	4%	Y	-50%	3	74%	Private	25
Private	106%	2%	Y	-38%	8	100%	Private	25
Private	96%	8%	Y	-25%	6	100%	Private	20
Private	88%	6%	Y	0%	1	88%	Private	25
Housing Association	80%	50%	Y	-50%	1	100%	Private	35
Other	73%	15%	N	-23%	20	85%	Resolution	25
Charity	53%	4%	Y	-37%	48	49%	AB - No Guarantor	70
Other	78%	6%	N	-20%	12	72%	AB - No Guarantor	45
Other	81%	9%	N	-38%	5	98%	AB - No Guarantor	55
Charity	71%	6%	N	0%	1	49%	AB - No Guarantor	55
Academy	38%	109%	N	56%	67	100%	Academy	30
Academy	31%	49%	N	47%	75	99%	Academy	30
Academy	48%	52%	N	79%	50	97%	Academy	30
Academy	39%	45%	N	-14%	83	100%	Academy	30
Academy	29%	67%	N	24%	47	100%	Academy	35
Academy	34%	67%	N	14%	25	92%	Academy	35
Academy	32%	63%	N	2%	103	98%	Academy	30
Academy	33%	31%	N	71%	48	33%	Academy	40
Academy	31%	50%	N	-16%	48	100%	Academy	35
Academy	22%	50%	N	-10%	44	100%	Academy	35
Academy	129%	50%	N	30%	13	100%	Academy	15
Academy	14%	50%	N	19%	19	100%	Academy	35
Academy	8%	50%	N	-21%	30	100%	Academy	35
Academy	27%	50%	N	47%	28	100%	Academy	35
Academy	54%	50%	N	8%	40	78%	Academy	35
Housing Association	100%	50%	Y	0%	1	100%	TAB	15
Private	100%	10%	Y	-25%	3	100%	TAB	20
Private	100%	10%	Y	331%	56	100%	TAB	5
Charity	100%	10%	Y	0%	51	100%	TAB	5

3.8 The final valuation data and required contribution rates will not be available for some months. The risk assessment was commissioned precisely to ensure that those admitted bodies who may be most at risk of facing sharp increases in their contribution rate can be contacted now. This will enable a dialogue around the likely issues and any possible mitigation. Brent's officers have reviewed the data and will over the next month make connections with the admitted bodies to open dialogue on the triennial valuation. It is important that admitted bodies are aware that the triennial review impact can have an impact on contribution levels and that they can contribute to the process, but Members are again reminded that their responsibilities in this role are to the fund as a whole and not to individual organisations.

4.0 Financial Implications

- 4.1 The Financial Implications in the Pension Fund are that the Pension Fund should benefit from £86K of annual savings.

5.0 Legal Implications

- 5.1 Not Applicable

6.0 Diversity Implications

- 6.1 Not Applicable

Background Papers

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, Investment and Pensions Section, Finance, on 020 8937 6567, Gareth.robinson@brent.gov.uk at Brent Civic Centre