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Brent Pension Fund Sub-Committee

Tuesday 8 November 2016 at 6.30 pm
Boardrooms 3/4 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

Members	**Substitute Members**
Councillors:	Councillors
S Choudhary (Chair)	Denselow and Moher
Daly	
Khan	Councillors
Naheerathan	
Shahzad	
Vacancy	

Non-Voting Co-opted Members

Francesca Hammond	UNISON
Stephen Holley	North West London College

For further information contact: Joe Kwateng, Governance Officer
0208 937 1354; joe.kwateng@brent.gov.uk

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democracy.brent.gov.uk

The press and public are welcome to attend part of this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members delegate the decision on the Council contribution rate once the Monte Carlo modelling is complete.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

This report provides a summary of the Fund's activity during the quarter ended 30 September 2016. It also examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

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conrad.hall@brent.gov.uk

This report provides an update on the London Collective Investment Vehicle (CIV) and the timescales attached to making Investments within it. It also updates on challenges the CIV due to delays with on-boarding investments and selecting new managers.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

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This report sets out the annual accounts of Brent Pension Fund for the financial year 2015/16.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

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9	**Short Term Cash Investment**	263 - 266

The purpose of this report is to address the challenge of having large cash balances on-hand awaiting investment decisions, achieving very low or nil returns, while being placed with a single bank. It will also allow the Pension Fund to be able to invest short-term quickly and reduce the risk of having up to 10% of the Fund at risk due to being held by a single bank.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

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conrad.hall@brent.gov.uk

10	**Minutes of Pension Board**	267 - 270
11	**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.

12	**Exclusion of press and public**	

The following item is not for publication as it relates to the following category of exempt information as specified in the Local Government Act 1972 namely:

“Information relating to the financial or business affairs of any particular person (including the authority holding that information)"

13	**Funding strategy statement (FSS)**	271 - 324

This report sets out the Funding Strategy Statement (FSS) of the London Borough of Brent Pension Fund (“the Fund”), which is administered by the London Borough of Brent, (“the Administering Authority”). The report has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief

Finance Officer

Tel: 020 8937 6528
conrad.hall@brent.gov.uk

14 Smaller admitted bodies update

The Chief Finance Officer will provide a verbal update to the Sub-Committee.

15 Actuarial Contract Re-procurement 325 - 328

This report requests the Chief Finance Officer to complete all necessary requirements regarding the re-procurement of the actuarial contract so that it can come to the Pension Fund Sub-Committee at the earliest possible time for approval.

Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 28 June 2016 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Khan, Miller, Shahzad and Hammond

Apologies for absence were received from: Councillors Daly and Naheerathan

1. **Declarations of personal and prejudicial interests**

   None.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 23 February 2016 be approved as an accurate record of the meeting subject to confirmation of fund management costs saved by CIV since its inception in December 2015.

3. **Matters arising**

   None.

4. **Deputations**

   None.

5. **Quarterly monitoring report on fund activity: Quarter to March 2016**

   Members received a report that provided a summary of the Fund's activity during the quarter ended 31 March 2016. The report also examined the economic and market background, and investment performance and commented on events in the quarter. In giving an overview of the report, Gareth Robinson (Head of Finance) highlighted the following main points:
   The Fund increased in value by 1.9% from £662.3m to £675.9m during the quarter ended 31 March 2016, raising the calendar year (to 31 March 2016) total to £675.9m or by 2.6%. There were private equity distributions in the quarter of £3.3m. The Head of Finance continued that there was a poor overall relative return (0.2%). Equity either had no overall return or declined (Henderson small Cos) while Baillie Gifford (pooled multi-assets) had a -1.1% relative. Infrastructure assets by Alinda shone with a 2.7% relative return and there were private equity distributions in the quarter of £3.3m.

Peter Davies (Independent Adviser) gave a progress report highlighting changes since the main report was published. Members heard that due to potential slowdown in economic activity, the latest economic forecast for the UK had been revised downwards from 2.1% to 0.2% for the financial year. He drew members' attention to geo-political worries including the Syrian conflict, the Referendum on whether the UK should remain or leave the EU and the US Presidential campaign, which were a constant source of uncertainty for investors . Against this background, and with global growth slowing, the possibility of significant gains in equities during the remainder of 2016 looked slim, whereas government bonds were likely to be in demand as safe havens. Conrad Hall (Chief Finance Officer) assured members that the election result to leave the EU (Brexit) would not have an impact on Brent Pension Fund.

RESOLVED:

that the quarterly monitoring report for the period ending March 2016 be noted.

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6. **Brent Pension Fund: Annual Report and Accounts 2015/16**

Members received a report on the Draft Annual Report and Accounts 2015/16 for the Pension Fund to give them an opportunity to comment on them prior to submission to the Audit Committee. In reference to the appendix to the report, Gareth Robinson (Head of Finance) drew members' attention to the Pension Fund Accounts, the employer organisations active within the Fund, total number of scheme members and the levels of contributions. He clarified the funding arrangements and the actuarial assumptions and added that investments in Dimensional were sold off and the proceeds passed over to Legal and General. Members heard that the reporting process on the accounts would start in the following month.

RESOLVED:

That the annual accounts of Brent Pension Fund 2016 be noted.

7. **LONDON Collective Investment Vehicle (CIV) and Asset Transfers**

Members considered a progress to remind them on recent progress in developing the collective investment vehicle and implications for the pension fund as well as decisions they would have to make regarding transferring investments to the Collective Investment Vehicle (CIV).

Gareth Robinson (Head of Finance) outlined the structures set up to facilitate the operation of the CIV and the key issues including the ability of the CIV to obtain lower investment fees due to the economies of scale, more effectively management of risks and access a wider range of investment opportunities through the sheer scale of the pooled resources. He referenced the transfer of funds to Legal and General Investment Management (£287.6m as at 31 March 2016 Draft Accounts or 45% of Pension Fund Assets and urged members to endorse a speedy transfer in order to avoid the risk of delaying the launch of the CIV which could reduce the immediate benefits to Brent.

RESOLVED:-

(i) that the Legal & General Investment Transfer be agreed;

(ii) that the Chief Finance Officer be granted delegated authority permitting him to execute the transfer as appropriate.

8. **Response to Government Consultation on Pooling**

The Government has given local government a deadline of the 15th July 2016 to respond the consultation on Pooling Arrangements. However, they have also responded to the London CIV allowing Brent and its partners to give a collective response. The London CIV proposes to respond accordingly and collect all relevant data from its members, incorporating any local additional items into its own response.

Conrad Hall (Chief Finance Officer) requested members to send further comments they may have within a week of the meeting to his office to enable him to circulate the draft prior to its submission to central government office.

RESOLVED:-

that authority be delegated to the Chief Finance Officer to respond to the Government's consultation on pooling arrangements

9. **Smaller Admitted Bodies and the Triennial Review**

Members received a report that provided an update on the impact of the Triennial Review and the increasingly differentiated risks attached to the Various Bodies. The report also updated members on the review and planned actions that officers were starting to take to ensure that risks are addressed.

Gareth Robinson (Head of Finance) informed members that plans to manage the reduction of the deficit can to some limited extent be tailored to fit local need, however, they must be prudent and sustainable in order to protect the interests of all members of the Fund. Members heard that a risk assessment was commissioned to ensure that admitted bodies that may be most at risk of facing sharp increases in their contribution rate can be contacted now, thus opening a dialogue around the likely issues and any possible mitigation.

Conrad Hall (Chief Finance Officer) added that Brent's officers had reviewed the data and over the next month would contact the admitted bodies to open dialogue on the triennial valuation. He continued that the actual rate of contributions required and any localised plan would still not be decided till September and that benefits to members of those admitted bodies that failed would not be affected.

RESOLVED:

that the progress report on smaller admitted bodies and the triennial review be noted.

10. **Minutes of Pension Board 2 February 2016**

David Ewart (Chair of Brent Pension Board) drew members attention to the work programme and added that it had been agreed that Board should meet three times annually.

RESOLVED:

that the minutes of Brent Pension Board be noted.

11. **Any other urgent business**

None.

The meeting closed at 7.35 pm

S CHOUDHARY
Chair

Brent	**Pensions Fund Sub-Committee** 08 November 2016 **Report from the Chief Finance Officer**
For Information Purposes	Wards affected: ALL

New Regulatory Oversight for LGPS Pension Schemes

1.0 INTRODUCTION

1.1 Recent changes brought about by the Public Services Pension Act 2013 ("The Act") have changed the regulatory framework of the LGPS Pensions Scheme. In particular, Section 13 of The Act introduces additional measures by which the activity of LGPS Schemes is overseen by Central Government, that has in turn appointed GAD (Government Actuary Department) to be the "appointed person" to deliver that function.

2.0 RECOMMENDATIONS

2.1 To note this report.

2.2 Note that the Pension Fund will need to comply with the section 13 process, responding to all queries and requirements of Government's Actuary Department (GAD).

2.3 Note that results on the review by GAD will come back to this Committee when GAD has completed its report (early 2018)

3.0 DETAILS

3.1 Both the Chair of the Pensions Board and the Head of Finance went to a conference in September 2016 on the impact of Section 13. Due to the complexity of the subject matter, this briefing note was produced. It is also important to understand Brent's Pension Fund specific position in this, especially as scrutiny of the LGPS is now built in to Central Government regulations.

3.2 The Section 13 process was set up following the introduction of the Public Service Pensions Act 2013 ("the Act"). Section 13 of the Act sets out a new review framework that sits over the LGPS pensions across England and Wales. The legislation requires the Government Actuary's Department (GAD), as the 'appointed person' to report on whether the LGPS funding valuations comply with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency. Section 13 is a review mechanism to ensure that all the valuations use appropriate assumptions but the power will still sit locally to determine appropriate contribution rates that reflect local circumstances, as 'no one size fits all'.

3.3 Section 13 of the Act has been a long drawn-out process with negotiations between the various stakeholders (GAD, Treasury, the actuarial companies and CIPFA, and LGA have represented Councils to date). A dry-run process reviewing funding valuation methodologies and results took place using 2013 data to determine where problems actually lay as opposed to where Government thought they did. GAD has tried to use standardised calculations to see where there were outliers. It allowed them to pick out funds at greater risk.

3.4 It is important to note that the dry run was not statutory but the one reviewing the current 2016 Triennial Review process will be and the results should be made public in early 2018. The main purpose of the dry run is to highlight risks and get feedback so that the statutory one will be fit for purpose.

3.5 Gradually, it has become clear due to the better quality of data from the dry run that many of the earlier potential recommendations revolving around tougher oversight measures have become unnecessary because the LGPS has largely been well-managed.

3.6 The Act explicitly gives power to the Government to force changes if necessary and both GAD and the actuarial firms have found the concept of 'Actuarial Override' problematic, as it represents a challenge to an industry that places great weight upon profession opinion. Therefore, there is a clear incentive to ensure that all actuarial assumptions and methodologies occupy a shared space of reasonableness. As far as GAD were concerned, the Act's reference to remedial measures highlighted the importance of early informal discussions with Government. However, CLG may require the authority to report on progress and/or direct scheme manager to take remedial steps. These remedial steps potentially could range from providing additional clarity on matters to an increase in contributions with immediate effect.

3.7 **Compliance**: Are the valuations carried out in-line with regulations? This has genuinely not turned out to be a problem, as local government tends to be thorough at ensuring that they are compliant with laws and regulations.

3.8 **Consistency**: Are the valuations carried out in a consistent manner with each other? This posed a problem as the dry run exposed that inconsistencies were not always justified by local differences. Also, there were significant presentational and evidential ones but this tended to be a comment on the various actuarial companies' approaches rather than between funds, in general. It was interesting to note that the actuarial firms had significantly different estimates of funding levels dependent on the firm. Brent's still remained the lowest funding level but because GAD does not try to take a very prudent perspective, the level as calculated by GAD was significantly higher.

3.9 The Common Contribution Rate (CCR) was calculated differently between the actuarial firms, as were many of the other Pension measures. Even though the CCR has now been replaced by clearer (albeit still not explicit) definitions of primary and second rates of contributions, GAD decided that it needed to produce its own standardised indicators so it could compare, contrast and undertake meaningful analyses.

3.10- GAD felt it important to state that their indicators are about transparency and not about minimum funding requirement or a race to the bottom. It is not clear that the actuarial firms fully agree with this statement. These indicators did not take into local circumstances, such as guarantees, and highlighted the differences in assumptions and approaches between the valuation firms.

3.11 **Solvency**: Are the contributions sufficient to ensure the funds remained solvent? There were 10 measures in GAD's assessment to assess solvency and the report made a clear decision to target 100% funding regardless. Overall, the outcomes were very positive for most LGPS funds. Brent did not throw up any red flags, bar the known funding level issue. GAD expected that contributions will vary over time, especially for closed funds. They were also looking for plans such as asset liability matching or guarantees.

3.12 **Long-Term Cost Efficiency**: Are the Contributions enough to meet future demands on the Pension Fund and close the existing deficit? The important aspect of this was there was clear evidence of not deferring cost, i.e. sufficient contribution rates. Brent's contribution levels were consistent with an approach that would on the balance of things be likely to close its deficit, as long as its assumptions were realistic. However, GAD could not take the position that Brent was fine because the future is unknowable and the funding level is so low. However, its analysis did not cause any specific worries around having 'heroic' assumptions, as a few funds did.

Other Issues

3.13 Despite it being a dry run, challenges around data quality did not prevent some useful analysis, such as identifying those funds that may need to do greater risk modelling, review assumptions and/or contribution strategies. GAD also pointed out that it was important to take into account a basket of measures. However, getting the correct data specifications and having the appropriate data indicators are exceedingly important. Some of the measures seemed redundant or duplicative. Furthermore, a general critique from local government was that using one year's worth of contributions rather than three was flawed because different years in the three year cycle might have very different contribution rates depending on the local strategy.

3.14 There was clear concern from many of the Pension Fund leads around the GAD's direction of travel into looking into investment decisions versus the original focus upon calculation of liabilities and funding strategies. It was not clear that GAD had the skills to undertake this and there were worries that the investigation into asset-liability matching was outside the remit of the regulations.

Conclusions

3.15 Overall, Section 13 was well received as a positive piece of analysis by the main stakeholders but there were still concerns as noted above about content and certainly around messaging.

3.16 Brent Pension Fund was clearly flagged up as having a low overall funding level, but it was not one of those that exercised GAD. The main worry expressed was regarding those Councils with apparently low contribution rates combined with low funding levels.

3.17 However, Brent Pension Fund should not view this analysis as a sign that everything is acceptable: the 2016 statutory review is still to take place and the need to be prudent and have an appropriate funding strategy with such a large deficit still remains a challenge.

4.0 Financial Implications

4.1 There are no direct financial implications from this report. However, it is important that results from the statutory report that should be finished by the end of 2017 has the potential to override the Pension Fund contribution rates if they are deemed too low. The Funding strategy in the original analysis conducted was consistent with an approach that should within an appropriate amount of time reduce the deficit to zero, according to GAD's analysis. However, any new analysis might potentially produce different results.

5.0 Legal Implications

5.1 Section 13 of the Act provides for the setting of the rate of employer contributions in defined benefits schemes with a pension fund, most notably the funded Local Government Pension Scheme (LGPS). This section requires an actuarial valuation of the pension fund to inform the setting of the employer contribution rate. The valuation of the pension fund is separate from and in addition to the valuation of the whole LGPS scheme under section 11 of the Act. Section 13 provides for an independent review of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem.

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, on 020 8937 6567, Gareth.Robinson at Brent Civic Centre

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Government Actuary's Department

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

Date: July 2016

Author: Ian Boonin FIA
John Bayliss FIA

Contents

1 Executive summary

In connection with the local fund valuations of the Local Government Pension Scheme (LGPS) from 2016, section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved:

> compliance: whether the fund's valuation is in accordance with the scheme regulations

> consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

> solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

We have carried out a "dry run" section 13 analysis based on the 2013 local valuations.

Compliance

We found no evidence of material non-compliance.

Consistency

We found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency

For the two closed passenger transport funds, we are not aware of any plan in place to ensure solvency. Had this not been a dry run exercise we would have engaged with the administering authorities to discuss the need for plans to be put in place.

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

Long term cost efficiency

For the following funds we would have engaged with the administering authority to investigate in more detail whether the aims of section 13 were met:

> Royal County of Berkshire Pension Fund

> Somerset County Council Pension Fund

We may also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

Future analysis

Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.1 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13

1.2 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

> compliance: whether the fund's valuation is in accordance with the scheme regulations

> consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

> solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Purpose of the dry run

1.3 The Department of Communities and Local Government ("DCLG") has asked the Government Actuary's Department ("GAD") to carry out a "dry run" based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how we may have approached our analysis had section 13 applied to those valuations. This dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.

1.4 Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.5 In this dry run report we make no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. We do however highlight areas for some specific funds where the aims of section 13 are potentially not being met, and where we may have then sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

1.6 As part of the dry run analysis, we indicate in this report how the process following production of a draft report under section 13 might have progressed had section 13 applied in terms of engagement with administering authorities prior to finalisation of the report.

1.7 In some cases, the data initially provided or disclosed in the valuation report raised additional questions following our initial analysis and concerns raised were allayed following the provision of further information. This serves to highlight the importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms.

Compliance

1.8 We found no evidence of non-compliance with the scheme regulations.

Consistency

1.9 Under the heading of consistency, we have found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

1.10 The primary areas GAD has analysed are:

> Common contribution rates

> Average actual contributions vs common contribution rate

> Assumptions

1.11 We have viewed consistency in two ways:

> <u>Presentational.</u> Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as the common contribution rate ("CCR"[1]) even if these are not explicitly defined in regulations.

> <u>Evidential.</u> Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

[1] CCR has been replaced by primary and secondary rates in regulation 62.

1.12 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation, are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 of the Local Government Pension Scheme Regulations 2013, and its reference to CIPFA guidance.

1.13 We are not expecting the immediate prescription of assumptions. Nevertheless readers of the reports might expect there to be consistency, and that transparent comparisons can be made between funds.

1.14 We are only able to conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

1.15 We appreciate that there are significant challenges to achieving full consistency, particularly in the short term. In the longer term, we would however expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

1.16 We are grateful to the SAB Cost Management and Contributions sub-committee and the SAB Secretariat for developing a standard basis and metrics to enable comparisons between funds and we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

1.17 We recommend that the four actuarial firms who advise administering authorities in carrying out funding valuations should seek to agree a standard way of presenting relevant disclosures in their valuation reports to better facilitate comparison.

Solvency

1.18 Under the heading of solvency, we found that a number of our assessment measures were triggered by the two Passenger Transport funds, West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund. These funds are both closed to new entrants. In particular we might have sought to better understand whether the relevant administering authorities had a plan in place to ensure that the fund continues to meet benefits due in an environment of no future employer contributions being available, if section 13 had applied as at 31 March 2013.

1.19 A number of amber flags were raised under solvency for the open funds. Had section 13 applied, we may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged. Please see table 5.2 for further detail.

1.20 We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board's ("SAB") standardised basis. Had section 13 applied, we may have engaged with some of these funds to better understand how they intended to improve their funding position.

1.21 We believe it is important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

1.22 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. To help the understanding of the potential for volatility in contributions, we estimate that the aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis, is an increase in contributions of between £1.7 and £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion).

1.23 A more detailed description of the tests and triggers alluded to in the tables below can be found in the relevant sections of this report and are not repeated in this executive summary.

Table 1.1: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[2]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[1]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Long term cost efficiency

1.24 For the following funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

[2] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

Table 1.2: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No

1.25 A number of other funds have triggered flags. We do not consider that these funds are failing to meet the aims of section 13, but we may have encouraged these other funds to provide further information regarding the relevant measures. Please see table 6.2 for further details.

2 Introduction

This report summarises GAD's "dry run" review of the actuarial valuations of the Local Government Pension Scheme as at 31 March 2013 as if section 13 of the Public Service Pensions Act 2013 had been in force at that date with the Government Actuary as the appointed person under section 13.

We have looked at a range of metrics to identify exceptions. Remedial steps may have been recommended where there is a potentially material or potent combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself always lead to remedial action being recommended.

2.1 This report is addressed to the DCLG. GAD has prepared this paper to set out the results of our review of the 2013 funding valuations of LGPS as if section 13 of the Public Service Pensions Act 2013 ("section 13" of "the Act") as it pertains to LGPS had been in force as at 31 March 2013.

2.2 Section 13 will apply for the first time to the valuations as at 31 March 2016. This report therefore does not have authority under the Act. Instead it serves as a "dry run" to assist stakeholders in preparing for the 2016 round of LGPS funding valuations, and is hereafter referred to as the "dry run report". We expect our report following the 2016 valuations to comprise more in-depth analysis in some areas. In relation to exceptions (this term is described below), we refer to action we may have taken had section 13 applied as at 31 March 2013.

2.3 Subsection (4) of section 13, requires the Government Actuary to report on whether the four main aims are met:

> Compliance: whether the fund's valuation is in accordance with the scheme regulations

> Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS

> Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

2.4 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved,

a) the report may recommend remedial steps;

b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Purpose of this paper

2.5 The purpose of this paper is to provide stakeholders with information about:

> the tests and metrics we have used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved;

> an indication of how funds performed against the chosen metrics; and

> how we determined exceptions.

2.6 This report is designed to help those authorities prepare for valuations from 2016 onwards, when section 13 will be in force.

2.7 This paper will be of relevance to LGPS stakeholders including DCLG, the Chartered Institute of Public Finance & Accountancy (CIPFA), administering authorities and other employers, actuaries performing valuations for the funds within LGPS, SAB (or, where relevant, interim board) and HM Treasury (HMT).

Exceptions

2.8 Exceptions occur where funds appear to be materially out of line with other funds, or out of line with what we might have expected based on our judgement and our interpretation of solvency and long term cost efficiency.

2.9 We have had regard to the particular circumstances of some potential exceptions, following consultation with the fund actuary. This informal consultation has enabled us to explore in greater depth the issues identified and understand the fund's specific circumstances. We may conclude in the light of that engagement that administering authorities and employers are taking appropriate action and that the outcome is reasonable given the circumstances.

2.10 We have looked at a range of metrics to identify exceptions under solvency and long term cost efficiency. We have expressed these in the form of green, amber or red flags. In broad terms, a red flag or a combination of amber flags would tend to indicate a need for further investigation and/or engagement with the relevant administering authority and their actuary. The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope.

2.11 More detail is provided in the solvency and long term cost efficiency chapters and appendices. It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.12 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13, but it is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuary, or other stakeholders.

2.13 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs[3], thus guaranteeing the security of these benefits. In general, the fund has been excluded from the analyses that follow.

Remedial steps

2.14 Section 13 does not prescribe what remedial steps may be recommended, but for example they could include:

> that the administering authority consider and report on an issue (e.g. if a closed scheme has no plan in place);

> that the administering authority strengthens scheme governance, for example by making changes to a section 101 committee or pensions board;

> that a revised approach be taken at the next valuation; and

> that the current valuation be reopened and changes made to employer contributions in advance of the next valuation.

2.15 Remedial steps may be recommended if there is a potentially material combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself lead to remedial steps being recommended.

2.16 This report contains specific reference to those funds considered to be exceptions. Had section 13 been in force for the 2013 valuations, we would have expected to engage with the relevant administering authorities named in this report.

2.17 Our aim in producing this dry run report is to encourage, where appropriate, administering authorities to consider taking steps to change the approach taken to the 2016 valuation.

[3] http://www.lgpsboard.org/images/Valuations2013/EnvironmentAgencyClosedFund2013.pdf

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Although much of the analysis, particularly the calculations we have undertaken, is approximate, we consider it to be sufficient for the purposes of identifying which funds could be subject to recommendation for remedial steps. While the measures used should not represent targets, these measures help us determine whether a more detailed review is required; for example, we may have highlighted where multiple measures are triggered amber for a given fund.

2.20 For some measures under solvency and long term cost efficiency, data were not available. We expect that data will be available for the section 13 work following the 2016 valuations.

2.21 We have not considered the impact of post valuation events except to the extent that these may have already been taken into account in the valuation disclosures.

Data on contributions paid

2.22 We were provided by the actuarial firms with data on average contributions expected to be paid into each fund. We also had access to data published by DCLG in their LGPS funds local authority data: 2014 to 2015[4] (referred to elsewhere in this report as SF3 statistics). Both sources covered only the 2014-15 financial year (being the first year in which rates recommended in the 2013 valuations were expected to apply).

2.23 There were significant differences between these two data sources. For some funds, this may be further complicated by the stepping process (in which employers gradually shift towards the contribution rate recommended by the actuary over a few years). This meant we had to decide which was likely to be more reliable. We opted to base our calculations on the SF3 statistics.

2.24 Our data request following the 2016 valuations will seek further information, including all three years' expected contributions from 2017/18 – 2019/20. The discrepancy highlighted above is a cause for concern, which we aim to eliminate by requesting clearer explanations of what the data contains from the actuarial firms.

Standardised basis

2.25 There are significant areas of inconsistency highlighted in chapter 4, which make meaningful comparison of valuation results set out in local valuations reports unnecessarily difficult.

[4] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

2.26 To address this, we have restated the results on two bases:

> The standard basis established by the SAB

> A market consistent basis derived by us

2.27 The market consistent basis is a best estimate as at 2013, based on our views of returns on each asset class across the Scheme. We expect this basis to change for 2016, based on conditions at the time and any other relevant factors.

2.28 The restatement to these standardised bases has been done approximately. For example, if results for different employers within a particular fund are produced on different bases, our restatement process would not be able to pick up that level of detail, and the restated results could be incorrect if a particular employer was material in relation to the overall assets and liabilities of that fund.

2.29 The data request for the 2016 exercise will explicitly ask for liabilities expressed on the SAB standard basis which should eliminate this potential error.

2.30 This use of standardisation does not imply the bases are suitable to be used for funding purposes:

> The SAB standard basis is not market consistent, and

> The market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further this does not take into account any anticipated changes in investment strategy that may be planned/in train.

Sensitivities

2.31 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario. Following the 2016 valuations, we intend to illustrate a range of potential outcomes. In the solvency chapter of this report we have added an indication of the estimated aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis.

Future review

2.32 Based on our on-going experience of reporting under section 13 (including this "dry run" report) we may add additional considerations, criteria, tests or metrics to the analysis. It is currently our intention that we will endeavour to consult (informally or formally), or forewarn, stakeholders in advance of adding such additional considerations/criteria.

2.33 We note that following the publication of the dry run report, there may be changes to regulations and approaches to local valuations in 2016 and beyond, which could lead to changes in the items analysed, under consistency for example, in future iterations of section 13.

Appendices

2.34 Appendices are contained in a separate document.

2.35 We reproduce section 13 of the Act in Appendix A. Other relevant regulations are reproduced in Appendix B. Appendix C contains a description of data provided. Appendix D contains descriptions of standardised assumptions used. Appendix E contains descriptions of measures for Solvency. Appendix F contains a table of measures under solvency by fund. Appendix G contains descriptions of measures for long term cost efficiency. Appendix H contains a table of measures for long term cost efficiency by fund.

Other important information

2.36 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.37 In performing this analysis, we are grateful for helpful discussions with and cooperation from

- CIPFA
- DCLG
- Fund actuaries
- HMT
- LGPS Scheme Advisory Board

2.38 We have conducted our analysis assuming that the *desirability* of stable contributions is subordinate to the *requirement* for solvency and long term cost efficiency under the relevant legislation.

2.39 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report, and neither does the appointment to report under section 13 give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.40 The modelling underlying this report has been prepared in accordance with the Board for Actuarial Standards' Technical Actuarial Standard M: Modelling. The report complies with TAS M and TAS R: Reporting.

3 Compliance with scheme regulations

We have relied on statements of compliance with regulations by, and professional requirements on, the actuaries performing the valuations of LGPS funds. We have performed some spot checks of compliance, and investigated further where funds are identified as exceptions using the metrics set out in this chapter.

We found **no evidence of non-compliance** with the scheme regulations.

3.1 There are a number of regulations that administering authorities are required to comply with when producing their respective valuation reports, funding strategy statements ("FSS") and statements of investment principles ("SIP").

3.2 These regulations are:

> Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 for valuation reports;

> Regulation 35 of the same regulations for FSSs; and

> Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009 for SIPs.

3.3 These regulations include reference to CIPFA guidance on preparing and maintaining a FSS in the LGPS 2012.

3.4 From 1 April 2014, regulations 62 and 58 of the Local Government Pension Scheme Regulations 2013 will apply to valuation reports and FSSs respectively. We understand that CIPFA's FSS guidance is being updated prior to the completion of the 2016 valuations. However, for the purposes of this report compliance has been checked against the regulations in place as at 31 March 2013, as detailed above[5]. We are not lawyers and have performed these checks as a lay reader of the regulations. We do not expect changes in regulations to have a material effect to this approach.

Selecting funds based on predetermined criteria

3.5 In order to investigate the compliance of fund documentation with the regulations detailed above the following two approaches have been used:

1) Selecting funds based on predetermined criteria; and

2) A risk based approach.

[5] Copies of the regulations listed on this page can be found in Appendix B of this report.

3.6 When selecting funds based on predetermined criteria, we selected funds that were different types of authority (i.e. a London Borough, a Welsh Authority, a County Council and a Metropolitan Authority) and which used different actuarial advisors.

3.7 The four selected funds under these criteria were:

> The Royal Borough of Kensington and Chelsea Pension Fund (*Barnett-Waddingham*);
> Cardiff and Vale of Glamorgan Pension Fund (*Aon Hewitt*);
> Northamptonshire Pension Fund (*Hymans Robertson*); and
> South Yorkshire Pension Fund (*Mercer*).

3.8 All four funds had short paragraphs in each of the respective documents stating that they had complied with the relevant regulations.

Selecting funds using a risk based approach

3.9 Under the second, risk based approach, compliance was investigated where funds were flagged as being of concern based on comparison with other funds' solvency or long term cost efficiency.

3.10 The four open funds that were of interest to us are:

> Royal County of Berkshire Pension Fund;
> Somerset County Council Pension Fund;
> London Borough of Waltham Forest Pension Fund; and
> City of Westminster Pension Fund.

3.11 All four funds had short paragraphs in each of their respective documents stating that they had complied with the relevant regulations.

3.12 The two closed funds that were of interest to us are:

> South Yorkshire PTA Pension Fund; and
> West Midlands ITA Pension Fund.

3.13 Both these funds were flagged under our solvency measures. A check of the funds' respective valuation reports showed that both had stated that they had complied with the relevant regulations.

3.14 Therefore we would need to make further enquiries with the funds to determine how they meet the requirements of regulation 36(5) of the LGPS 2008 Administration regulations, in particular the requirement for employers to pay sufficient contributions, expressed as a percentage of pay of the active members, to ensure the solvency of the fund.

3.15 In our data request for the 2016 section 13 work we intend to seek additional information on how funds ensured compliance with the relevant regulations and request that this be consistently documented between actuarial advisors.

4 Consistency between valuations under the scheme regulations

We viewed consistency in two ways: presentational and evidential. Whilst none of the individual approaches taken are unreasonable, they are not consistent and some variations in assumptions seem to be based on only limited allowance for local circumstances.

We found inconsistencies in the following areas, and recommend the four actuarial firms agree an approach to ensuring each is more readily comparable following 2016 and subsequent valuations.

> The interpretation of the common contribution rate (CCR) disclosed in the valuations
> Average actual contributions vs CCR
> The assumption concerning the amount of commutation
> The assumption for expected pensioner mortality
> The derivation of discount rates used for the valuations
> The assumption used for real earnings growth

If a similar approach is retained for the 2016 valuations we expect to still conclude that the consistency aim of section 13 is not met. Therefore, as an initial step towards achieving consistency, we recommend that the four actuarial firms seek to agree a standard way of presenting the valuation results on the SAB standard basis and associated “dashboard” metrics and other relevant disclosures to permit comparison in their valuation reports. GAD is prepared, if required, to help facilitate these discussions.

4.1 Section 13(4)(b) states that actuarial valuations should be carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. For the purposes of this section GAD has, in line with Explanatory note 88 of the Act, taken “other valuations” to mean valuations of other funds within LGPS as at 31 March 2013.

4.2 After consultation with stakeholders, we interpreted “not inconsistent” to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should allow comparison by a reader of the reports. We explain this further below. We found that there are inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

4.3 In this chapter we highlight inconsistencies that cannot, in our opinion, be justified by local considerations. The primary areas GAD has analysed are:

> Common contribution rates ("CCR")

> Average actual contributions vs CCR

> Assumptions

We also looked at smoothed asset values and post valuation asset returns as aspects adopted by one of the firms, but not the others.

4.4 In many cases we found there is a considerable amount of consistency in these areas between funds advised by the same firm of actuarial advisors, but inconsistency between funds advised by different actuarial advisors. In this chapter, where relevant, we refer to the relevant actuarial firms as a proxy to listing out the funds that those actuarial firms advise. The charts in this chapter clarify the actuarial firm advising each fund.

4.5 We consider that readers of LGPS valuation reports might expect there to be consistency, and that transparent comparisons can be made between funds.

4.6 We have viewed consistency in two ways:

> Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as CCR[6], even if these are not explicitly defined in regulations.

> Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

4.7 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 (reproduced in Appendix B) of the scheme's regulations and its reference to CIPFA guidance.

[6] CCR has been replaced by primary and secondary rates in regulation 62.

4.8 In the case of LGPS, a scheme split into a number of different funds, inconsistencies in the approach to doing the valuation and the way in which assumptions are set, hinders transparency.

4.9 We have illustrated the effects of inconsistencies by restating the local valuation results on a standardised basis specified by the SAB (the SAB standard basis) and also on a market consistent, best estimate basis derived by us. In Chart 4.6 later in this chapter, we set out the relative rankings on 2013 local bases and the SAB standard basis for each fund. Publication of results on SAB's standardised basis will improve the ability of a reader to be able to make comparisons, but does not in itself address the inconsistencies on which section 13 requires us to comment.

4.10 We can only conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

4.11 We acknowledge that there are significant challenges to achieving consistency, particularly in the short term under existing regulations. In the longer term, we would expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

4.12 As an initial step towards achieving consistency, we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

Differences in interpretation of 'common contribution rate'

4.13 Regulation 36 of the LGPS (Administration) Regulations 2008[7] states that:

- An actuarial valuation must contain a rates and adjustments certificate;
- The rates and adjustments certificate must specify:
  - The common rate of employers' contributions; and
  - Any individual adjustments

Where the common rate of employers' contribution is defined as:

"the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members."

4.14 The funds advised by Aon Hewitt and Mercer have interpreted this to mean that the CCR should be set as a fund's standard contribution rate ("SCR") in respect of future accrual. Under this approach any contributions required in respect of existing deficits are recorded as individual adjustments for each employer.

[7] Regulation 36 is reproduced in Appendix B.

4.15 Funds advised by Barnett Waddingham and Hymans Robertson have interpreted the legislation to mean that a fund's CCR should be equal to its SCR plus any contributions required in respect of deficit. Any individual adjustments therefore reflect only the differences between employers contributing to a given fund.

4.16 It is not possible to compare the CCR for all funds. There is a clear inconsistency in how the CCR is interpreted.

4.17 We recommend that the four actuarial firms seek to agree a standard way of presenting contribution rates and other relevant disclosures to permit comparison. We acknowledge that new regulations specify the terms primary and secondary contributions rates and that CCR will no longer be relevant. However, the general principle that the four actuarial firms should interpret these terms consistently, and by reference to contributions actually received, remains valid.

Average actual contributions vs common contribution rate

4.18 Regulation 36(6)(b) of the Local Government Pension Scheme (Administration) Regulations 2008[8] states that when calculating a fund's CCR the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible. We expected to see a relationship between the actual contributions paid over a given period and the CCR, but found we were not able to reconcile the two for most funds.

4.19 This "stability clause" is one of a number of reasons why employers are not necessarily required to pay the CCR derived in the fund's local valuation report, Other reasons include varying historical liabilities by employer and different contribution rates for scheduled bodies (due to variation in covenant quality). In some cases, if required contribution rates increase, actual contributions can taper towards the required contribution rate over a number of years.

4.20 Employers may also pay additional lump sum contributions as set out in the rates and adjustments certificate of their local valuation report. This is a common practice amongst many employers, reflecting their specific cash flow situation at a given point in time. These lump sums could, in addition to the employer's regular contributions, lead to total contributions exceeding the fund's CCR.

4.21 In practice, the approach to setting contributions varies according to actuarial firm.

4.22 In particular, Hymans Robertson state in their reports that:

The CCR "does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates". Hymans Robertson "undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund."

[8] See Appendix B

4.23 Funds advised by Mercer adopt a different discount rate assumption for future service, as set out in paragraph 4.50. This implies a different methodology for recommending rates, but the actual rates recommended to Mercer-advised funds are typically the same as the recommended rates.

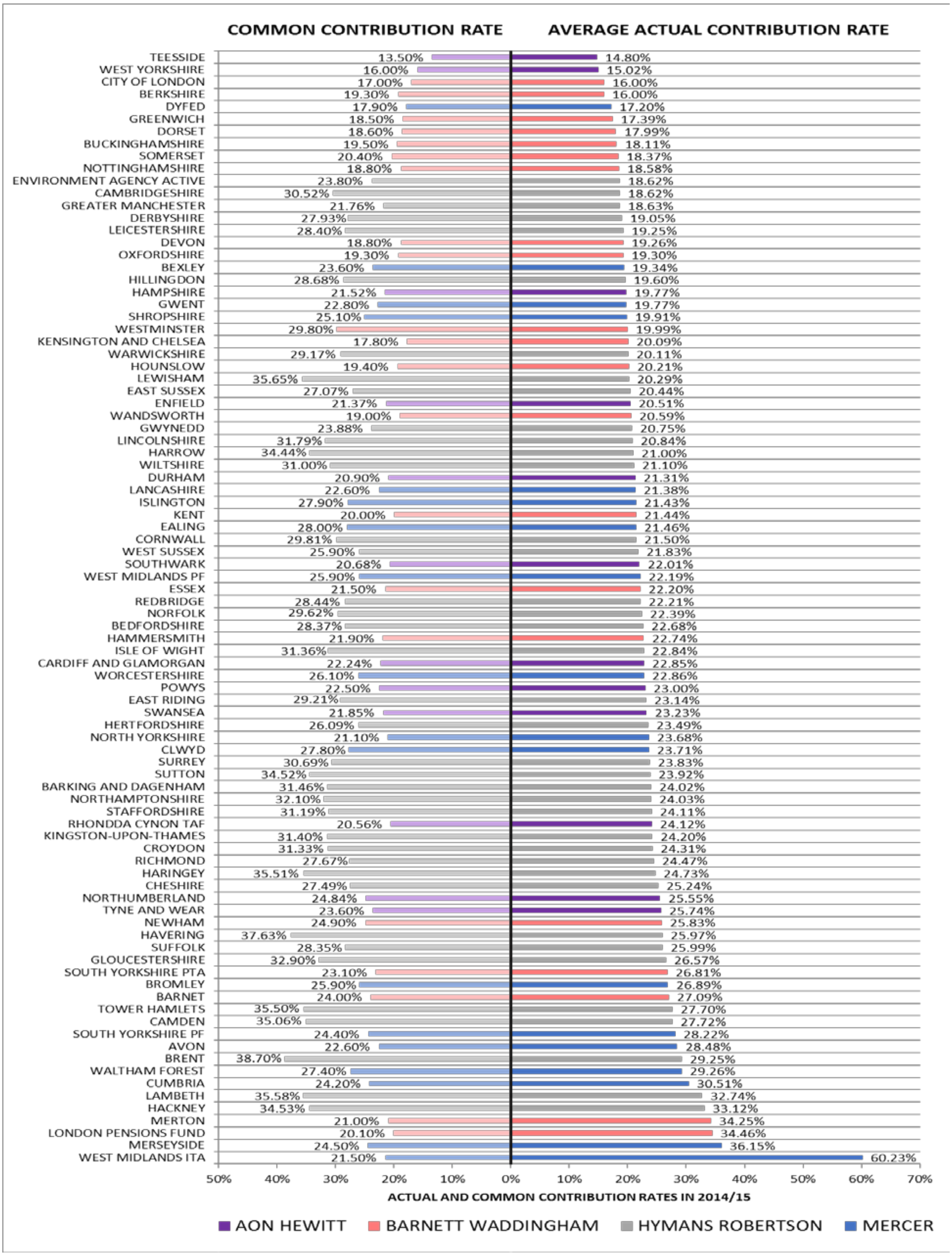
4.24 Funds advised by Aon Hewitt and Barnett Waddingham generally use a single discount rate for both past and future service liabilities.

4.25 The following chart shows the difference between actual 2014/15 employer contributions, derived from SF3 statistics[9], and the common contribution rate specified in the fund's local valuation report. For the purposes of the following chart, the CCR is taken to be the sum of the standard contribution rate and any additional contribution rate in respect of deficit. Whilst we understand that there is a stepping process through which contributions move towards the recommended rates, we found that the relationship between the CCR and contributions actually paid by employers was difficult to interpret, regardless of which firm the fund in question is advised by.

4.26 This inconsistency makes it unnecessarily difficult for a reader to be able to understand the results of the valuation and to be able to interpret and compare those results with other funds. We understand that the CCR will no longer be required as a disclosure under revised regulations from 2016. However, we believe it is imperative that the primary and secondary rates that are required under new regulations should relate directly to the contributions recommended to be paid by the actuary (over a suitable period), and consistently reported, to enable comparisons to be made.

[9] Actual contributions include lump sum contributions referred to in paragraph 4.19.

Chart 4.1: Average actual contributions vs. common contribution rates



Use of smoothed asset values

4.27 20 of the 21 funds advised by Barnett Waddingham used smoothed asset values to calculate funding ratios in their 2013 actuarial valuations, where the smoothing period was the six month period from 1 January 2013 to 30 June 2013. This is not consistent with other funds who have used the actual market value of assets as at the valuation date of 31 March 2013.

4.28 In all cases the smoothed asset value was lower than the market value of assets at 31 March 2013. However we do not consider this to introduce bias because in other circumstances the opposite could be true and as mentioned in paragraph 4.44, Barnett Waddingham also set their discount rate according to prevailing market conditions over the six months straddling the valuation date.

Use of post valuation asset returns to calculate future contribution rates

4.29 The 18 funds advised by Mercer took account of market conditions after the valuation date when calculating future contribution rates. All other funds used market conditions as at 31 March 2013. The reasoning for this approach given by Mercer is:

"Since 31 March 2013 there have been significant changes in the financial market position. In particular there has been an increase in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target. As the new contribution rates are effective from 1 April 2014, if required, it is appropriate to allow for this improvement as part of the stabilisation of contribution requirements for individual employers."

4.30 This tends to lead to lower contribution rates than they would have otherwise been.

Pension commutation assumptions

4.31 Scheme regulations and HM Revenue and Customs (HMRC) rules allow members to commute a percentage of their pension, reducing the annual amount of pension they receive for a lump sum on retirement.

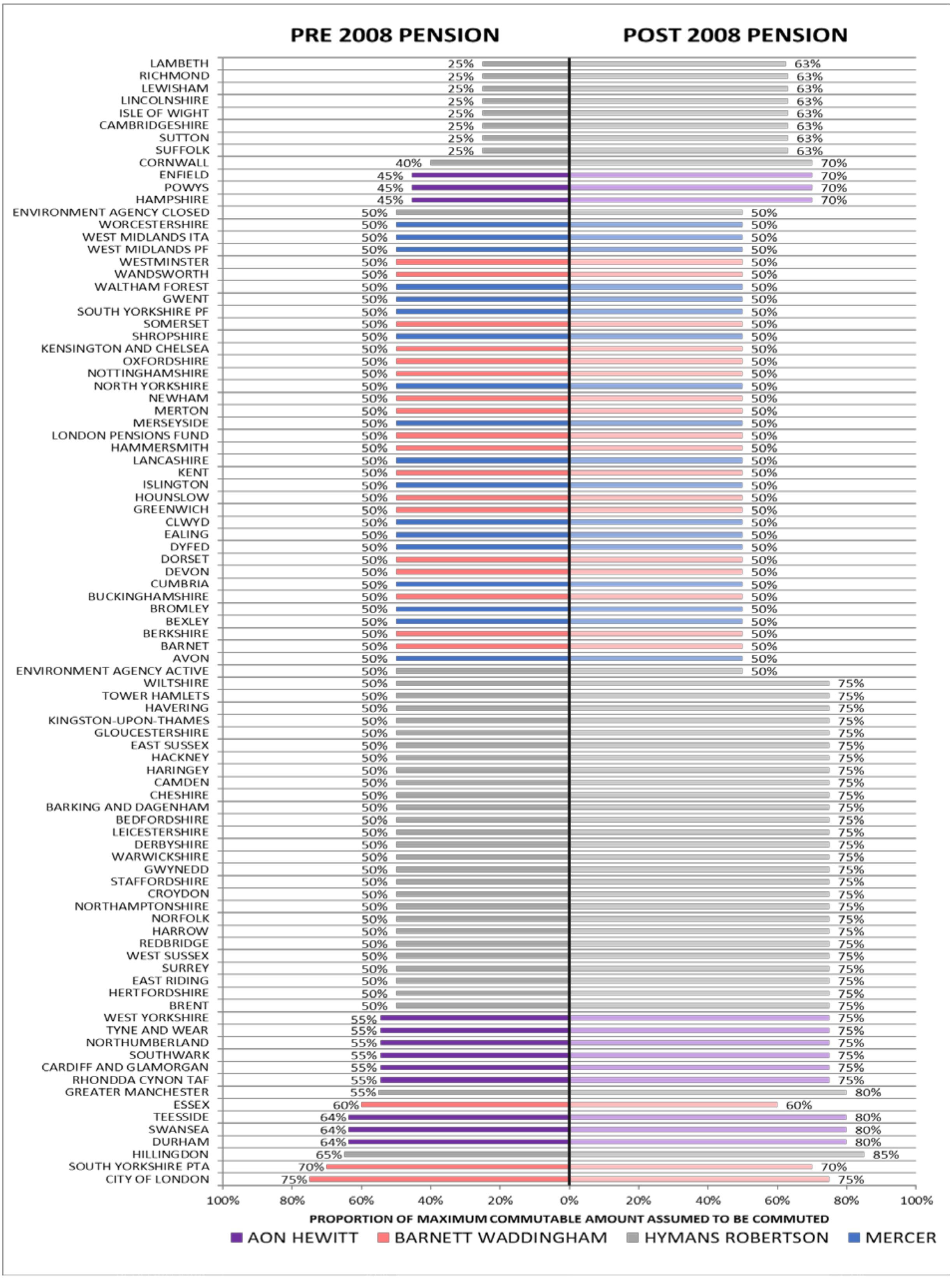
4.32 Regulations currently permit members to commute at a rate of £12 lump sum for each £1 reduction in pension, subject to HMRC limits on the maximum proportion of benefits that can be taken as a lump sum. As the discounted future life expectancy of a member is usually more than 12 years at retirement, commutation tends to be cheaper for the pension scheme. High assumed levels of commutation will therefore tend to reduce the assessed cost of liabilities already accrued and the assessed cost of future accrual.

4.33 LGPS benefits were restructured in 2008, with one of the changes being the removal of an automatic lump sum for any pension accrued post 2008. Many funds therefore have different assumptions for commutation of pre 2008 and post 2008 pensions and the assumptions are uniformly expressed as a proportion of the maximum allowable.

4.34 The following chart shows the differing assumptions between funds for the assumed proportion of maximum allowable pension commuted for both pre and post 2008 pension. For pre-2008 pension, the assumed proportion applies to the remaining maximum amount after the automatic lump sum has been taken.

4.35 Our interpretation of the chart is that there appears to be a common view amongst funds with the same actuarial advisor, but some inconsistency between actuarial advisors. Where this assumption is set based on local experience, this should be explained in the valuation report

Chart 4.2: Commutation assumptions for pre and post 2008 pension



Long term mortality improvements

4.36 Mortality rates are expected to improve in the future, resulting in longer life expectancies. As benefits are expected to be paid for longer, improving life expectancy results in higher liabilities in respect of existing accrued benefits and higher contributions to cover the cost of future accrual.

4.37 There may be evidence of regional variation in mortality rates that justify funds having different assumptions, but it is perhaps more difficult to justify different assumptions for the future improvements in those mortality rates.

4.38 GAD's analysis shows that each actuarial advisor appears to have a common 'house' view on the extent of future mortality improvements. The table below shows the assumed rates of annual improvement in male mortality rates by advisor. In all cases the assumed improvement for female mortality rates is the same as those shown below.

Table 4.1: Annual assumed rate of future mortality improvements

	LONG TERM RATE OF MORTALITY IMPROVEMENTS (MALE)				
ACTUARIAL ADVISOR	0.50%	1.00%	1.25%	1.50%	TOTAL
AON HEWITT	0	0	0	12	12
BARNETT WADDINGHAM	0	1	1	19	21
HYMANS ROBERTSON	1	0	39	0	40
MERCER	0	0	1	17	18

4.39 Hymans Robertson appears to differ from the other advisors with an assumed rate of mortality improvement of 1.25% for the majority of the funds they advise.

4.40 The "outliers" in the table above are mature/closed funds:

> South Yorkshire Passenger Transport Authority Pension Fund (*Barnett Waddingham, 1.00%*);

> City of London Corporation Pension Fund (*Barnett Waddingham, 1.25%*);

> Environment Agency Closed Fund (*Hymans Robertson, 0.50%*); and

> West Midlands Integrated Transport Authority Pension Fund (*Mercer, 1.25%*).

Derivation of discount rates

4.41 At each actuarial valuation a fund, on the advice of its actuary, sets the discount rate or rates that will be used to value its existing liabilities and calculate the contributions that should be paid in order for the fund to meet the cost of future accrual of benefits, and to remove any existing deficit from the scheme.

4.42 The four actuarial advisors approach the derivation of these discount rates differently. The table below summarises the approach taken by one "typical" fund advised by each firm, and is taken from that fund's valuation report and FSS.

Table 4.2 Discount rate methodology

ACTUARIAL ADVISOR	DISCOUNT RATE	METHODOLOGY	2013 VALUATION ASSUMPTION
CARDIFF AND VALE OF GLAMORGAN PENSION FUND *(AON HEWITT)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.6%
ROYAL BOROUGH OF KENSINGTON AND CHELSEA PENSION FUND *(BARNETT WADDINGHAM)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.9%
NORTHAMPTONSHIRE PENSION FUND *(HYMANS ROBERTSON)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	GILT YIELDS + 1.6%	4.6%
SOUTH YORKSHIRE PENSION FUND *(MERCER)*	PAST SERVICE LIABILITIES	GILT YIELDS + 1.4%	4.6%
	FUTURE CONTRIBUTIONS	CPI + 3%	5.6%

4.43 Further details on the approach used are set out below, taken from the fund's valuation report and funding strategy statement

Cardiff and Vale of Glamorgan Pension Fund

4.44 The fund's valuation report says:

"The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

- *The discount rate for long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known planned changes to the long term investment strategy).*
- *The Fund assets are considered to have a better than evens chance of delivering investment returns in excess of the scheduled body discount rate."*

Royal Borough of Kensington and Chelsea Pension Fund

4.45 The fund's funding strategy statement says:

"The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date."

4.46 The fund's valuation report says:

"The discount rate – this is based on the expected investment return from the Fund's assets."

Northamptonshire Pension Fund

4.47 The fund's funding strategy statement says:

"This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts").....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 (this is the same as that used at the 2010 valuation)."

4.48 The fund's valuation report says:

"Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA[10] of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a."

<u>South Yorkshire Pension Fund</u>

4.49 The fund's funding strategy statement says:

"The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of 1.4% ahead of the LRP[11] p.a."

4.50 The fund's valuation report says:

"The discount rate adopted to set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 1.4% per annum is added to reflect the Fund's actual investment strategy.

"The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3% per annum."

[10] AOA = Asset Outperformance Assumption
[11] LRP = Least Risk Portfolio. "a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts"

4.51 This review does not seek to comment on the methodologies the four firms use to derive their discount rates. Further we accept that the discount rate is the main vehicle for adding prudence, as required by regulations. We are pointing out that the methods are different, resulting in different levels of prudence being incorporated into the valuation results, and that this in itself is not explicit, which makes the results of the 2013 valuations unnecessarily difficult to compare for the reader. We also note that the production of standardised results for the 2016 valuations will help in this regard.

Assumed asset out performance within discount rate

4.52 In practice, each actuarial firm has its own method of assessing the appropriate discount rate. However, based on information provided, we considered it appropriate to break this down into the following four components (although we acknowledge this construct does not reflect the way some firms assess their discount rate assumption).

- A risk free real rate of return ("RFR")
- Assumed Consumer Price Index ("CPI") inflation
- The excess of assumed Retail Price Index ("RPI") inflation over assumed Consumer Price Index inflation
- The assumed asset performance over and above the risk free rate (which is a balancing item to get to the discount rate used, and therefore the main determinant of the variation in discount rates, and ultimately the level of prudence adopted)

4.53 Chart 4.3 shows the assumed asset out performance over and above the risk free rate, where the asset outperformance assumption ("AOA") is calculated as the fund's nominal discount rate ("DR") net of:

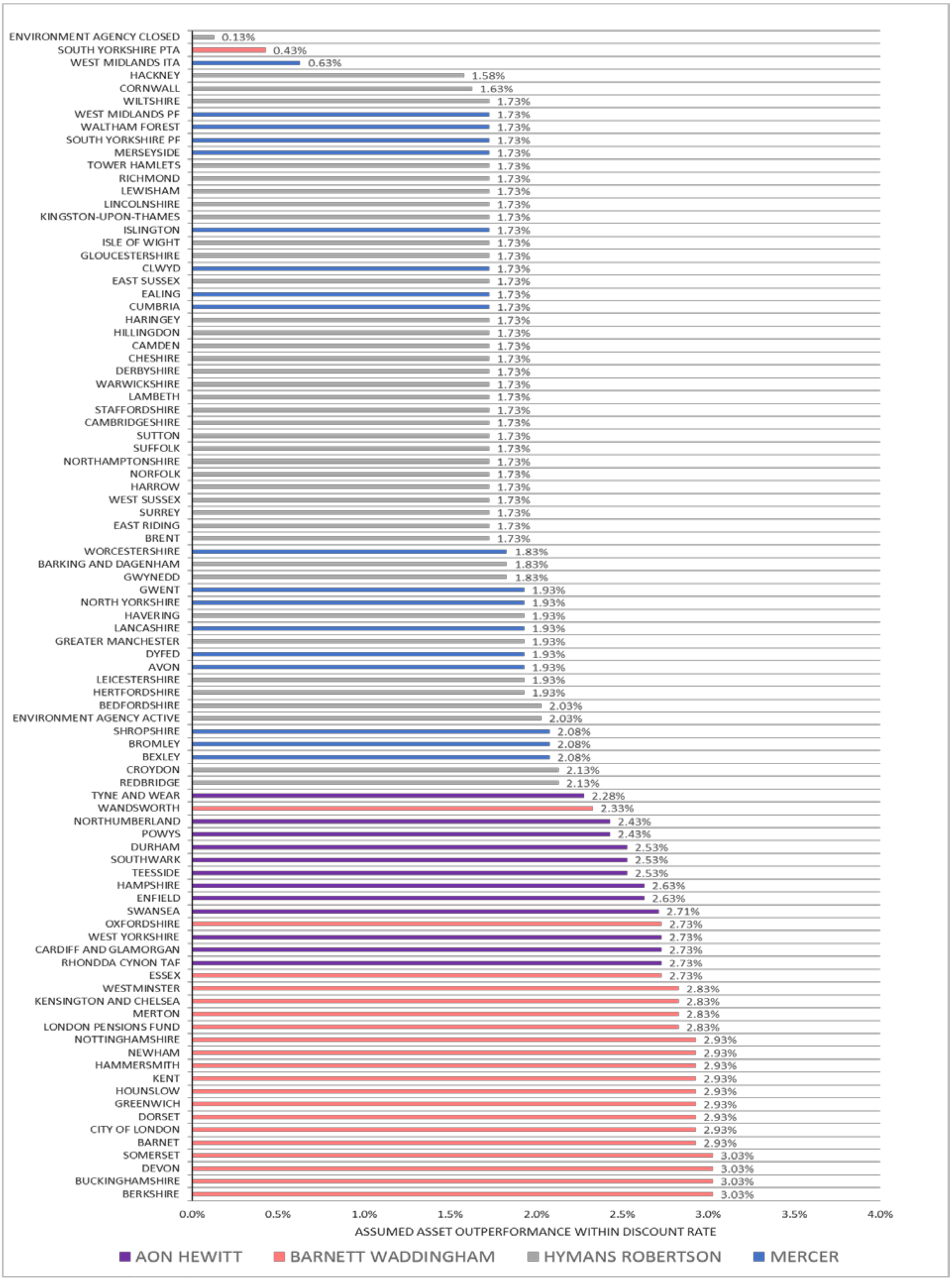
- The RFR – the real 20 year Bank of England spot rate as at 31 March 2013
- Assumed CPI – as assumed by the fund in their 2013 actuarial valuation
- The excess of assumed RPI inflation over assumed CPI inflation ("RPI–CPI") – as assumed by the fund in their 2013 actuarial valuation

i.e. $AOA = DR - RFR - CPI - (RPI - CPI)$.

4.54 The chart is ordered by maximum assumed AOA within the advisory firm, as represented by the colour scheme. It indicates that the different rates are more likely to be the result of differing future expectations between the four actuarial advisors than, for example, different investment strategies. A higher AOA tends to lead to a higher discount rate and a lower value placed on the liabilities, other things being equal.

4.55 As we have noted, Mercer use a different discount rate to assess future contribution rates.

Chart 4.3: Assumed asset outperformance within discount rate

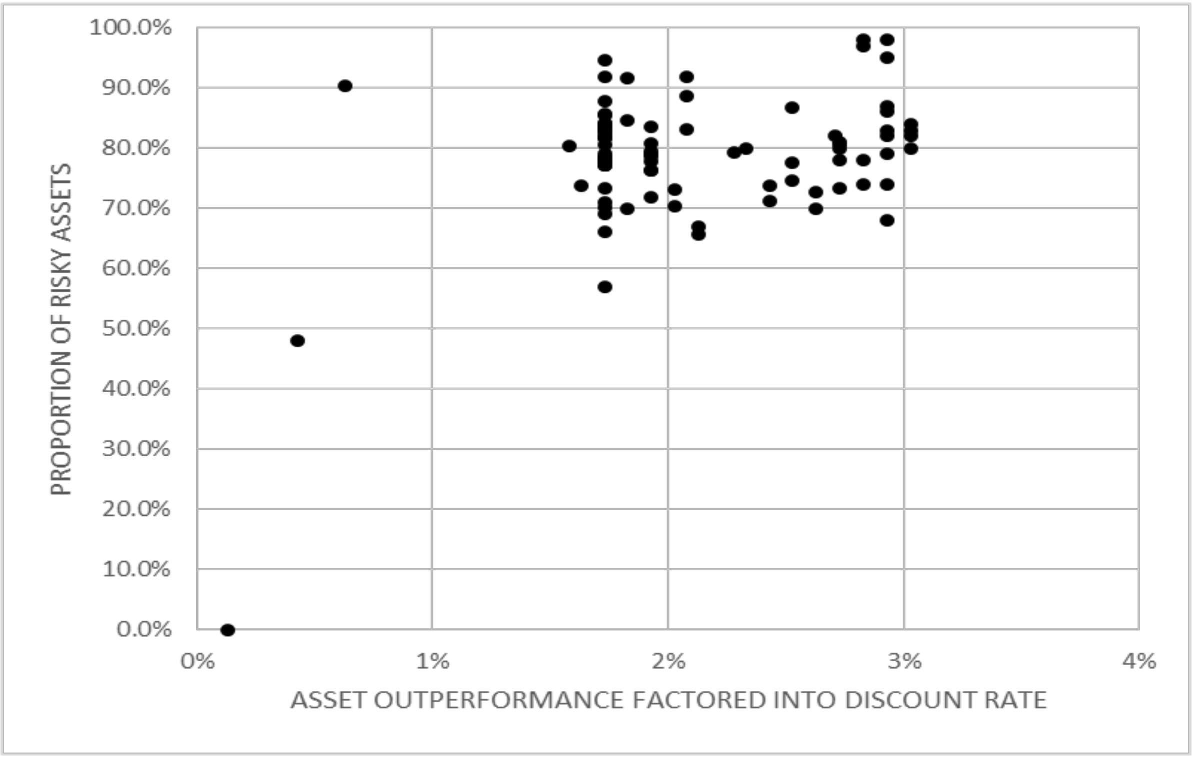


4.56 The large variation between funds in the implied level of asset outperformance over and above the risk free rate of return could be due to differing investment strategies between funds. For example, a fund invested solely in defensive assets, such as Government bonds, would expect a lower rate of return than a fund invested solely in return-seeking assets, such as equities. They would typically use a lower discount rate in their actuarial valuation to allow for this low-risk, low-return investment strategy.

4.57 The variation in asset outperformance could also be considered as a measure of the risk appetite adopted by the funds. We would encourage the actuarial firms to provide additional explicit discussion of this aspect in the 2016 and subsequent valuation reports to assist the reader in interpretting the fund's risk appetite.

4.58 The following chart shows that there is not a definite link between asset outperformance assumption and proportion of return seeking assets.

Chart 4.4: Asset Outperformance by proportion of return seeking assets



Real earnings growth

4.59 There is considerable inconsistency in the assumptions of future real earnings growth, where real earnings growth consists of:

> The excess of the assumed rate of earnings inflation over the assumed rate of CPI inflation

> Assumed promotional salary growth

4.60 A higher rate of real earnings growth (all other assumptions remaining constant) will lead to higher liabilities in an actuarial valuation as the majority of existing liabilities are linked to a member's final salary.

4.61 However, where contribution rates are quoted as a percentage of payroll (although this appears to be relatively rare) a higher rate of real earnings growth also means that future contributions, in money terms, will increase. A higher real earnings assumption may therefore have the effect of weighting contributions in respect of deficit further towards the future, when a fund's payroll is expected to be larger, rather than the present day.

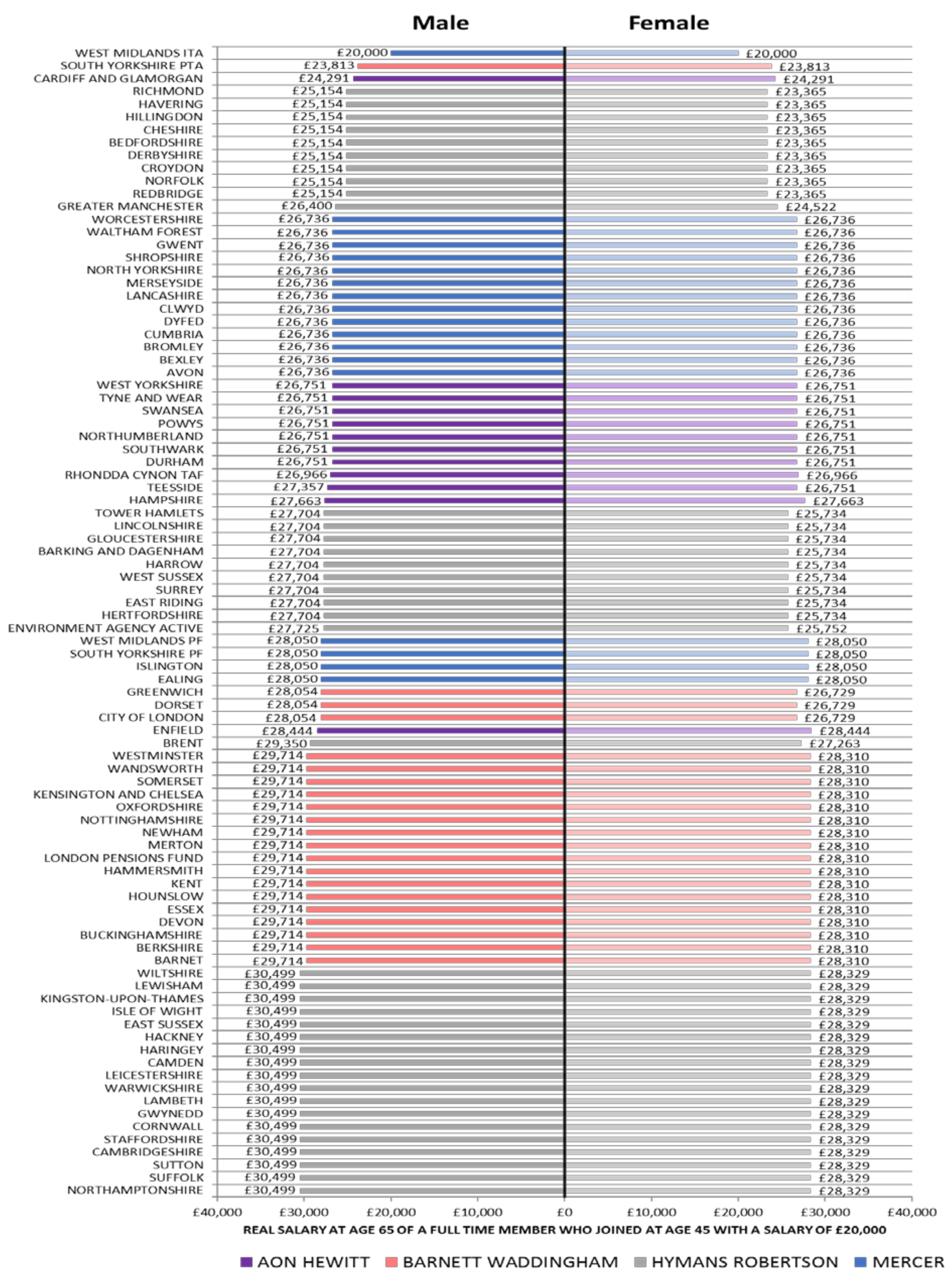
4.62 The following chart shows the assumed salary at age 65, in 2013 prices terms, for a member who joined the fund aged 45 on 31 March 2013 with a salary of £20,000 per annum. Mercer combine their general salary increase and promotion salary increase assumptions into a single figure. The funds they advise have been included in the analysis on that basis. The Environment Agency Closed Fund is excluded as it has few or no active members.

4.63 The majority of funds have assumed different levels of promotional salary growth for male and female members, except 9 of the 12 funds advised by Aon Hewitt for whom a unisex promotional salary growth assumption is used.

4.64 Funds advised by Hymans Robertson also generally have a separate promotional salary growth assumption for full-time and part-time members whereas funds advised by other firms have a single assumption for all active members.

4.65 We would expect some regional variation in this assumption. We also understand that it is an area in which the local authorities may have some input, particularly in short term variations. We would encourage the actuarial firms to add explicit commentary about both short term and long term impacts of these factors on the assumptions adopted.

Chart 4.5: Projected real salary at age 65 for a member aged 45 on £20,000 pa 2013 prices



Standardising the valuation results

4.66 Whilst we acknowledge that no presentation of results on a standardised basis was required as at 2013, the inconsistencies between funds identified above prevent meaningful comparison of local valuation results. As part of the next valuation cycle, as at 31 March 2016, it is expected that funds will produce results on a standardised set of assumptions as well as on their local assumptions, which is a positive step towards allowing the reader to be able to compare the results of valuations for different funds.

4.67 As this information is not available for the actuarial valuations as at 31 March 2013 GAD have adjusted the existing valuation results in order to approximately standardise them using a set of assumptions published by the SAB. This paper refers to this set of assumptions as the "SAB standard basis".

4.68 The SAB standard basis is reproduced in Appendix D.

4.69 Although the basis proposed by SAB for comparisons is not market consistent, it does allow a meaningful comparison to be made, as this is purely a relative ranking chart. Note that the SAB standard basis is not designed to be market consistent. The funding levels are therefore not intended to represent our opinion of how well funded a particular fund is, but rather to assist in identifying approximate ranking relativities.

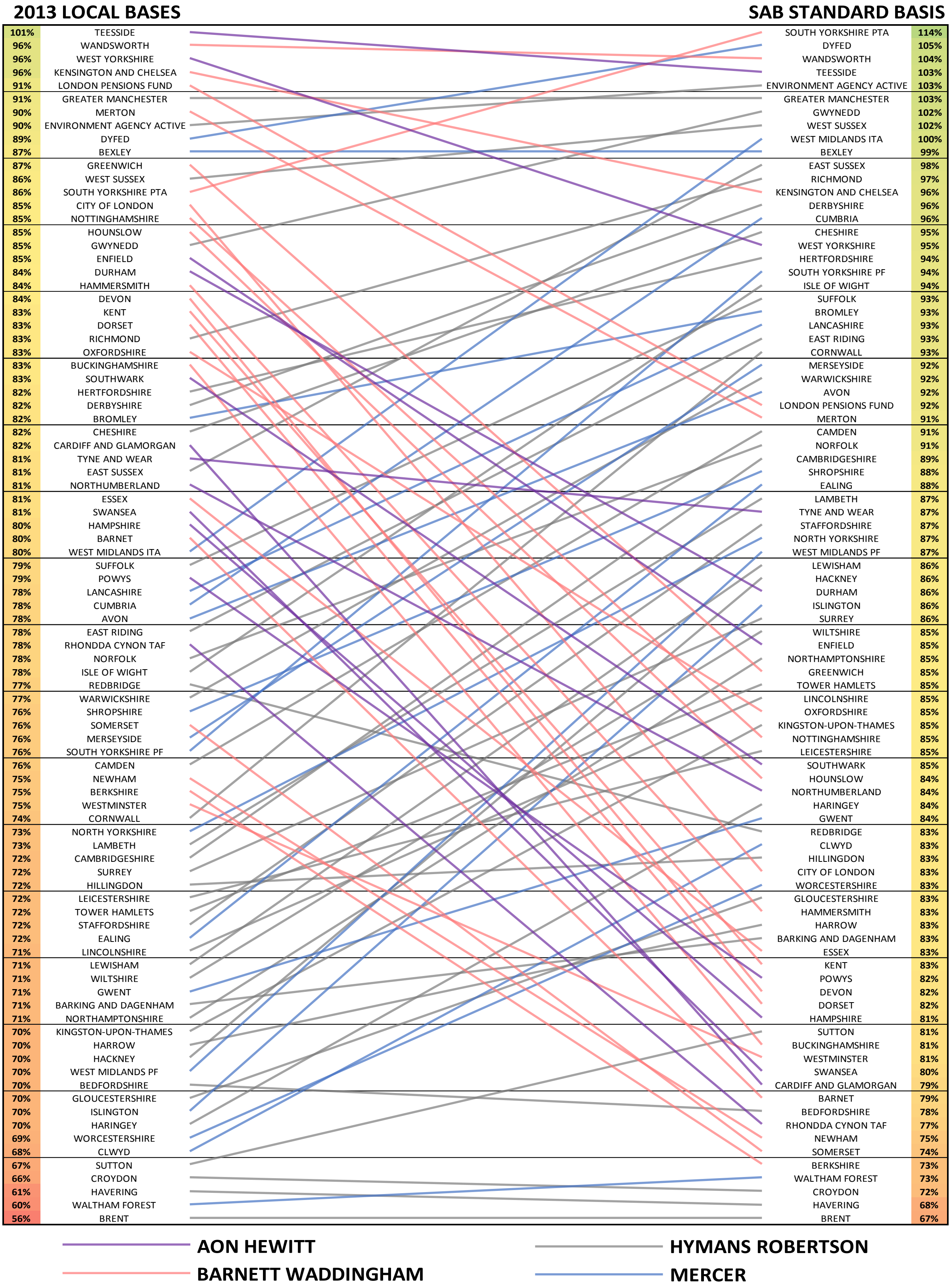
4.70 The following chart shows how the relative ranking of funds by funding ratio (assets/liabilities) has changed as a result of the standardisation process. Funds at the top of the list are those that have the highest funding levels and those at the bottom of the list have the lowest funding levels.

4.71 The chart shows a clear pattern, with funds advised by Aon Hewitt and Barnett Waddingham tending to be lower ranked following the standardisation process, and funds advised by Hymans Robertson and Mercer tending to be higher ranked. This may be interpreted as an indication of differing levels of prudence adopted.

4.72 The extent of the changes in ranking between the two bases indicate that any comparisons based on the local fund valuation results, which are inherently inconsistent, could lead to incorrect conclusions.

4.73 The Environment Agency Closed Pension Fund has been excluded from the table as explained in paragraph 4.62.

Chart 4.6: Standardising local valuation results



5 Solvency

The conclusions of this chapter are that:

> For the two closed Passenger Transport funds, we are not aware of any plan in place to ensure solvency. We would have engaged with the administering authorities to discuss the need for plans to be put in place had section 13 applied as at 31 March 2013.

> We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis. Whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, we may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position.

> We believe it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

5.1 Under section 13(4)(c) of the Act the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) is set at an appropriate level to ensure the solvency of the pension fund.

5.2 The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at *"such a level as to ensure that the scheme's liabilities can be met as they arise"*. We do not regard that this means that a pension fund should be 100% funded at all times. Rather, and for the purposes of section 13, we consider that the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency of the pension fund if:

> the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds)

and either:

> employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

> there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

5.3 In the context of the LGPS:

- Our understanding based on confirmation from DCLG is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities
- Therefore, for the purposes of our analysis we will assume that local authority sponsors cannot default on their pension liabilities through failure
- For funds with local authority employers, members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

It is therefore important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

Volatility of contributions

5.4 The future rate of employer contributions to ensure the solvency of the fund can be highly volatile, and dependent on economic conditions at the time of valuation and asset returns over the periods between valuations.

5.5 In a financial crisis scenario, similar to the 2008 financial crisis, we estimate that aggregate contributions would have to increase by around £1.7 billion per year assuming that some of the existing prudence in assumptions is relaxed. If the same level of prudence was maintained we estimate that contributions would increase by £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion). Over the three years from 1 April 2016 to 31 March 2019 we estimate additional contributions of approximately £13.5bn would be required.

Solvency considerations

5.6 In assessing whether the conditions in paragraph 5.2 are met, we will have regard to:

Risks already present:

- funding level on the SAB standard basis
- the extent to which the fund continues to be open to new members. If the fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions
- the ability of the fund to meet benefits due (without constraining investment policy)
- the ability of tax raising authorities to meet employer contributions

Emerging risks:

- the cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets)

> the cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)

> the proportion of scheme employers without tax raising powers or without statutory backing

> how the risks above compare with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole

5.7 If the conditions in paragraph 5.2, taking into account the considerations above, are met then it is expected that the fund will be able to pay scheme benefits as they fall due.

Solvency measures

5.8 In the 2016 section 13 report GAD is likely to use ten[12] measures across the two categories to assess whether the above conditions are met. In this 2013 dry run report GAD has only used six of these ten measures as the data required for the other four measures were not available within the necessary time frame. However, we have included all ten measures in the descriptions that follow for information purposes.

5.9 In the following table we set out the considerations with regards to risks already present and emerging risks, and map these to the likely measures:

Table 5.1: Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix D
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory-backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing

[12] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The ability of tax raising authorities to meet employer contributions	**Contribution cover[10]:** Actual contributions paid to the fund as a proportion of local authority income
Emerging risks:	
The cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets) compared with the pensionable payroll of scheme employer	**Liability shock:** The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Liability shock cover[13]:** The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Asset shock cover[11]:** The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets
The impact of non statutory employers defaulting on contributions	**Employer default:** The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Employer default cover[11]:** The change in average employer contribution rates as a percentage of local authority income if all employers without tax raising powers or statutory backing default on their existing deficits

[13] Data were not available for these measures. We expect information to be available following the 2016 valuations.

5.10 We have included reference to tax payer-backed employers being of stronger covenant value than other employers. Data for this purpose are captured from SF3 statistics which labels employers with one of four categories. For this purpose we have taken categories 1 and 2 to be tax payer-backed, while categories 3 and 4 are not tax payer-backed. It is likely that some category 3 employers have council guarantees, bonds or other external security. However, we consider that this does not alter the general principle that the residual liability falls back to the tax payer-backed employers.

5.11 Each fund's score under each measure is colour coded, where:

- **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency;
- **AMBER** is used to highlight a possible risk to sponsoring employers; and
- **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.

5.12 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

5.13 Emerging risk measures require assumptions. We used market consistent assumptions for this purpose, details of which can be found in Appendix D. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in Appendix E.

5.14 In tables 5.2 (open funds) and 5.3 (closed funds) below we illustrate the results of the six solvency measures we have used for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red. A fund with a large number of amber or red measures is one where the solvency of the fund may be at risk. Table F.1 in Appendix F sets out the results of each solvency measure for each fund in LGPS.

5.15 The rates shown in tables 5.2, 5.3 and F.1 are approximate, and are based on the information provided to GAD and/or publicly available. Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While they should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

Table 5.2: Open funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HARINGEY[14]	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
NEWHAM[12]	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%

[14] The information required for the ***Non-Statutory Employees*** and ***Employer Default*** measures was not available in the SF3 statistics.

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%

Table 5.3: Closed funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[15]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[13]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Observations based on the solvency measures

Open Funds

5.16 All funds should be aware of their solvency position to ensure that the relevant plans are in place to be able to pay benefits when they fall due, and employers are able to accommodate potential future increases in contributions.

5.17 This is particularly important in the case of mature funds. They should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the environment of no future employer contributions.

[15] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

5.18 We may also have engaged with a number of funds showing amber flags under the SAB funding level measure to better understand how they intend to improve their funding position had section 13 applied as at 31 March 2013.

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

5.19 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.

5.20 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.

5.21 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.

5.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

5.23 The Environment Agency Closed Pension Fund has not been shown in the table above and is excluded from the analyses that follow as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

5.24 Table 5.3 shows that both West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund raised a number of red/amber flags.

5.25 Our further investigation indicates that West Midlands Integrated Transport Authority Pension Fund has taken out a buy-in policy with an insurer to reduce its exposure to asset/liability shocks. Furthermore we understand that a guarantee has been obtained from the parent company of the employer. Both of these provide some additional assistance with solvency risk, but do not fully eliminate that risk.

5.26 The 2013 local valuation reports for both funds show that employers are paying additional lump sum contributions in order to meet their liabilities. However, the two transport authority funds are wholly dependent on the performance of a limited company.

5.27 As they are closed to new members, their payrolls are also decreasing, which may reduce the scope to be able to meet variations in contributions. This means that they are at risk of requiring outside funding in the future, which in turn may be uncertain.

5.28 Had section 13 been in force at the time, we would have raised concerns about the two transport authority funds. We would expect to have engaged with them to discuss their plans. Remedial action may have been recommended, depending on the outcome of that engagement. That remedial action may have included putting in place a plan to pay benefits when they fall due in the environment of no future employer contributions, and may have included a requirement to seek a guarantor (should there not already be one).

6 Long term cost efficiency

For the following two funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met had section 13 applied as at 31 March 2013:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

A number of other funds have triggered flags. We do not consider that these funds are not meeting the aims of section 13 yet, but we would have encouraged these funds to provide further information regarding the relevant measures.

Neither of the closed Passenger Transport authority pension funds triggered long term cost efficiency flags.

We had some concerns regarding the actual contributions data underlying the contribution shortfall measure. A number of red flags were triggered that we have ignored due to these data concerns. We would have sought additional clarification

6.1 Under section 13(4)(c) of the Act, the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) are set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

6.2 The accompanying explanatory notes to the Act state that: "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."

6.3 We conclude that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

6.4 In assessing whether the requirement for long term cost efficiency is met, we had regard to a number of absolute and relative considerations and constructed ten[16] measures to assess these considerations. Data were not available to populate all measures, although we expect data to be available for the section 13 work following the 2016 valuations.

[16] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

6.5 A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned the fund on a standalone basis. In the following table we set out the relative and absolute considerations, and map these to the ten measures.

Table 6.1: Long term cost efficiency measures

Consideration	Measure Used
Relative considerations:	
The pace at which the deficit is expected to be paid off	**Deficit Repaid:** The proportion of deficit paid off in the first year, where the deficit is calculated on a standardised market consistent basis (SAB key indicator 2(i))
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised market consistent basis (SAB key indicator 3)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised market consistent basis (SAB key indicator 4(i))
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised market consistent basis
The pace at which the deficit is expected to be paid off	**Repayment Pace[17]:** The amount of deficit paid off over each future valuation period, as a proportion of the original deficit, and the number of years required to pay off 50% of the value of original deficit, where the deficit calculations are carried out on a standardised market consistent basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB key indicator 4(i)), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB key indicator 4(ii))

[17] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Extension:** The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation
If there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period	**Interest Cover:** A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:**[18] Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience
If there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future	**Surplus retention[16]:** Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.

6.6 Four of these measures were selected from the KPIs defined by the SAB[19].

6.7 The selected SAB measures have been augmented with six additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

6.8 Three of the measures (deficit extension, deficit reconciliation and surplus retention) were assessed based on the local funds' actuarial bases (i.e. no standardised basis was required), or are proposed to be assessed on these bases as part of the section 13 work following the 2016 valuations. However, because of the inconsistencies in approach highlighted in chapter 4, it was not possible to assess the other measures using the local valuations.

[18] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.
[19] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

6.9 For the remaining measures (deficit repaid, deficit period, required return, repayment shortfall, repayment pace, return scope and interest cover) we assessed the metrics on a standardised market-consistent basis (as set out in Appendix D), or we propose to do so as part of the section 13 work following the 2016 valuations. Although some could have been assessed on the SAB prescribed basis described in Appendix D, the non-market-related SAB basis is not appropriate for some of the comparisons between the funds, and so for consistency, we have adjusted this basis to make it market consistent.

6.10 Each fund's score under each measure is colour coded, where:

- RED indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions;
- AMBER indicates a possible risk to the long-term cost efficiency of contributions; and
- GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions.

6.11 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

6.12 The Environment Agency Closed Fund was excluded from the analyses that follow, as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

6.13 The analyses and calculations carried out under these long-term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local fund actuaries and the data published by DCLG in their SF3 statistics[20].

6.14 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

6.15 In the table that follows we illustrate the results of each long term cost efficiency measure for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red.

[20] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

6.16 The data that have been used to calculate the measures employed in this dry run report are set out in Appendix C while the methodology is set out in Appendix G. The complete table of funds and their long-term cost efficiency measures can be found in Appendix H.

Table 6.2: Open funds with amber or red long term cost efficiency measures

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
ENVIRONMENT AGENCY ACTIVE[21]	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Observations based on the long-term cost efficiency measures

Open Funds

6.17 Table 6.2 shows those funds that would have given rise to concerns about the long-term cost efficiency of their contributions if the requirements of section 13 were in place as at 31 March 2013.

6.18 We will seek a confirmation that these data items are accurate for the section 13 review after the 2016 valuations. We expect that these data will allow us to calculate the average over a three year period, rather than just one year's contributions, to account for any phasing in of contribution rate changes.

6.19 Funds that give rise to concern are:

> Royal County of Berkshire Pension Fund

> Somerset County Council Pension Fund

[21] Some measures are identified as N/A because the fund is in surplus on the market consistent basis.

6.20 No flags were raised under the surplus retention measure, so we have excluded this measure from table 6.2. At present, all the funds that were in surplus on the standardised market consistent basis were paying sufficient contributions into their funds, which resulted in an increase in the value of the surplus on the standardised market consistent basis.

Adjustment to results for City of Westminster Pension Fund

6.21 As noted in paragraphs 5.19 – 5.22 based on additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised no flags under long term cost efficiency.

6.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

6.23 No flags have been raised in respect of closed funds under long term cost efficiency, hence we have not shown a table in respect of closed funds.

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Government Actuary's Department

LGPS ENGLAND AND WALES

Appendices to Section 13 Dry Run Report

Date: July 2016

Author: John Bayliss
Ian Boonin

Contents

Appendix A: Section 13 of the Public Service Pensions Act 2013[1]

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

[1] http://www.legislation.gov.uk/ukpga/2013/25/section/13

Appendix B: Extracts from other relevant regulations

Regulations 35 and 36 from 'The Local Government Pension Scheme (Administration) Regulations 2008[2]'

Funding strategy statement

35.–(1) This regulation applies to the funding strategy statement prepared and published by an administering authority under regulation 76A of the 1997 Regulations[3].

(2) The authority must—

(a) keep the statement under review;

(b) make such revisions as are appropriate following a material change—

(i) in its policy on the matters set out in the statement, or

(ii) to the current version of its statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles); and

(c) if revisions are made, publish the statement as revised.

(3) In reviewing and making revisions to the statement, the authority must—

(a) have regard to the guidance set out in the document published in March 2004 by CIPFA and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No.6)"; and

(b) consult such persons as it considers appropriate.

Actuarial valuations and certificates

36.–(1) Each administering authority must obtain—

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2010 and in every third year afterwards;

(b) a report by an actuary in respect of the valuation; and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

[2] http://www.legislation.gov.uk/uksi/2008/239/contents/made

[3] Regulation 76A was inserted by The Local Government Pension Scheme (Amendment) Regulations 2004

(4) A rates and adjustments certificate is a certificate specifying—

(a) the common rate of employer's contribution; and

(b) any individual adjustments,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The common rate of employer's contribution is the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

(a) the existing and prospective liabilities of the fund arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a common rate as possible; and

(c) the current version of the administering authority's funding strategy statement mentioned in regulation 35.

(7) An individual adjustment is any percentage or amount by which, in the actuary's opinion, contributions at the common rate should, in the case of a particular body, be increased or reduced by reason of any circumstances peculiar to that body.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

(a) the number of members who will become entitled to payment of pensions under provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as he requests.

Regulation 12 of 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009[4]'

Statement of investment principles

12.–(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.

(2) The statement must cover its policy on—

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.

(4) The first such statement must be published no later than 1st July 2010.

(5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.

(6) A statement revised under paragraph (5) must be published.

[4] http://www.legislation.gov.uk/uksi/2009/3093/regulation/12/made

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 2013[5]'

Funding strategy statement

58.–(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to—

(a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)[6]"; and

(b) the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Actuarial valuations of pension funds

62.–(1) An administering authority must obtain—

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;

(b) a report by an actuary in respect of the valuation; and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying—

[5] http://www.legislation.gov.uk/uksi/2013/2356/contents/made

[6] ISBN Number 085299 996 8; copies may be obtained from CIPFA at 3 Robert Street, London, WC2N 6RL

(a) the primary rate of the employer's contribution; and

(b) the secondary rate of the employer's contribution,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

(a) the existing and prospective liabilities arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a common rate as possible;

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Appendix C: Data provided

C.1 At the request of the Department for Communities and Local Government ('DCLG') the Government Actuary's Department ('GAD') has collected data from each fund's 2013 valuation report. These actuarial funding valuations were conducted by four actuarial firms:

> Aon Hewitt

> Barnett Waddingham

> Hymans Robertson

> Mercer

C.2 Data were received from the relevant local actuary or the administering authority for 89 of the 91 pension funds. Information for the Environment Agency Closed Fund and South Yorkshire Passenger Transport Authority Pension Fund have been taken directly from their respective 2013 valuation reports by GAD.

C.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2013 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their actuaries.

C.4 In addition, data has been collated from the '*Local government pension scheme funds local authority data*', which is published annually by DCLG. This published data may be referred to elsewhere as SF3 statistics.

C.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales Section 13 Dry Run Report.

C.6 The original data request sent to individual funds for the collection of 2013 valuation data and accompanying explanatory notes now follow.

Data specification

1) MEMBERSHIP DATA
Data split by gender.

   a) Active members: number, average age (weighted as appropriate), average period of membership, total rate of annual actual pensionable pay at 31 March 2013, total rate of annual FTE pensionable pay at 31 March 2013,
   b) Deferred members: number, average age (weighted as appropriate), total annual preserved pension revalued to 31 March 2013. Note this should exclude undecided members.
   c) Pensioners (former members): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
   d) Pensioners (dependants including partners and children): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
   e) Pensionable pay definition, has the 2008 or 2014 definition been used to assess pensionable pay

2) FINANCIAL ASSUMPTIONS
Provide separately for past service liabilities and future contributions, if different assumptions adopted. If different assumptions are adopted for Scheduled bodies and Admitted bodies the assumptions adopted for Scheduled bodies should be entered.

   a) Nominal discount rate (pre & post retirement separately if applicable)
   b) RPI inflation
   c) CPI inflation rate
   d) Earnings inflation

3) DEMOGRAPHIC ASSUMPTIONS
Rates to be provided at sample ages split by gender

   a) Age Retirement Assumptions (split between members with and without Rule of 85 protection)
   b) Rates of Ill-health Retirement from Active service
   c) Distribution of ill health retirements between tiers 1, 2 and 3
   d) Rates of Withdrawal from Active service
   e) Death in Service Rates
   f) Promotional Salary Scale (if not included in earnings inflation assumption)
   g) Proportions Partnered
   h) Age disparity between Member & Partner
   i) Commutation Assumptions
   j) Assumed life expectancy for pensioner members aged 65 and active / deferred members at age 65 if they are currently aged 45 (for members retiring on normal health, members retiring on ill health and dependents)
   k) Description of post retirement mortality assumption (baseline and future improvements)

4) ASSETS
   a) Value of Assets (market value)
   b) Actual Asset Distribution (split by UK equities, overseas equities, corporate bonds, gilts, property, cash and other investments).

5) LIABILITIES AND FUTURE CONTRIBUTION RATE
   a) Common contribution rate
   b) Standard Contribution Rate
   c) Contribution rate in respect of surplus or deficit
   d) Assumed member contribution yield
   e) Expenses, split by administration and (if not included implicitly in discount rate) investment

f) Past Service Liability – split between Actives, Deferred and Pensioners
g) Funding Level
h) Surplus / Deficit at valuation date
i) Deficit Recovery Period
j) Past Service Liability (on a low risk / gilts basis) – split between Actives, Deferred and Pensioners

6) REVENUE ACCOUNTS
a) Value of assets at last valuation (after any smoothing or other adjustments)
b) Value of assets at this valuation (after any smoothing or other adjustments)
c) Total Income: Employee contributions, normal employer contributions, special employer contributions, transfers in, investment income, other income
d) Total Expenditure: Pensions paid, retirement lump sums paid, other lump sums paid, transfers out, investment expenses, administration expenses, other outgoings

7) ANALYSIS OF SURPLUS (PAST SERVICE LIABILITY)
a) Surplus / Deficit at last valuation
b) Interest on Surplus/Deficit
c) Difference between contribution paid and cost of benefits accrued
d) Experience gains and losses (including amounts in the following categories where analysed: Investment Return experience, Salary Increase experience, Pension Increase experience, Pensioner Mortality experience, Other Demographic experience)
e) Change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
f) Other
g) Surplus / Deficit at this valuation

8) ANALYSIS OF CHANGE IN FUTURE SERVICE CONTRIBUTION RATE
a) Future service rate at last valuation
b) Effect of change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
c) Change due to introduction new benefit design from April 2014
d) Other
e) Future service rate at this valuation (common contribution rate)

9) AVERAGE EMPLOYER CONTRIBUTION RATE
a) Average employer contribution rate 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions (where deficit contributions are fixed)

10) EXPERIENCE OVER THE INTERVALUATION PERIOD
Please only provide data that is readily available

a) Actual and expected numbers of deaths in service
b) Actual and expected numbers of withdrawals
c) Actual and expected numbers of age retirements
d) Actual and expected numbers of ill-health retirements
e) Actual and expected pensioner deaths (by lives and amount of pension).
f) Actual and expected numbers of severance / redundancy
g) Actual and assumed amount of commuted lump sum

11) POST 2014 SCHEME

a) Proportion of members assumed to be in 50/50 scheme
b) State Pension Ages used for assessment

Explanatory notes

Common contribution rate: All data requested relates to the common contribution rate, unless otherwise noted.

1 **Membership data:** Average ages should be unweighted, weighted by salary/pension and weighted liability as available. Accrued pensions should include the 2013 Pension Increase Order.

3 **Demographic Assumptions:** We expect this to be shown at sample ages only which will be specified in our template. For example for in service decrement we intend to use five-year intervals from 20 to 65.

3j **Life expectancies:** The life expectancies requested in section 3 j) should be the average life expectancy across the whole fund.

5d **Assumed member contribution yield:** This is the contribution yield that members are assumed to pay over the valuation period. It will vary by authority due to the tiered member contribution rates.

9 **Average employer contribution rate:** This should be calculated as projected employer contributions in 2014/15 divided by projected pensionable pay in 2014/15. Since projected pensionable pay acts only as the weightings in this weighted average, it is acceptable to use a simple projection of pensionable pay (e.g. based on actual pensionable pay at 31 Mar 2013).

10 **Experience over the intervaluation period:** We would only expect experience that has been analysed and is readily available to be included in this section.

11b **State Pension Age used for assessment:** This item refers to the assumed State Pension Ages that have been used in the funding valuation, for example whether allowance has been made for the State Pension Age to increase from age 66 to 67 between 2026 and 2028 (which is Government Policy but has not yet been approved by Parliament).

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

C.7 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.

C.8 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.

C.9 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.

C.10 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Appendix D: Assumptions

D.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

> The local fund assumptions, as used in the fund's 2013 actuarial valuation

> The SAB standardised set of assumptions, or SAB standard basis

> A market consistent set of assumptions

D.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2013. An analysis of the differences in assumptions between funds is contained in the 'Consistency' chapter of the main report.

D.3 Details of the SAB standard basis and the market consistent basis can be found in the tables below. Differences between the bases are highlighted in orange.

Table D.1: SAB standard basis[7]

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2% per annum
PUBLIC SECTOR EARNINGS GROWTH	3.5% per annum
DISCOUNT RATE	5.06% per annum
POST RETIREMENT MORTALITY RATES	Long term reduction in mortality rates of 1.5% per annum
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	Set locally based on Fund experience
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	None
COMMUTATION	We have used the SAB future service cost assumption of 65% of the maximum allowable amount. This is equivalent to 23.2% of post 2008 pension and 12.8% of pre 2008 pension
FAMILY STATISTICS	Set locally based on Fund experience

[7] This is the 5 February 2015 iteration, details of which can be found in the minutes of the Scheme Advisory Board's meeting of 5 February 2015 at: http://www.lgpsboard.org/images/PDF/CMCMar2015/Item4-StandardisedFundingAssumptions.pdf

Table D.2: Market consistent basis

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2.25% per annum
PUBLIC SECTOR EARNINGS GROWTH	4.5% per annum
DISCOUNT RATE	5.92% per annum
POST RETIREMENT MORTALITY RATES	As set out in GAD's 2013 scheme wide actuarial valuation
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	As set out in GAD's 2013 scheme wide actuarial valuation
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	Set locally based on Fund experience
COMMUTATION	Set locally based on Fund experience
FAMILY STATISTICS	Set locally based on Fund experience

D.4 The financial assumptions under the market consistent basis were set with reference to GAD's best estimate view of future market movements as at 31 March 2013.

D.5 The post-retirement mortality assumptions are as set out in GAD's 2013 scheme wide actuarial valuation and were derived after analysing scheme wide mortality experience. The market consistent basis uses these assumptions rather than those set locally as analysis showed local rates, when taken as a whole, were materially higher (i.e. life expectancies were materially lower) than GAD's 2013 scheme wide rates.

D.6 Promotional salary scales and rates of commutation are likely to vary between funds. The market consistent basis allows for this variation by using the rates set in the local 2013 actuarial valuations.

Appendix E: Solvency measures – methodology

E.1 This Appendix details the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

SAB funding level: *A fund's funding level using the SAB standard basis*

E.2 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix D.

E.3 A lower funding level may lead to greater default risk amongst employers without tax raising powers or statutory backing and can leave a fund at greater risk of adverse market movements.

E.4 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the ten funds ranked 82 to 91, out of 91 are assigned an amber colour code. All other funds are assigned a green colour code.

Open fund: *Whether the fund is open to new members*

E.5 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time maturity of the scheme means that additional contributions must be spread over a shorter timeframe, and could be more volatile as a result. Employer interest in the scheme may also start to wane and could lead to a failure to make required contributions in the future.

E.6 This measure is a *'Yes'* when a fund is still open to new members and a *'No'* otherwise. A *'Yes'* results in a green colour code, while a *'No'* results in an amber colour code.

Non-statutory employees: *The proportion of employees within the fund who are employed by an employer without tax raising powers or statutory backing*

E.7 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:

- there is a guarantee of LGPS pension liabilities by a public body;

> that public bodies are incapable of becoming insolvent; and

> governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

E.8 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

E.9 Data for this measure has been taken from the publically available *'Local government pension scheme funds local authority data: 2014 to 2015'* published by DCLG[8]. The data contains the number of employees within each fund by employer group, where:

> Group 1 refers to local authorities and connected bodies;

> Group 2 refers to centrally funded public sector bodies;

> Group 3 refers to other public sector bodies; and

> Group 4 refers to private sector, voluntary sector and other bodies.

E.10 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those ***with*** tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those ***without*** tax raising powers or statutory backing.

E.11 The measure therefore gives the proportion of employees within the fund that are employed by group 1 and 2 employers as a proportion of all employees within the fund.

E.12 The proportions quoted in this report are based on number of employees as at March 2015 as the required data were not available for March 2013. However, it is assumed that this proportion will not have varied much over the two years from the date of the last triennial actuarial valuations, 31 March 2013. The 2016 Section 13 report will use proportions as at March 2016 which we plan to base on liabilities rather than number of employees.

E.13 The required data were not available for:

> Environment Agency Active Fund;

> London Borough of Haringey Pension Fund; and

> London Borough of Newham Pension Fund.

E.14 Under this measure a fund has been allocated a red colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory backing is greater than 50%.

[8] https://www.gov.uk/government/collections/local-government-pension-scheme

E.15 A fund has been allocated an amber colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory is between 25% and 50%, and a green colour code in all other cases.

***Contribution cover:** Actual contributions paid by the fund as a proportion of local authority income*

E.16 This measure does not form part of this 2013 dry run report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.17 Continued solvency of a fund depends on the ongoing ability of employers to pay contributions into the fund, which may be higher or lower than at present. If contributions are a low proportion of income (or outgo) employers are likely to find it easier to cope with any increase in contributions that is required.

E.18 This measure should give the actual contributions paid by the fund in the 2012/13 financial year as a proportion of local authority income over the same year. It is important to note that this measure is based on actual contributions. These may not be the same as the contribution rates derived in a fund's actuarial valuation as contribution rates are sometimes smoothed to reduce volatility. There may also have been additional lump sum contributions made.

E.19 Under this measure, a fund where the actual contributions paid as a proportion of local authority income are higher than x%[9] will be assigned a red colour code.

E.20 A fund where the actual contributions paid as a proportion of local authority income is between x% and y% will be assigned an amber colour code, while funds with a lower proportion will be assigned a green colour code.

***Liability Shock:** The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities*

E.21 Contribution rates are normally specified as a percentage of payroll. They are likely to vary at each triennial actuarial valuation in response to economic conditions, both at the time of the valuation and assumed future economic conditions, and fund experience over the inter-valuation period. These factors could cause either an increase or decrease in required contributions.

[9] Where a measure does not form part of the 2013 dry run report trigger points are listed as x% or y%. The actual level of these trigger point will be determined when completing the section 13 review following the 2016 local valuations.

E.22 The continued solvency of a fund depends on the ongoing ability of employers to pay the required contributions into the fund, whether they are higher or lower than at present. If contributions are a low proportion of a fund's payroll employers are likely to find it easier to meet increased required contributions.

E.23 Total employer contribution rates are often split into contributions required to cover the expected cost of future accrual of benefits and contributions required to eliminate any existing deficit. Contributions in respect of deficit will increase if a fund's deficit increases, i.e. if a fund's asset value falls or liabilities increase, assuming the assumptions underlying the deficit remain unchanged.

E.24 This measure investigates the effect of an increase in a fund's liabilities on total employer contribution rates, as a proportion of payroll. The necessary calculations have been undertaken by simulating a one-off increase to liabilities of 10% of their 31 March 2013 value. For the purposes of this measure, liabilities have been set out on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years through reduced contribution rates.

E.25 The measure is the change in total employer contribution rate from the resulting from the increase to liabilities. A high figure indicates that contributions rates as a proportion of payroll are highly sensitive to a change in liabilities. This could be a result of a low payroll.

E.26 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.

E.27 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Liability shock cover: *The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities*

E.28 This measure does not form part of this 2013 Section 13 report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.29 The results under this measure are expected to be similar to those under the liability shock measure. This measure may therefore be used instead of, rather than in addition to, liability shock in the 2016 Section 13 Report.

E.30 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations

E.31 Under both measures a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y%, and a green colour code otherwise.

Asset shock: *The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets*

E.32 This measure shows the effect on total employer contribution rates (as a percentage of payroll) of a one off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets. Defensive assets are assumed to be unaffected.

E.33 For the purposes of this measure liabilities have restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.

E.34 Return-seeking asset classes are assumed to be:

- Overseas Equities;
- UK Equities;
- Other Investments; and
- Property.

Defensive asset classes are assumed to be:

- Cash;
- Gilts; and
- Corporate Bonds.

E.35 We investigated the 'Other Investments' category in respect of the two funds flagged up red under this measure and it was found that only West Midland ITA had a significant amount, of which just over 80% related to a buy-in policy. This buy-in policy has been allowed for as a defensive asset in our calculations.

E.36 Under this measure, a fund invested entirely in return-seeking assets will experience a decrease in total asset value of 15%. A fund with no exposure to return-seeking assets will experience no decrease in total asset value. In practice, the majority of funds will experience decreases between these two extremes, dependant on their investment strategy.

E.37 In general we have treated 'other investments' in the same manner as equities. However, we have investigated the actual nature of 'other investments' where a flag has been raised. We intend to investigate in more depth for our 2016 Section 13 valuation report.

E.38 The one-off decrease in asset values results in an increase in fund deficits (or reduction in surpluses). As deficit recovery periods are constant, employer contributions in respect of deficits will increase. If contributions are a small proportion of payrolls employers are likely to be able to better cope with this increase.

E.39 The measure gives the change in contribution rate from the pre-decrease value. A high number indicates that contribution rates as a proportion of payroll are highly sensitive to a change in the value of return seeking assets.

E.40 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.

E.41 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Asset shock cover: *The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets*

E.42 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.43 The results under this measure are expected to be similar to those under the asset shock measure. This measure may therefore be used instead of, rather than in addition to, the asset shock measure in the 2016 Section 13 Report.

E.44 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations

E.45 The measure will be calculated in the same way as the asset shock measure, detailed above, except that total contribution rates and the increases resulting from a 15% fall in the value of return-seeking assets will be measured as a percentage of local authority income, rather than a percentage of payroll.

E.46 Under this measure a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.

Employer default: *The change in average employer contribution rates as a percentage of payroll if all employer's without tax raising powers or statutory backing default on their existing deficits*

E.47 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:

> there is a guarantee of LGPS pension liabilities by a public body;

> that public body is incapable of becoming insolvent; and

> the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

E.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

E.49 For the purposes of this measure liabilities have been restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.

E.50 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers each the contribution rate for each remaining employer will increase.

E.51 If a fund is in surplus it is assumed that those employers without tax raising powers or statutory backing default on their proportion of the surplus. This will have the effect of reducing contributions for those funds in surplus on the standardised market consistent basis who have a non-zero number of employees employed by employers without tax raising powers or statutory backing.

E.52 The measure shows the increase in total contribution rates that has resulted from the default of employers without tax raising powers or statutory backing.

E.53 Data were not available for:

> Environment Agency Active Fund;

> London Borough of Haringey Pension Fund; and

> London Borough of Newham Pension Fund.

E.54 A fund is allocated a red colour code if its result is greater than 3%, an amber colour code if its result is between 2% and 3% and a green colour code otherwise.

Employer default cover: *Average employer contribution rates as a percentage of local authority income if all employer's without tax raising powers or statutory backing default on their existing deficits*

E.55 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.

E.56 The results under this measure are expected to be similar to those under the employer default measure. This measure may therefore be used instead of, rather than in addition to, the employer default measure in the 2016 Section 13 Report.

E.57 It is likely that a fund where the required employer contributions resulting from a default of employer's without tax raising powers or statutory backing are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required.

E.58 The measure will be calculated as the increases resulting from the default measured as a percentage of local authority income.

E.59 A fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.

Appendix F: Solvency measures – by fund

Table F1: Solvency measures by fund

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
AVON	5.9 (82)	92%	YES	6%	+3%	+4%	+0%
BARKING AND DAGENHAM	6.5 (45)	83%	YES	21%	+4%	+3%	+1%
BARNET	6.8 (31)	79%	YES	0%	+4%	+3%	+0%
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
BUCKINGHAMSHIRE	5.6 (87)	81%	YES	5%	+3%	+3%	+0%
CAMBRIDGESHIRE	5.8 (83)	89%	YES	5%	+3%	+4%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CARDIFF AND GLAMORGAN	6.8 (32)	79%	YES	6%	+4%	+4%	+0%
CHESHIRE	6.5 (41)	95%	YES	8%	+4%	+4%	+0%
CITY OF LONDON	7.3 (18)	83%	YES	9%	+4%	+4%	+1%
CLWYD	6 (73)	83%	YES	1%	+3%	+4%	+0%
CORNWALL	5.8 (84)	93%	YES	7%	+3%	+4%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
CUMBRIA	6.7 (38)	96%	YES	0%	+4%	+4%	+0%
DERBYSHIRE	5.9 (77)	96%	YES	5%	+3%	+4%	+0%
DEVON	6.4 (48)	82%	YES	11%	+4%	+4%	+1%
DORSET	6 (74)	82%	YES	9%	+3%	+4%	+1%
DURHAM	6.9 (27)	86%	YES	3%	+4%	+4%	+0%
DYFED	5.6 (88)	105%	YES	4%	+3%	+4%	-0%
EALING	6.3 (53)	88%	YES	11%	+4%	+4%	+0%
EAST RIDING	6.3 (55)	93%	YES	4%	+4%	+4%	+0%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
ENFIELD	6.1 (66)	85%	YES	3%	+4%	+3%	+0%
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	103%	YES	N/A	+3%	+4%	N/A
ESSEX	6.2 (65)	83%	YES	16%	+4%	+4%	+1%
GLOUCESTERSHIRE	6.7 (36)	83%	YES	9%	+4%	+4%	+1%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
GWENT	5.9 (79)	84%	YES	6%	+3%	+4%	+0%
GWYNEDD	5.2 (90)	102%	YES	5%	+3%	+4%	-0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HAMPSHIRE	6.4 (50)	80%	YES	3%	+4%	+3%	+0%
HARINGEY	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HARROW	6.6 (39)	83%	YES	2%	+4%	+4%	+0%
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
HERTFORDSHIRE	6.4 (49)	94%	YES	6%	+4%	+4%	+0%
HILLINGDON	6.2 (64)	83%	YES	25%	+4%	+3%	+1%
HOUNSLOW	6.3 (58)	84%	YES	14%	+4%	+3%	+1%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
ISLINGTON	6.8 (30)	86%	YES	7%	+4%	+4%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
KENT	6.2 (63)	83%	YES	10%	+4%	+4%	+1%
KINGSTON-UPON-THAMES	6.1 (71)	85%	YES	6%	+3%	+4%	+0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LANCASHIRE	6.1 (70)	93%	YES	7%	+3%	+4%	+0%
LEICESTERSHIRE	5.7 (86)	85%	YES	5%	+3%	+3%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LINCOLNSHIRE	6.3 (56)	85%	YES	8%	+4%	+4%	+0%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
MERTON	7.1 (25)	91%	YES	3%	+4%	+4%	+0%
NEWHAM	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORFOLK	6.6 (40)	91%	YES	9%	+4%	+4%	+0%
NORTH YORKSHIRE	5.3 (89)	87%	YES	3%	+3%	+3%	+0%
NORTHAMPTONSHIRE	6.2 (60)	85%	YES	4%	+4%	+4%	+0%
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
NOTTINGHAMSHIRE	6.3 (54)	85%	YES	6%	+4%	+4%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
POWYS	6.4 (46)	82%	YES	3%	+4%	+3%	+0%
REDBRIDGE	6.3 (51)	83%	YES	9%	+4%	+3%	+0%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SHROPSHIRE	6.5 (43)	88%	YES	10%	+4%	+4%	+0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
SOUTH YORKSHIRE	6.4 (47)	94%	YES	10%	+4%	+4%	+0%
SOUTH YORKSHIRE PTA	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
SOUTHWARK	7.3 (20)	84%	YES	2%	+4%	+4%	+0%
STAFFORDSHIRE	6.2 (59)	87%	YES	6%	+4%	+4%	+0%
SUFFOLK	6.2 (62)	93%	YES	19%	+4%	+3%	+0%
SURREY	5.9 (81)	86%	YES	5%	+3%	+4%	+0%
SUTTON	6.5 (42)	81%	YES	3%	+4%	+3%	+0%
SWANSEA	6.2 (61)	80%	YES	4%	+4%	+4%	+0%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
TYNE AND WEAR	7.1 (23)	87%	YES	11%	+4%	+4%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WARWICKSHIRE	6.1 (67)	92%	YES	6%	+3%	+4%	+0%
WEST MIDLANDS	6.8 (35)	87%	YES	5%	+4%	+4%	+0%
WEST MIDLANDS ITA	25.1 (2)	100%	NO	100%	+5%	+7%	N/A
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WEST YORKSHIRE	6.5 (44)	94%	YES	13%	+4%	+4%	+0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%
WILTSHIRE	6.1 (69)	85%	YES	20%	+3%	+4%	+1%
WORCESTERSHIRE	6.3 (57)	83%	YES	8%	+4%	+4%	+0%

Notes:

Funding levels are on the SAB standard basis.

The liability value and salary roll figures in the maturity indicator are as at 31 March 2013. The liability value was calculated on the standardised market consistent basis.

The following charts provide a graphical representation of the total contribution rates payable after the liability shock and asset shock tests above.

*Chart F1: **Liability shock** by fund: Average employer contribution rate as a percentage of payroll after a 10% increase in liabilities, market consistent basis.*

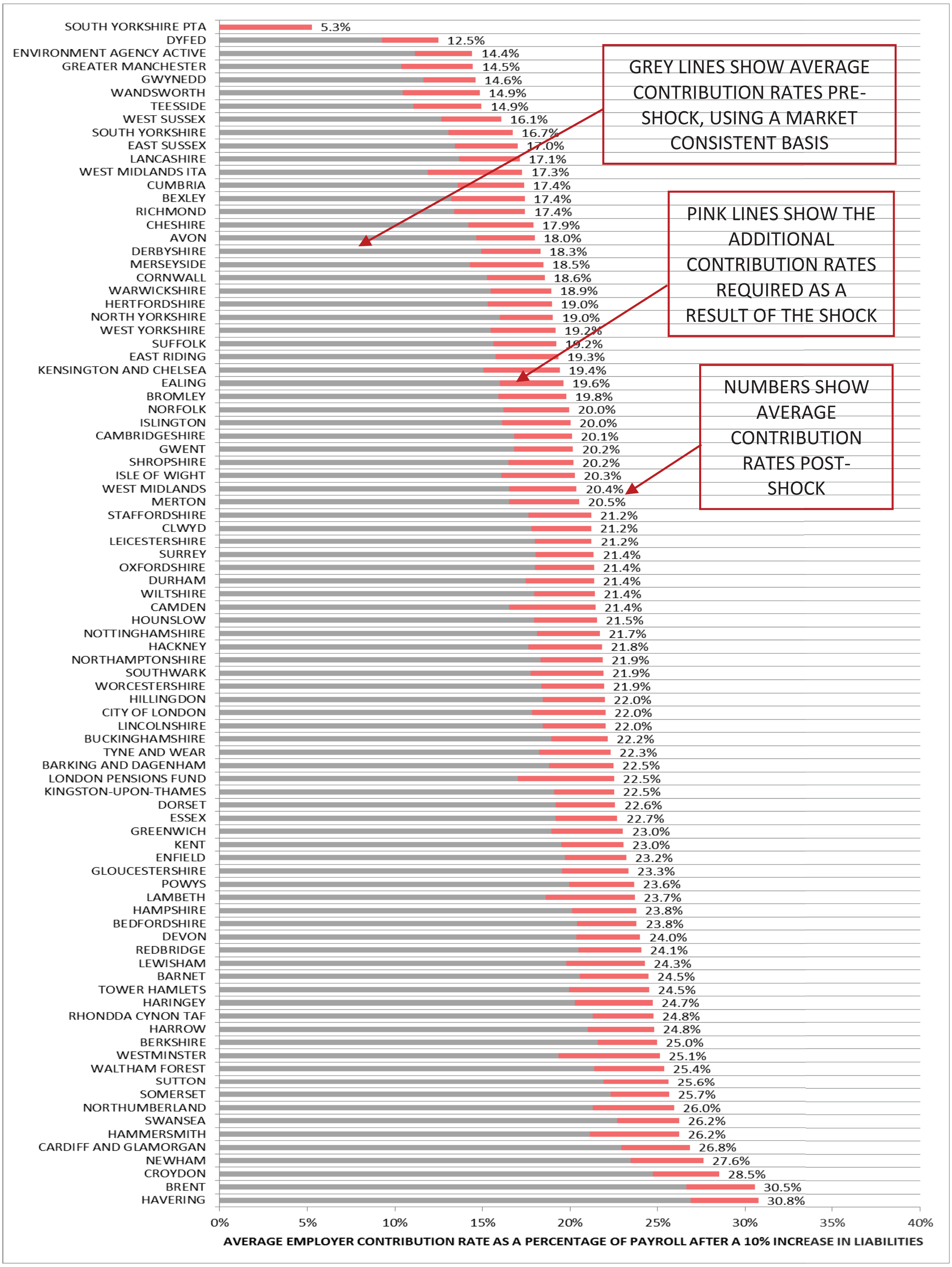
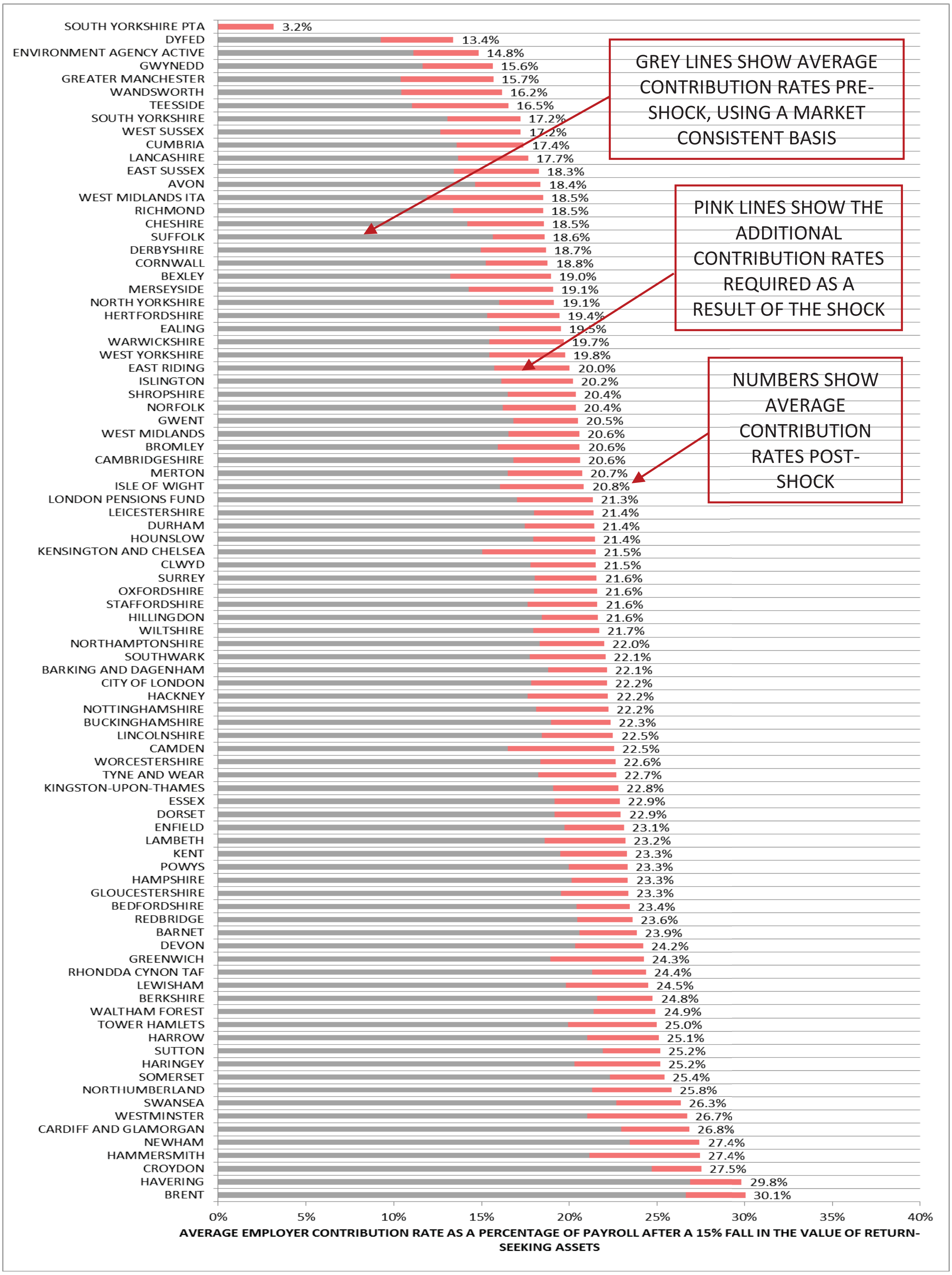


*Chart F2: **Asset shock** by fund: Average employer contribution rate as a percentage of payroll after a 15% fall in value of return seeking assets, market consistent basis.*



Appendix G: Long term cost efficiency measures – methodology

G.1 This Appendix details the methodology behind the measures used to assess a fund's long-term cost efficiency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

Deficit repaid: *The proportion of deficit paid off annually, where the deficit is calculated on a standardised market consistent basis*

G.2 This measure is based on SAB key indicator 2(i). However, as the discount rate used in the SAB standard basis is not market-related, each fund's deficit and standard contribution rate on the local fund basis have been restated on a standardised market consistent (MC) basis.

G.3 The proportion of deficit paid off annually was calculated as:

$$\frac{(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) \times Pensionable\ Salary\ roll}{Deficit\ on\ MC\ basis}$$

Where:

- The average employer contribution rate is for the year 2014/15 allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised market consistent basis, is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- The salary roll is as at 31 March 2013 and has not been adjusted.
- The deficit on the standardised market consistent basis is as at 31 March 2013.

G.4 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.5 Where appropriate this data has been restated on the standardised market consistent basis.

G.6 Funds that were in surplus or were paying off more than 5% of their deficit annually were flagged as green. Those funds paying off between 0% - 5% of their deficit were flagged as amber and if there were any funds that were actually paying contributions that would result in an increase in deficit, they would have been flagged as red.

***Deficit period:** The implied deficit recovery period calculated on a standardised market consistent basis*

G.7 This measure is based on SAB key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.

G.8 The implied deficit recovery period on the standardised market consistent basis was found by solving the following equation for x:

$$\bar{a}_x = \frac{Deficit\ on\ standardised\ MC\ basis}{Annual\ deficit\ recovery\ payment\ on\ standardised\ MC\ basis}$$

G.9 Where:

- x is the implied deficit recovery period.
- $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised market consistent basis.
- e is the general earnings inflation assumption on the standardised market consistent basis.
- The deficit on the standardised market consistent basis is as at 31 March 2013.
- The annual deficit recovery payment on the standardised market consistent basis is calculated as the difference between the average employer contribution rate for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised market consistent basis for the year 2014/15 (which is assumed to be equal to the future cost of accrual of that particular fund).

G.10 Funds that were in surplus or where the implied deficit recovery period was less than 20 years were flagged as green. Those with recovery periods greater than 20 years were flagged as amber. If there were any funds that were paying contributions as a level that would result in an increase in deficit, they would have been flagged as red.

***Required return:** The required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis*

G.11 This measure is based on SAB key indicator 4(i). However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.

G.12 The following assumptions were made for the purposes of this calculations:

- Time 0 is 31 March 2013.
- Time 20 is 31 March 2033.
- A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local fund actuaries.
- A_{20} is the value of the fund's assets at time 20.
- L_0 is the value of the fund's liabilities at time 0, and was obtained from the data provided by the local fund actuaries.
- L_{20} is the value of the fund's liabilities at time 20.
- C_0 is one year's employer contributions paid from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- $C_{0\text{-}20}$ is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- B_0 is the value of one year's benefits paid (excluding transfers) from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- $B_{0\text{-}20}$ is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- SCR_0 is the standard contribution rate payable from time 0 to time 1 and was calculated by restating the standard contribution rates on the local fund bases using the market consistent basis.
- $SCR_{0\text{-}20}$ is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local fund actuaries.
- i is the nominal discount rate assumption on the standardised market consistent basis.
- e is the general earnings assumption on the standardised market consistent basis.
- x is the required investment return that is to be calculated.

G.13 The membership profile is assumed to be constant.

G.14 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \times (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+i)^{10}]$
- $C_{0-20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0-20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

G.15 Given the assumptions and simplifications made in the above calculations, the use of the contribution income and benefit payments from the 2014/15 SF3 data is not likely to have a material impact on the results.

G.16 Funds where the required investment return was higher than the nominal discount rate on the standardised market consistent basis (i.e. i where i = 5.92%) were classified as amber, whereas funds were classified as green if the required return was less than i.

Repayment shortfall: *The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis*

G.17 This measure extends the deficit period measure. We calculate the required annual deficit recovery contribution rate on a standardised market consistent basis to pay off the deficit in 20 years' time, and then work out the difference between the actual deficit recovery contribution rate and this rate.

G.18 The 20 year deficit recovery period is based on the SAB key indicator 4(i).

G.19 The required annual deficit recovery contribution rate to be paid on a standardised market consistent basis is equal to:

$$\frac{Deficit\ on\ standardised\ market\ consistent\ basis}{\bar{a}_{20}\ \times Salary\ roll}$$

Where:

- The deficit on the standardised market consistent basis is as at 31 March 2013.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised market consistent basis.

- e is the general earnings inflation assumption on the standardised market consistent basis.
- The salary roll is as at 31 March 2013 and has not been adjusted.

G.20 The difference in deficit recovery contribution rates is then defined as:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) - \frac{Deficit\ on\ MC\ basis}{\bar{a}_{20}\ \times Salary\ roll}$$

Where:

- The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed ((i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.21 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.22 Where appropriate these data has been restated on the standardised market consistent basis.

G.23 Funds where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds are flagged as amber. If the difference in deficit recovery contribution rates is less than -3%, then the fund is flagged as red.

Repayment pace: *The amount of deficit paid off over each future valuation period, as a proportion of the deficit disclosed at the last valuation, and the number of years required to pay off 50% of the value of the original deficit, where the deficit calculations are carried out on a standardised market consistent basis*

G.24 The data required to calculate this measure was not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.

G.25 This first part of this measure is similar to deficit repaid, whilst the second part of this measure is similar to deficit period. Both calculations will need to be carried out on the standardised market consistent basis.

G.26 Part one requires funds to set out what proportion of the deficit they intend to pay off in each of the future valuation periods. Part two requires funds to set out the point in time when they would pay off 50% of the value of the original deficit.

Return scope: *The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained*

G.27 This measure is based on SAB key indicator 4(ii).

G.28 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2013.

G.29 The asset data used in this calculation was provided by each fund's respective fund actuary.

G.30 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% were flagged as amber, whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

Deficit extension: *The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation*

G.31 This measure compares the deficit recovery periods as at 31 March 2010 and 31 March 2013, using the data provided by each fund's actuary.

G.32 Funds where the deficit recovery period had increased by more than 6 years were flagged as red, where the deficit recovery period had increased by less than 6 years were flagged as amber and where there was no change or the deficit recovery period was shorter in 2013 were flagged as green.

Interest cover: *A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis*

G.33 This measure was triggered if the following inequality did not hold true:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) \times Sal\ roll > Deficit\ on\ MC\ basis\ \times i$$

Where:

- The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

- The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- The salary roll is as at 31 March 2013 and has not been adjusted.
- The deficit on the standardised market consistent basis is as at 31 March 2013.
- i is the nominal interest rate assumption on the standardised market consistent basis.

G.34 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.35 Where appropriate these data have been restated on the standardised market consistent basis.

G.36 Funds that paid sufficient annual deficit recovery contributions to cover the annual interest payable on the deficit were flagged as green, whilst those that did not were flagged as red.

Deficit reconciliation: *Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience*

G.37 The data required to calculate this measure were not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.

G.38 This measure will be used to monitor the change in the length of the deficit recovery period set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

G.39 For example, if a fund's deficit recovery period has increased from the value calculated in the previous valuation, was this due to the fund not paying sufficient deficit recovery contributions over the inter-valuation period, or was this due unfavourable demographic experience, such as increasing longevity.

Surplus retention: *Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.*

G.40 Note that all the funds that were in surplus on the market consistent basis were paying sufficient contributions to cover ongoing accrual of benefits on that basis.

G.41 This measure has therefore been excluded from our tables of long term cost efficiency measures for the purposes of the LGPS England and Wales Section 13 Dry Run Report as no funds triggered an amber or red flag.

G.42 This measure looks at the funding level of the funds that were in surplus on the standardised market consistent basis.

G.43 The fund would be need to pay sufficient contributions after allowing for future costs of accrual, such that:

$$Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis > 0$$

Where:

> The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

> The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.44 The data required for each of the funds to carry out the above calculation were provided by their respective fund actuaries.

G.45 Where appropriate these data have been restated on the standardised market consistent basis.

Appendix H: Long term cost efficiency measures – by fund

Table H1: Long term cost efficiency measures by fund

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
AVON	5.9 (82)	>50%	1	2%	16%	4.3%	-3	Yes
BARKING AND DAGENHAM	6.5 (45)	18%	6	3%	9%	2.5%	0	Yes
BARNET	6.8 (31)	15%	7	3%	9%	2.2%	0	Yes
BEDFORDSHIRE	5.9 (76)	11%	9	4%	6%	1.8%	0	Yes
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BEXLEY	7.4 (14)	IN SURPLUS	IN SURPLUS	4%	7%	2.5%	0	Yes
BRENT	6.9 (28)	9%	12	4%	6%	2.3%	-3	Yes
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
BUCKINGHAMSHIRE	5.6 (87)	8%	13	5%	2%	1.2%	-3	Yes
CAMBRIDGESHIRE	5.8 (83)	18%	6	4%	5%	2.1%	0	Yes
CAMDEN	8.6 (7)	43%	2	3%	14%	3.2%	0	Yes
CARDIFF AND GLAMORGAN	6.8 (32)	9%	13	5%	3%	0.9%	-2	Yes
CHESHIRE	6.5 (41)	>50%	0	2%	14%	3.9%	0	Yes
CITY OF LONDON	7.3 (18)	7%	15	5%	1%	0.8%	0	Yes
CLWYD	6 (73)	17%	6	3%	8%	2.7%	-2	Yes
CORNWALL	5.8 (84)	>50%	2	3%	9%	2.4%	0	Yes
CROYDON	6.7 (37)	8%	14	5%	3%	1.2%	-2	Yes
CUMBRIA	6.7 (38)	>50%	0	2%	19%	3.7%	-3	Yes
DERBYSHIRE	5.9 (77)	>50%	0	4%	7%	1.7%	0	Yes
DEVON	6.4 (48)	7%	15	5%	2%	0.6%	-5	Yes
DORSET	6 (74)	8%	15	5%	1%	0.8%	0	Yes
DURHAM	6.9 (27)	16%	6	4%	7%	1.5%	-1	Yes
DYFED	5.6 (88)	IN SURPLUS	IN SURPLUS	3%	7%	3.0%	0	Yes
EALING	6.3 (53)	20%	5	4%	8%	2.0%	-3	Yes
EAST RIDING	6.3 (55)	>50%	2	3%	10%	2.6%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
EAST SUSSEX	6.3 (52)	IN SURPLUS	IN SURPLUS	3%	9%	3.2%	0	Yes
ENFIELD	6.1 (66)	12%	9	5%	4%	0.7%	0	Yes
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
ESSEX	6.2 (65)	14%	8	4%	6%	2.1%	0	Yes
GLOUCESTERSHIRE	6.7 (36)	19%	6	3%	10%	2.9%	0	Yes
GREATER MANCHESTER	7.2 (22)	IN SURPLUS	IN SURPLUS	2%	8%	3.7%	0	Yes
GREENWICH	7.2 (21)	8%	13	5%	2%	1.2%	0	Yes
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
GWYNEDD	5.2 (90)	IN SURPLUS	IN SURPLUS	2%	10%	3.8%	0	Yes
HACKNEY	7.4 (15)	40%	3	1%	19%	5.4%	-2	Yes
HAMMERSMITH	8.9 (6)	9%	12	5%	4%	1.0%	-3	Yes
HAMPSHIRE	6.4 (50)	9%	12	5%	3%	0.6%	-3	Yes
HARINGEY	7.8 (11)	14%	7	4%	7%	1.8%	0	Yes
HARROW	6.6 (39)	9%	12	5%	3%	1.0%	0	Yes
HAVERING	6.8 (34)	8%	14	4%	3%	1.4%	0	Yes
HERTFORDSHIRE	6.4 (49)	>50%	1	3%	11%	2.9%	0	Yes
HILLINGDON	6.2 (64)	12%	9	4%	4%	1.3%	0	Yes
HOUNSLOW	6.3 (58)	12%	9	5%	5%	1.1%	0	Yes
ISLE OF WIGHT	7.4 (16)	>50%	2	4%	9%	2.4%	0	Yes
ISLINGTON	6.8 (30)	18%	6	4%	8%	1.8%	-3	Yes
KENSINGTON AND CHELSEA	7.7 (13)	IN SURPLUS	IN SURPLUS	4%	7%	2.1%	-3	Yes
KENT	6.2 (63)	11%	10	5%	5%	1.5%	0	Yes
KINGSTON-UPON-THAMES	6.1 (71)	19%	5	3%	8%	3.0%	0	Yes
LAMBETH	8.9 (5)	30%	3	2%	17%	3.6%	0	Yes
LANCASHIRE	6.1 (70)	>50%	2	4%	10%	1.9%	0	Yes
LEICESTERSHIRE	5.7 (86)	13%	8	5%	4%	1.5%	0	Yes
LEWISHAM	7.8 (10)	11%	9	5%	4%	1.3%	0	Yes
LINCOLNSHIRE	6.3 (56)	14%	8	4%	5%	1.9%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
LONDON PENSIONS FUND	9.6 (4)	48%	2	2%	20%	4.0%	-3	Yes
MERSEYSIDE	7.3 (17)	>50%	1	1%	24%	4.9%	-3	Yes
MERTON	7.1 (25)	>50%	1	1%	20%	5.2%	-3	Yes
NEWHAM	7.3 (19)	10%	11	4%	6%	2.1%	0	Yes
NORFOLK	6.6 (40)	33%	3	4%	9%	2.4%	0	Yes
NORTH YORKSHIRE	5.3 (89)	27%	4	3%	10%	2.6%	-3	Yes
NORTHAMPTONSHIRE	6.2 (60)	20%	5	4%	9%	2.4%	0	Yes
NORTHUMBERLAND	8.2 (8)	14%	8	4%	7%	1.4%	-3	Yes
NOTTINGHAMSHIRE	6.3 (54)	10%	10	5%	3%	1.2%	0	Yes
OXFORDSHIRE	5.9 (75)	12%	9	4%	4%	1.5%	0	Yes
POWYS	6.4 (46)	12%	9	4%	6%	1.3%	0	Yes
REDBRIDGE	6.3 (51)	13%	8	4%	5%	1.5%	0	Yes
RHONDDA CYNON TAF	6.1 (68)	11%	10	5%	6%	1.3%	0	Yes
RICHMOND	7.1 (24)	IN SURPLUS	IN SURPLUS	3%	13%	3.1%	0	Yes
SHROPSHIRE	6.5 (43)	17%	6	4%	6%	1.6%	0	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
SOUTH YORKSHIRE	6.4 (47)	>50%	1	2%	17%	3.7%	-3	Yes
SOUTH YORKSHIRE PTA	25.2 (1)	IN SURPLUS	IN SURPLUS	N/A	11%	N/A	N/A	Yes
SOUTHWARK	7.3 (20)	17%	6	4%	7%	2.0%	-3	Yes
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
SUFFOLK	6.2 (62)	>50%	1	2%	13%	2.9%	0	Yes
SURREY	5.9 (81)	22%	5	3%	9%	3.0%	0	Yes
SUTTON	6.5 (42)	11%	10	4%	5%	1.4%	0	Yes
SWANSEA	6.2 (61)	10%	10	4%	4%	1.6%	0	Yes
TEESSIDE	6.8 (29)	IN SURPLUS	IN SURPLUS	5%	3%	1.3%	-3	Yes
TOWER HAMLETS	8.1 (9)	22%	5	3%	11%	3.4%	0	Yes
TYNE AND WEAR	7.1 (23)	22%	5	4%	10%	2.2%	0	Yes
WALTHAM FOREST	7 (26)	11%	9	3%	10%	2.4%	0	Yes

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
WANDSWORTH	7.7 (12)	IN SURPLUS	IN SURPLUS	4%	9%	2.3%	-3	Yes
WARWICKSHIRE	6.1 (67)	40%	3	4%	7%	2.4%	0	Yes
WEST MIDLANDS	6.8 (35)	19%	6	4%	8%	2.0%	-3	Yes
WEST MIDLANDS ITA	25.1 (2)	IN SURPLUS	IN SURPLUS	N/A	45%	N/A	N/A	Yes
WEST SUSSEX	6 (72)	IN SURPLUS	IN SURPLUS	3%	9%	2.9%	0	Yes
WEST YORKSHIRE	6.5 (44)	44%	2	5%	2%	0.7%	0	Yes
WESTMINSTER	10.1 (3)	8%	15	5%	3%	0.9%	-5	Yes
WILTSHIRE	6.1 (69)	17%	6	4%	6%	2.1%	0	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Notes:

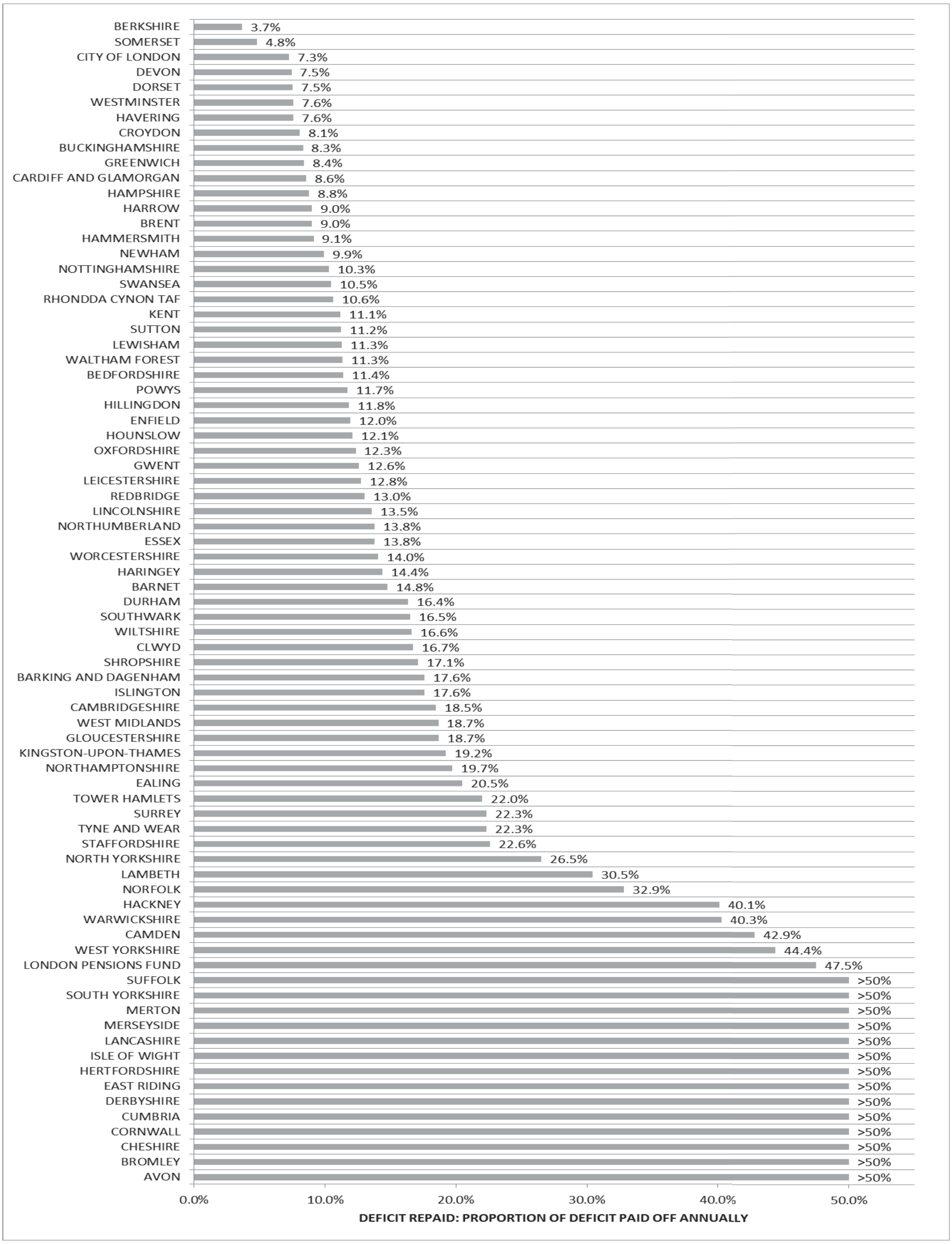
The liability value and salary roll figures in the maturity indicator are as at 31 March 2013. The liability value was calculated on the standardised market consistent basis.

The ‘Required Return’ and ‘Return Scope’ measures were not calculated for South Yorkshire PTA and West Midlands ITA as these are closed funds. They were also not calculated for the Environment Agency Open fund as the DCLG SF3 statistics did not contain data for the fund.

The ‘Deficit Extension’ measure was not calculated for South Yorkshire PTA and West Midlands ITA as information on deficit recovery periods was not available.

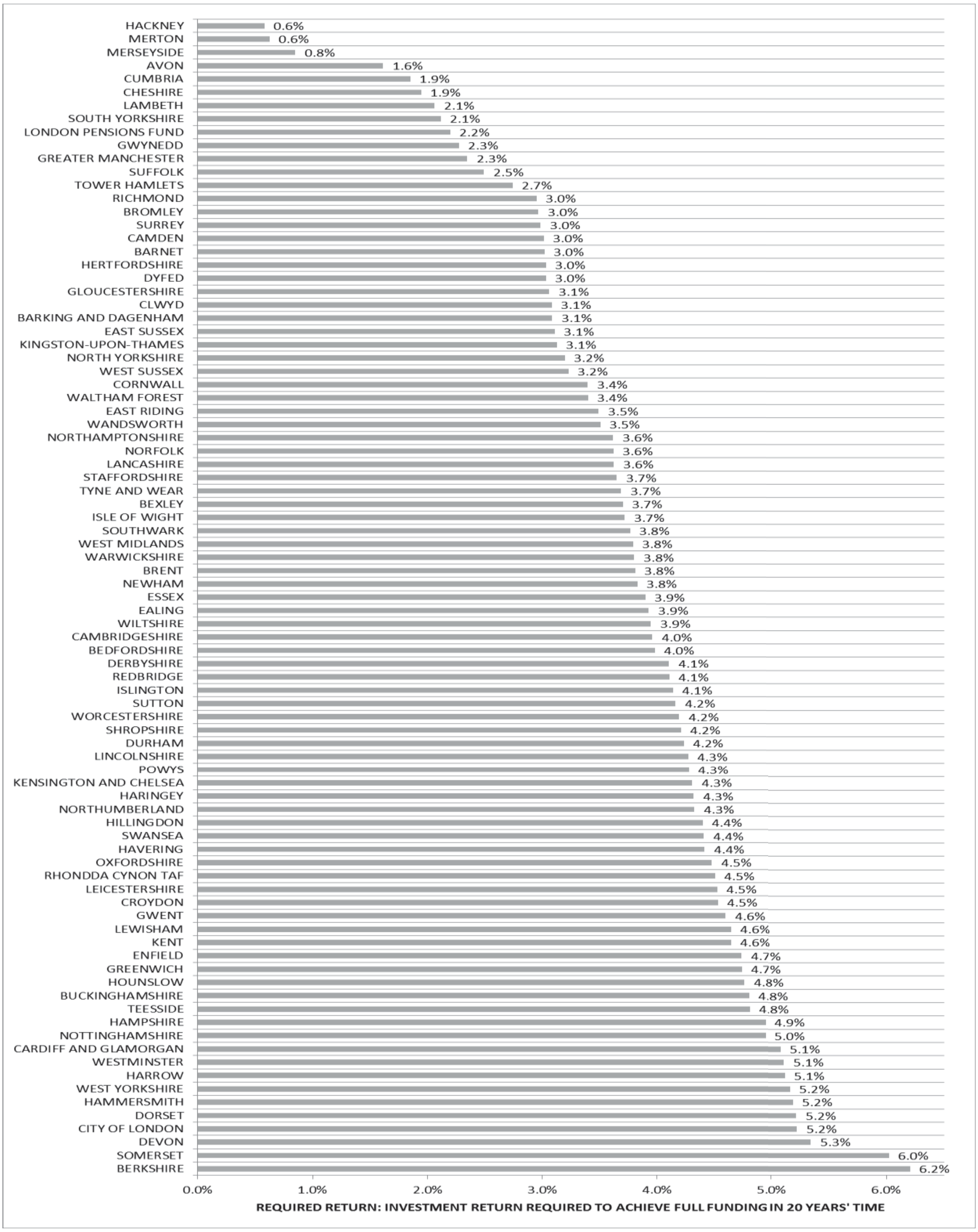
The following charts provide a graphical representation of the ‘Deficit Repaid’ and ‘Required Return’ measures.

*Chart H1: **Deficit Repaid** by fund: The proportion of deficit paid off annually.*



Note: Funds in surplus have been excluded.

*Chart H2: **Required Return** by fund: The investment return required to achieve full funding in 20 years' time.*



Note: Neither closed funds nor the Environment Agency Active fund were assessed under this measure.

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Brent	**Pensions Fund Sub-Committee** 08 November 2016 **Report from the Chief Finance Officer**
For Decision-Making	Wards affected: ALL
Triennial Review	

1. INTRODUCTION

1.1 This paper updates members on the progress in the Triennial Review, informs them about the next stages. It also requests that members approve the draft FSS (Funding Strategy Statement) for consultation and that members delegate to officers to fine-tune items within the FSS with regard to the individual employers. The paper also requests that members delegate the decision on the Council contribution rate once the Monte Carlo modelling is complete.

2. RECOMMENDATIONS

2.1 Note the update on the Triennial Review process

2.2 Note the results of the Triennial Valuation – whole fund results.

2.3 Agree the Current Draft of the Funding Strategy Statement (FSS) within the Restricted section.

2.4 Agree to delegate to Council Officers the completion of certain detailed elements with the Fund Actuary, when employer-level calculations become available.

2.5 Note that the FSS will be consulted with employers as required by LGPS Regulations.

2.6 Note that this FSS will come back to this Committee for formal ratification after consultation has ended.

2.7 Agree to delegate to the Chief Finance Officer the decision on Council contribution rate with the Fund Actuary using this modelling and the principles of the FSS.

DETAILS

3.1 The Triennial Review ends with the setting of the contribution rates of the various employers for the period 2017/18 through 2019/20. Its key document is the Funding Strategy Statement that sets out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately.

3.2 The production of Whole Fund results that identifies the Pension Fund's overall funding level has been delayed by various data quality problems. There have been particular problems with data quality in smaller admitted bodies. A post-mortem will be carried out and this will be reviewed by the Pensions Board in early 2017 to ensure lessons are learned.

3.3 The Whole Fund results look at the overall funding level. Various employers will have different funding levels based on contribution rates in the past. Some will also have very different levels of risks, such as smaller bodies with no guarantee are a high risk whereas academies are guaranteed in effect by the Department of Education. Brent Council, as by far the largest element in the Fund has a funding level broadly consistent with the overall fund.

3.4 The Funding Strategy Statement is necessary because employee benefits are guaranteed by LGPS regulation. The FSS includes the time-frame through which the Pension Fund will expected to become fully-funded by the various type of employers and expectations around guarantees. The statement further explains how the Pension Fund measures its liabilities, its approach to affording to pay for them and how it complies with regulatory requirements.

3.5 The next stage would be model the individual employer results. Data issues should not affect the production of this process for Brent Council but it may affect some of the smaller bodies within the Fund, as data quality issues on a few members may distort any modelling.

3.6 Hymans Robertson used an advanced Monte Carlo Modelling tool called ComPASS. The Monte Carlo method uses repeated random sampling to generate numerical results. The method sets funding objectives (e.g. 75% chance of being fully funded within 19 years) subject to various criteria. It then predicts future funding levels based on the current investment strategy and 10,000 future possible outcomes. The employer selects various possible contribution strategies in order to understand the range of options and impacts of various decisions. The goal is to balance affordability, likelihood of success and risk tolerance of the employer. Ultimately, the approach is data driven and this is why data quality and the assumptions are key to making the final decision on the contribution rate approach.

4.0 Financial Implications

4.1 Employer contributions are the single largest component in the Pension Fund's yearly cash inflow. Appropriate contribution rates by the various employers is necessary for the Pension Fund to improve its funding level.

4.2 These contribution strategies will bind the employers to differing amounts over the next three years. For many of these employers, it will significantly affect their budgetary position, therefore, it is important to have regard to affordability. This is why one reason why different employers will have different approaches to contribution rates.

5.0 Legal Implications

5.1 This is a statutory process conducted every three years that ensures the Pension Fund is both compliant with regulation and has a viable long-term funding strategy. Members are reminded to remember that their responsibility is to the Pension Fund.

5.2 The Financial Strategy Statement (FSS) is required by LGPS Regulations. The Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Conrad Hall, Chief Finance Officer, Investment and Pensions Section, Finance, on 020 8937 6528, conrad.hall@brent.gov.uk at Brent Civic Centre

Brent	**Pension Fund Sub-Committee** 8th November 2016 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity: Quarter to September 2016	

1.0 SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 2016. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) The Fund increased in value by 5.8% from £708.4m to £749.7m during the quarter 3 ended 30 September 2016. This is in addition to growth from £675.6m to £708.4m in Quarter 2.

b) Members are asked to note revised March16 and June16 asset allocation and Performance returns in Appendix 1 of this report.

2.0 RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3.0 DETAIL

3.1 Economic growth in the third quarter in the UK has been solid. This was despite the unexpected result that UK would leave the European Union, which many commentators had forecast would have a negative or significant negative impact. However, it has been hard to determine how much of that has been due to the Bank of England's actions immediately following the decision and its reduction in interest rates and the long-term position is still uncertain. There is continued market turbulence due to this uncertainty, although this has not stopped the continued growth in equities. Part of this growth is likely due to the reduction in rates and the decision to re-start quantitative easing but this growth was already underway long before that event.

3.2 Government decisions around the nature of Brexit and the nature of any deal will have a major impact on economic growth in the future. The lack of clarity around the Government's position and that businesses would be differentially impacted by the different approaches taken has made the future unusually difficult to forecast.

It is likely interest rates will cannot go much lower. This has made long-term investment returns more difficult to achieve even if in the short-term the Pension Fund has seen significant appreciation.

3.3 A full market review for the quarter ended 30 September 2016, written by the Independent Financial Adviser, is attached.

3.4 The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 September 2016 is shown below:

	Total Fund Return	Fund Benchmark Return
1 year	6.3 %	4.0%
3 years (per annum)	3.2%	5.1%
5 years (per annum)	4.3%	5.5%

3.5 It is important to note in the table below that the majority of growth in the fund has come from appreciation and this quarter has seen more than 5% return solely due to appreciation.

3.6 The Fund's position in cash has also risen to the point it now has the cash on-hand to re-allocate to its intended strategic allocation. With Capital Dynamics entering a mature stage in its portfolio and distributing large amounts of cash, this strengthens the Fund's ability to achieve this strategic goal. However, delays within the CIV have made this challenging and this issue will be dealt with in the related paper on this agenda. This does not mean that the Fund would change its strategy of generating better net returns through reducing fees by investing through the London CIV. It does mean that the Fund would seek other options in the immediate term and look at options with regards to its cash.

3.7 UK-AVIVA and YFM will be steadily returning the capital back to the Fund, as the Fund is exiting the former gradually subject to commercial market conditions and the latter is already being run round down, with the goal of maximising the return on the last three minor investments.

3.8 It is important note the following developments in the third quarter of 2016:

a) The fund received sale proceeds of £17.8m from the Aviva UK property fund, noting that the Pension Fund is pursuing its clear objectives of exiting the UK commercial property market.

b) There were Private equity distributions in the quarter of £5.5m.

c) £4.5m call payment made to Alinda Parallel III. This is the first call on payment for the new Infrastructure Fund. More cash calls are anticipated and it will use up some of the cash in the fund.

<u>Table 1: Asset allocation as at 30 September 2016 compared to the benchmark</u>

ASSET CLASS	30/06/2016 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	30/09/2016 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**87.9**	**0**	**2.7**	**90.6**	**12.1**	**15.0**	**-2.9**
Equities							
UK - L&G	91.5	0	7.2	98.7	13.2		
UK Smaller Cos - Henderson	23.3	0	4	27.3	3.6		
Overseas Developed - L&G	218.3	0	18	236.3	31.5		
Equities - Total	**333.1**	**0**	**29.2**	**362.3**	**48.3**	**45.0**	**3.3**
Diversified Growth Baillie Gifford	**69.1**	**0**	**3.2**	**72.3**	**9.6**	**21.0**	**-11.4**
Property							
UK - AVIVA	35.5	-17.8	-1	16.7	2.2		
Europe - AVIVA	3.9	-0.5	0.3	3.7	0.5		
Property - Total	**39.4**	**-18.3**	**-0.7**	**20.4**	**2.7**	**0.0**	**2.7**
Private Equity							
Capital Dynamics	85.7	-5.6	3.2	83.3	11.1		
Yorkshire	0.6	0	0	0.6	0.1		
Private Equity Total	**86.3**	**-5.6**	**3.2**	**83.9**	**11.2**	**10.0**	**1.2**
Infrastructure							
Alinda	34.7	4.5	1	40.2	5.4		
Capital Dynamics	11.3	-0.4	0.3	11.2	1.5		
Infrastructure Total	**46**	**4.1**	**1.3**	**51.4**	**6.9**	**8.0**	**-1.1**
Cash							
In-House/Northern Trust	**46.6**	**22.2**	**0.0**	**68.8**	**9.2**	**1.0**	**8.2**
Grand Total	**708.4**	**2.4**	**38.9**	**749.7**	**100.0**	**100.0**	**0.0**

3.9 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 September 2016.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS								Benchmark/ Index Description
	Qtr Ending 30/06/16				Qtr Ending 30/09/16				
	Fund %	Benchmark %	Relative Return %	WM Local Auth	Fund %	Benchmark %	Relative Return %		
Fixed Income									
Henderson Total Return Bond Fund	1.6	0.1	1.5	0.8	3.0	0.1	2.9		Absolute Return 6% pa
Equities									
UK - Legal & General	4.7	4.7	0.0	-0.4	7.8	7.8	0.0		FTSE All Share
UK - Small Companies Henderson	-11.7	-4.1	-7.6	*	17.1	12.8	4.3		FTSE Small Cap
O'seas Developed - Legal & General	8.9	8.9	0.0	2.4	8.3	8.3	0.0		FTSE Dev World ex UK
Property									
Aviva Investors	-3.2	0.1	-3.3	*1.6*	-2.4	0.1	-2.5		IPD All Properties Index
Private Equity									
Capital Dynamics	*	*	*	*	*	*	*		Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*	*	*	*	*		Absolute Return 8% pa
Infrastructure									
Alinda Capital Partners	9.0	1.9	7.1	4.8	2.7	1.9	0.8		Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	*		Absolute Return 8% pa
Pooled Multi Asset									
Baillie Gifford	0.5	0.9	-0.4	0.3	4.7	1.0	3.7		Base Rate + 3.5% pa
Cash	0	0.1		*	0	0.1			Base Rate
Total	4.3	4	0.3		5.5	5.1	0.4		

3.10 As you will note above, there have been varying levels of performance. Henderson Bond Fund has performed above the benchmark in the last 6 months but this is counter-balanced by the fact it has generally under-performed as an investment. Legal & General have performed at the market rate of return because they are tracker funds. Henderson Small-caps has performed slightly below the benchmark but it is volatile and overall, as a sector, it has performed well, therefore it is not an area of concern. Aviva has under-performed but the Pension Fund is getting out of commercial property. YFM and Capital Dynamics are not compared in this manner because they are private equity. This is planned to be rectified and officers are seeking to find an alternative comparison methodology. Alinda's Infrastructure investment has done very well in large part because it is primarily denominated in American dollars and this has appreciated versus the UK pound. Baillie Gifford has continued its indifferent returns and officers are reviewing this closely. As cash is not invested, the return is under the market rate and there is a separate paper on this item.

3.11 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table notes the compliance record when comparing the Fund's actual investment exposure with the Pension Fund's planned investment levels, as agreed within the FSS. There is a known problem with LGIM as the Council had limited options with regards to investments except for liquidating into cash a year ago. Members were told previously about being over-weight in passive equities in February 2016. There was a clear plan to invest through the CIV and this was anticipated to be a short-term issue.

3.12 Members may be concerned about this compliance issue as the London CIV timetable has been significantly delayed. This is why officers are pursuing alternative options, as will be explained within the paper on the London CIV and it is intended that investment decisions will made in the New Year to address this item. At the time of the investment, this was a less compliance issue but the passive equities have performed exceptionally well over the last year and their percentage within the Fund has grown.

Table 3: Compliance with Investment limits as noted within the FSS

Investment	Planned Limits	Actual exposure at 30 September 2016	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	44%	No
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	19%	Yes

3.13 Outstanding contractual commitments:

Table 4: The outstanding contractual commitments on existing investments

	31 Mar 2016 £'000	30 June 2016 £'000	30 Sep 2016 £'000
Capital Dynamics	23,260	20,819	21,389
Alinda	21,641	23,540	19,405
Yorkshire Fund Managers	0	0	0
Total	**44,901**	**44,359**	**40,794**

These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

4. FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

8.1 Henderson Investors – September 2016 quarterly report
Legal & General – September 2016 quarterly report
Northern Trust Performance Report September 2016

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact Gareth Robinson in the Investment and Pensions Section, on 020 8937 6567 at Brent Civic Centre.

Appendix 1

Revised Asset allocation as at 31 March 2016 compared to the benchmark

ASSET CLASS	31/12/2015 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/03/2016 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)	WM LA Average (%)
Fixed Income								
Henderson-Total Return Bond Fund	**86.4**	**0**	**0.1**	**86.5**	**12.8**	**15.0**	**-2.2**	**16.3**
Equities								
UK - L&G	87.7	0	-0.4	87.3	12.9			
UK Smaller Cos - Henderson	26.7	0	-0.4	26.3	3.9			
Overseas Developed - L&G	195.5	0	5.1	200.6	29.7			
Equities - Total	**309.9**	**0**	**4.3**	**314.2**	**46.5**	**45.0**	**1.5**	**60.1**
Diversified Growth Baillie Gifford	**68.8**	**0**	**0**	**68.8**	**10.2**	**21.0**	**-10.8**	**2.5**
Property								
UK - AVIVA	35.1	-0.8	3	37.3	5.5			
Europe - AVIVA	3.6	-0.2	0.3	3.7	0.5			
Property - Total	**38.7**	**-1**	**3.3**	**41**	**6.1**	**0.0**	**6.1**	**9.1**
Private Equity								
Capital Dynamics	84.1	-2.2	3.2	85.1	12.6			
Yorkshire	0.8	-0.2	0	0.6	0.1			
Private Equity Total	**84.9**	**-2.4**	**3.2**	**85.7**	**12.7**	**10.0**	**2.7**	**4.5**
Infrastructure								
Alinda	30.6	0	1.5	32.1	4.8			
Capital Dynamics	10.4	-0.3	0.0	10.1	1.5			
Infrastructure Total	**41.0**	**-0.3**	**1.5**	**42.2**	**6.2**	**8.0**	**-1.8**	**4.7**
Cash								
In-House	**34.8**	**2.4**	**0.0**	**37.2**	**5.5**	**1.0**	**4.5**	**2.8**
Grand Total	**664.5**	**-1.3**	**12.4**	**675.6**	**100.0**	**100.0**	**0.0**	**100.0**

Revised Investment Returns in Individual Markets 31 March 2016

Investment Category	RETURNS								Benchmark/ Index Description
	Qtr Ending 31/03/16				Qtr Ending 31/12/15				
	Fund %	Benchmark %	Relative Return %	WM Local Auth %	Fund %	Benchmark %	Relative Return %	WM Local Auth %	
Fixed Income									
Henderson Total Return Bond Fund	0.3	1.0	-0.7	0.8	0.1	1.5	-1.4	0.2	Absolute Return 6% pa
Equities									
UK - Legal & General	-0.4	-0.4	0.0	-0.4	4.0	4.0	0.0	3.7	FTSE All Share
UK - Small Companies Henderson	-1.8	-0.6	-1.2	*	2.2	2.7	-0.5	*	FTSE Small Cap
O'seas Developed - Legal & General	2.6	2.6	0.0	2.4	9.0	9.0	0.0	8.6	FTSE Dev World ex UK
Property									
Aviva Investors	*8.9*	*1.1*	*7.8*	*1.6*	2.7	3.3	-0.6	3.0	IPD All Properties Index
Private Equity									
Capital Dynamics	*	*	*	*	*	*	*	*	Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*	*	*	*	*	*	Absolute Return 8% pa
Infrastructure									
Alinda Capital Partners	4.6	1.9	2.7	4.8	4.2	1.9	2.3	0.3	Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	*	*	Absolute Return 8% pa
Pooled Multi Asset									
Baillie Gifford	-0.1	1.0	-1.1	0.3	2.5	1.0	1.5	1.0	Base Rate + 3.5% pa
Cash	*0.1*	*0.1*		*	0	0.1		*	Base Rate
Total	1.9	1.9	0.0		-2.3	-0.8	-1.5		

Revised Asset allocation as at 30 June 2016 compared to the benchmark

ASSET CLASS	31/03/2016 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	30/06/2016 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**86.5**	**0**	**1.4**	**87.9**	**12.4**	**15.0**	**-2.6**
Equities							
UK - L&G	87.3	0	4.2	91.5	12.9		
UK Smaller Cos - Henderson	26.3	0	-3	23.3	3.3		
Overseas Developed - L&G	200.6	0	17.7	218.3	30.8		
Equities - Total	**314.2**	**0**	**18.9**	**333.1**	**47.0**	**45.0**	**2.0**
Diversified Growth Baillie Gifford	**68.8**	**0**	**0.3**	**69.1**	**9.8**	**21.0**	**-11.2**
Property							
UK - AVIVA	37.3	-0.3	-1.5	35.5	5.0		
Europe - AVIVA	3.7	0	0.2	3.9	0.6		
Property - Total	**41**	**-0.3**	**-1.3**	**39.4**	**5.6**	**0.0**	**5.6**
Private Equity							
Capital Dynamics	85.1	-4.8	5.4	85.7	12.1		
Yorkshire	0.6	0	0	0.6	0.1		
Private Equity Total	**85.7**	**-4.8**	**5.4**	**86.3**	**12.2**	**10.0**	**2.2**
Infrastructure							
Alinda	32.1	-0.3	2.9	34.7	4.9		
Capital Dynamics	10.1	0	1.2	11.3	1.6		
Infrastructure Total	**42.2**	**-0.3**	**4.1**	**46**	**6.5**	**8.0**	**-1.5**
Cash							
In-House/Northern Trust	**37.2**	**9.3**	**0.1**	**46.6**	**6.6**	**1.0**	**5.6**
Grand Total	**675.6**	**3.9**	**28.9**	**708.4**	**100.0**	**100.0**	**0.0**

Revised Investment Returns in Individual Markets 30 June 2016

Investment Category	RETURNS								Benchmark/ Index Description
	Qtr Ending 31/03/16				Qtr Ending 30/06/16				
	Fund %	Benchmark %	Return %	Local Auth	Fund %	Benchmark %	Return %		
Fixed Income									
Henderson Total Return Bond Fund	0.3	1.0	-0.7	0.8	1.6	0.1	1.5		Absolute Return 6% pa
Equities									
UK - Legal & General	-0.4	-0.4	0.0	-0.4	4.7	4.7	0.0		FTSE All Share
UK - Small Companies Henderson	-1.8	-0.6	-1.2	*	-11.7	-4.1	-7.6		FTSE Small Cap
O'seas Developed - Legal & General	2.6	2.6	0.0	2.4	8.9	8.9	0.0		FTSE Dev World ex UK
Property									
Aviva Investors	*8.9*	*1.1*	*7.8*	*1.6*	-3.2	0.1	-3.3		IPD All Properties Index
Private Equity									
Capital Dynamics	*	*	*	*	*	*	*		Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*	*	*	*	*		Absolute Return 8% pa
Infrastructure									
Alinda Capital Partners	4.6	1.9	2.7	4.8	9.0	1.9	7.1		Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	*		Absolute Return 8% pa
Pooled Multi Asset									
Baillie Gifford	-0.1	1.0	-1.1	0.3	0.5	0.9	-0.4		Base Rate + 3.5% pa
Cash	*0.1*	*0.1*		*	0	0.1			Base Rate
Total	1.9	1.9	0.0		4.3	4	0.3		

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2016

17th October 2016

Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

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BRENT COUNCIL PENSION FUND

Quarterly Review, July – September 2016

Report by the Independent Financial Adviser

Economy

1. The initial estimates of the reduction in UK GDP growth due to the referendum result have been modified slightly, while still running below previous forecasts for 2016 and 2017. The US Federal Reserve has continued to delay raising interest rates, but the September decision was not unanimous, and there were hints that a rise in December was likely. (No change in rates is expected before the US Presidential Election on November 8th).

(In the table below, bracketed figures show the forecasts made in August)

Consensus real growth (%)						**Consumer prices latest (%)**
	2013	**2014**	**2015**	**2016E**	**2017E**	
UK	+1.7	+2.8	+2.3	+1.8 (+1.6)	+ 0.7	+0.6(CPI)
USA	+1.9	+2.4	+2.4	+1.5 (+1.7)	+ 2.1	+1.1
Eurozone	-0.4	+0.8	+1.5	+1.5 (+1.5)	+1.3	+0.4
Japan	+1.7	+0.3	+0.6	+0.6 (+0.5)	+ 0.9	-0.5
China	+7.7	+7.4	+6.9	+6.6 (+6.5)	+6.3	+1.3

[Source of estimates: The Economist*,* October 8th, 2016]

2. The value of the pound has continued to fall, reaching $1.30 at the end of September, but then sliding to $1.22 in mid-October on signs from the Conservative Party Conference that the government was planning to implement a 'Hard Brexit' policy.

3. The Bank of Japan has altered its method of quantitative easing (QE); its policy now is to maintain a 0% yield on the 10-year Japan Government Bond, and to target an inflation rate of 2%.

Markets

<u>Equities</u>

4. **UK equities** had a strong quarter after the Bank of England's cut in interest rates and the revival of QE, while overseas markets (notably the Pacific Rim) also gained ground, with the weakness of sterling (see para 8) amplifying these gains in £ terms.

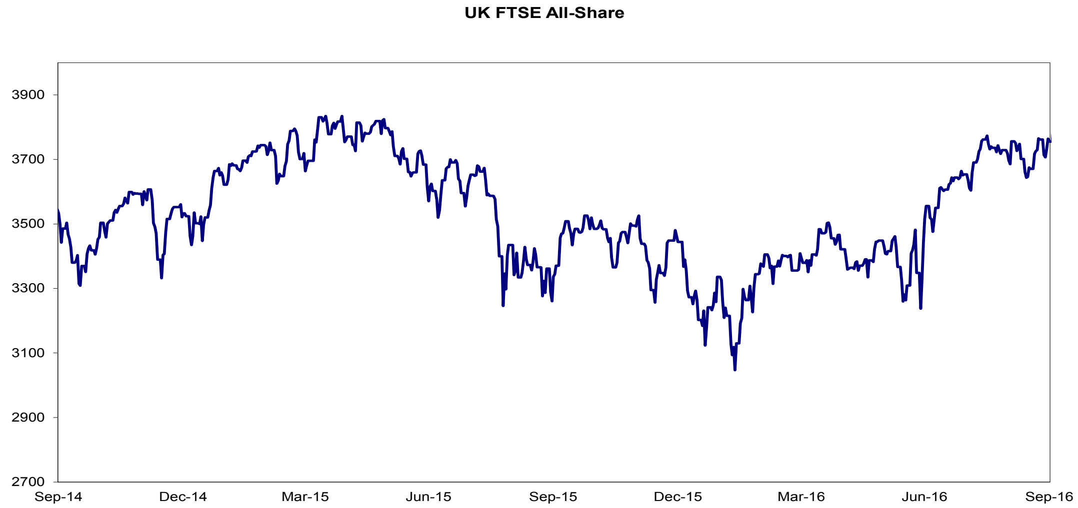
	Capital return (in £, %) to 30.9.16		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+ 7.8**	**+27.9**
55.0	FTSE All-World North America	+ 6.5	+31.2
8.5	FTSE All-World Japan	+11.1	+28.4
11.9	FTSE All-World Asia Pacific ex Japan	+11.3	+33.9
15.3	FTSE All-World Europe (ex-UK)	+ 8.7	+17.6
6.5	FTSE All-World UK	+ 6.3	+13.9
9.1	FTSE All-World Emerging Markets	+10.2	+32.6

[Source: FTSE All-World Review, September 2016]

5. The recent outperformance of the FTSE 100 Index relative to mid- and small-cap indices failed to persist in the quarter, although the 12-month returns are still showing superior performance from the large-caps.

(Capital only %, to 30.9.16)	**3 months**	**12 months**
FTSE 100	**+ 6.1**	**+13.8**
FTSE 250	**+ 9.8**	**+ 7.1**
FTSE Small Cap	**+11.3**	**+11.0**
FTSE All-Share	**+ 6.8**	**+12.6**

[Source: Financial Times]



6. Sectorally there has been an enormous change in performance during 2016. In the year 2015, Basic Materials and Oil & Gas were by far the weakest sectors, as a result of the falls in oil and raw material prices, while the more stable Health Care and Consumer Services sectors out-performed them by some 30-35% during the year. In 2016, by contrast, the recovery in commodity prices has caused gains of some 30% in Basic Materials and Oil & Gas in the first 9 months of the year, against 10-15% gains for Health Care and Consumer Services.

Capital return (in £, %) to 30.9.16		
Industry Group	**3 months**	**12 months**
Technology	+16.3	+41.1
Basic Materials	+12.4	+37.7
Industrials	+ 9.5	+34.8
Oil & Gas	+ 4.3	+33.3
Consumer Goods	+ 6.1	+29.6
FTSE All-World	**+ 7.8**	**+27.9**
Utilities	-0.6	+26.5
Telecommunications	+ 0.4	+25.8
Consumer Services	+ 6.1	+24.3
Health Care	+ 2.7	+22.3

Financials	+10.1	+18.5

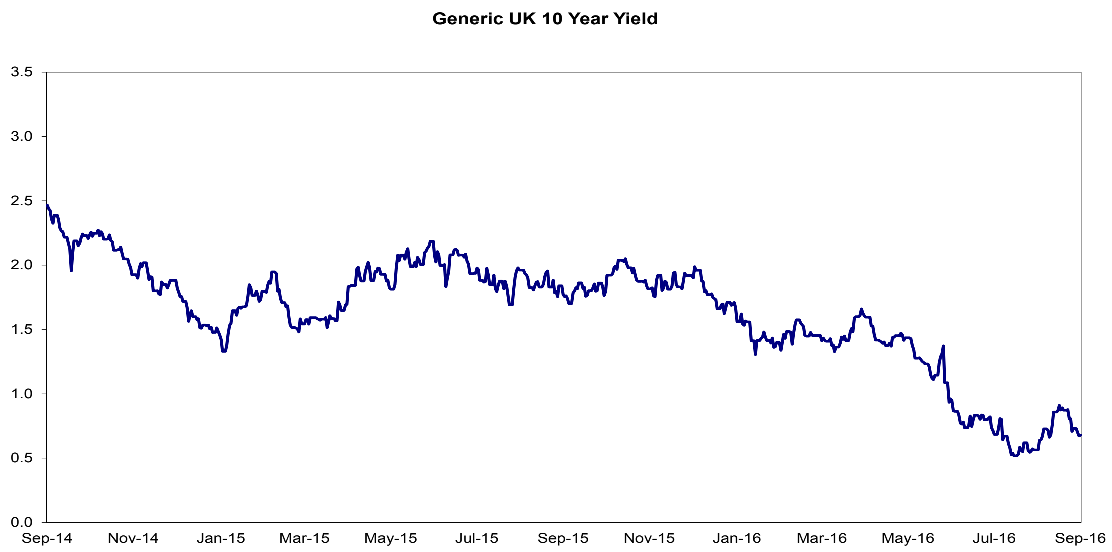
[Source: FTSE All-World Review, September 2016]

Bonds

7. **Gilts** were the only one of the major government bond markets to record significant falls in yield during the quarter, but the yield then rebounded to 1.15% by mid-October after the Governor of the Bank of England said that the Bank would tolerate higher UK inflation, possibly above the 2% target level.

10-year government bond yields (%)					
	Dec 13	**Dec 2014**	**Dec 2015**	**June 2016**	**Sept 2016**
US	3.03	2.17	2.27	1.46	1.59
UK	3.04	1.76	1.96	1.00	0.75
Germany	1.94	0.54	0.63	-0.13	-0.19
Japan	0.74	0.33	0.27	-0.23	-0.08

[Source: Financial Times]

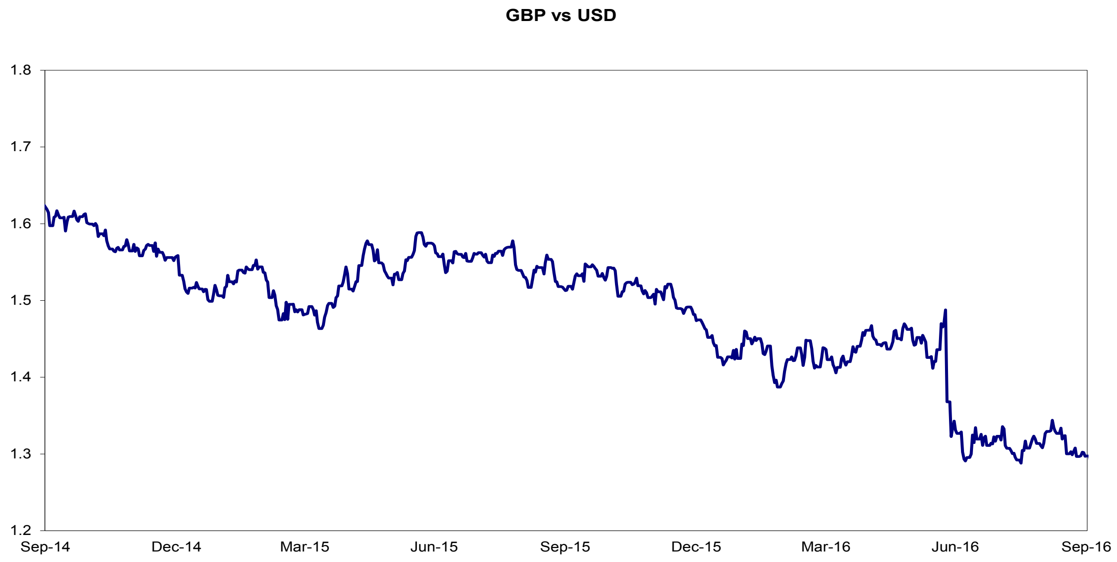


Currencies

8. After its sharp fall following the Brexit vote, the pound traded close to the $1.30 level during the quarter, but weakened to as low as $1.22 in mid-October following the rhetoric at the Conservative Party Conference.

				£ move (%)	
	30.9.15	**30.6.16**	**30.9.16**	**3m**	**12m**
$ per £	1.515	1.337	1.299	-2.8	-14.3
€ per £	1.357	1.203	1.156	-3.9	-14.8
Y per £	181.4	137.1	131.5	-4.1	-27.5

[Source: Financial Times]



Commodities

9. Oil, as measured by Brent Crude, traded in the $45-50 range during the quarter, strengthening at the end of September when it appeared that the OPEC producers had reached agreement to limit oil output to 32.5m barrels/day, although the details of how this will be implemented remain unclear. Gold moved in a narrow range, showing weakness when there were expectations of a rise in US interest rates, but recovering when the Fed deferred any rise.

Property

10. The September figures are not yet available, but the IPD Monthly Index readings for July and August show the reversal in capital values of UK commercial property since the referendum.

July (%) August

Capital	**- 2.8**	**- 0.7**
Income	**+ 0.4**	**+ 0.5**
Total Return	**- 2.3**	**- 0.2**

Outlook

11. Equity and bond markets continued to be buoyed up by the maintenance of low rates of interest globally, and by quantitative easing programmes in UK, the Eurozone and Japan. The Federal Reserve may well raise the US interest rate in December, but this would be the only rise this year – a far cry from the four rate rises predicted for 2016. Despite this monetary backdrop, economic growth for 2016 will still be slower than the previous year, and there is no great confidence that 2017 will bring any improvement in global growth.

12. The UK's decision to leave the EU has caused a 15% fall in sterling, which is likely to produce higher inflation as the cost of imported goods rises, and the translation effect hits the price of petrol. The prospect of higher inflation has begun to impact the UK bond market. If real wage growth again turns negative consumer spending will be dampened, while the outlook for UK employment may well worsen if capital spending decisions are delayed. The UK government's fiscal stance will be set out by the Chancellor in his Autumn Statement on November 23rd.

13. The US Election campaign has seen so many twists and turns that it would be unwise to forecast the result of the November 8th vote; the markets, however, would face a period of extreme uncertainty if Donald Trump were to win, in the light of his declared opposition to free trade and his isolationist rhetoric.

14. With all the foregoing uncertainties, together with the continuing crisis in Syria, it remains hard to see equity or bond markets appreciating further from current levels.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

October 17th, 2016

[All graphs supplied by Legal & General Investment Management]

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Brent	**Pensions Fund Sub-Committee** 08 November 2016 **Report from the Chief Finance Officer**
For Information Purposes	Wards affected: ALL

Update on the London CIV and the Fund's Investment Options

1. INTRODUCTION

1.1 This is an update on the London CIV and the timescales attached to making Investments within it. It also updates on challenges the CIV due to delays with on-boarding investments and selecting new managers.

2. RECOMMENDATIONS

2.1 The Committee is asked to note the following report.

3. DETAILS

3.1 The London Collective Investment Vehicle (CIV) was set up to support London Councils and their £25bn Pension Investments make better financial returns through using economies of scale to lower investment fees. Local Government Pension Schemes are required to consider investing through them and it is anticipated by December 2018 that all new investment would occur through CIVs.

3.2 This fits with the Pension Fund's intention to invest through the CIV, wherever possible to reduce unnecessary costs.

3.3 Of the 7 CIVs, the London one is the farthest ahead. Already, LGIM and Baillie Gifford have on-boarded to the CIV. The Pension Fund will achieve over £200k annual savings through investing through this pathway. There were significant delays due to trying to get the investments to pool within the ACS (Authorised Contractual Scheme).

3.4 However, the preferred ACS approach did not work for the London CIV in relation to on-boarding LGIM. LGIM reduced its fees so significantly faced as a result of the CIV negotiations that the London CIV chose to keep them out of the London CIV pool to benefit the affected Councils. This has posed a problem for the London CIV as it will not achieve some of the income that it anticipated, as its model is that it generates its funding off investments within the ACS.

3.5 Combined with the slower than anticipated delivery of new investment options within the CIV, this has led to the recognition that it would have funding problems in the short term. This led the London CIV to inform the various Pension Funds that it would need to identify additional monies over the next couple of years to pay for the operations of the CIV. The London CIV has estimated that it will need £5m to £6m in annual running costs to pay for the appropriate level of skills but it will need to pay for this prior to having the investment options to offer the various Funds.

3.6 After robust representation from members, the London CIV agreed to send out a briefing note explaining the situation in greater detail and presenting a case to the London funds for a route to covering the anticipated gap. Brent Pension Fund is awaiting this at the time of the report's writing. When it does, it will share it with members.

3.6 The London CIV has a rigorous approach in selecting managers but due to the regulations, its 'conveyor belt' of investment options will be delayed. Active Global Equities will be available by October 2017 and Fixed Income by December 2017, as shown in table below. However, there is a second route to obtaining CIV investments: buying into existing investment options that through their commonality across the London CIV partners are being on-boarded, similar to LGIM. These include other Diversified Growth Funds and Multi-Asset credit options will also made available as they are on-boarded on to the CIV. Timescales are to the latter unknown but it is likely that at least one will be on-boarded in quarter 1 and 2. This latter route may be an easier route for the Pension Fund in the immediate future as this timescale might be delayed and Brent Pension Fund will need to a number of re-allocations.

CIV Time-Scales for Investment Opportunities

Current Funds	Quarter 1 2017	Quarter 2 2017	Quarter 3 2017	Quarter 4 2017
Baillie Gifford (£72m) LGIM (£335m)	Multi-Asset Credit and other Diversified Growth Funds as they are on-boarded and become available	Multi-Asset Credit and other Diversified Growth Funds as they are on-boarded and become available	Active Equities	Fixed Income

3.7 Similarly, the Pension Fund currently has the option to invest outside the CIV if nothing appropriate is available. PRS (Private Rented Sector) is such an option. It fits the Council's strategic allocation as it straddles two classes, providing some equity return and regular cash-flow. Like multi-asset credit, it offers a lower risk profile than equity but has a better return as a class than bonds. There are a number of LGPS Funds investing in this market, especially in London and the Southeast. The Pension Fund will examine options over November and December to determine whether this an appropriate fit for the Pension Fund.

3.8 It is also important to examine where a significant number of Pension Funds share the same investment manager to examine the option to achieve economies of scale by negotiating together, preferably through on-boarding these investment assets into the London CIV. What holds true for PRS may equally hold for other classes of investment.

3.9 The Pension Fund intends to focus on bringing investment options to the Sub-Committee meeting in February, subject to availability. Completing the strategic re-allocation of the Fund is necessary to meet its long-term return targets and match its liabilities.

4.0 Financial Implications

4.1 Not Applicable as there are investment decisions held within.

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

Brent Pension Fund

Annual Report and Accounts 2015/16

Pensions Regulator Scheme Number: 10272080

\Contents

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 6,140 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 £675.9m (2014/15 £657.0).

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 is a negative cash flow position, with a net (-£0.96m) from dealing with scheme members (£1.7m previous year) due to reduction in contributing member and increase in pension beneficiaries.

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 Shafique Choudhary,
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 (as at 24th May 2016
Legal Advisers:	In-house
Custodian:	BNY Mellon transferred to Northern Trust 1st July 2015
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 52.

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 52.

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 55.

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 George Crane Cllr. Shafique Choudhary (incoming Chair)
Other Members:	Cllr Ahmad Shahzad Cllr Mary Daly Cllr Mitchell-Murray 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 Vacant (September 2015 to May 2016) Gareth Robinson, Head of Finance (starting 24th May 2016) 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 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 58.

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 stock market, 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 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	*2.3*	2.3	0.2
3 years	*4.7*	6.7	6.4
5 years	*5.3*	6.7	7.1

In absolute terms, the Fund's investment assets have achieved a return of 2.3% over the 12 months to 31 March 2016. It achieved the benchmark target of 2.3%.

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	Unavailable*	100th
3 years	Unavailable*	96th
5 years	Unavailable*	98th
10 years	Unavailable*	100th

Errors in performance figures were discovered post Year-end. They went back to the inception of the Northern Trust and continued to Quarter 2 2016. They have since been corrected. However, WM stopped producing performance comparisons mid-2016 and therefore, it was not possible to get them corrected before they stopped the contract. There has been a proposal mooted by a potential alternative provider in local government but nothing is certain as at the time of the signing of the Annual Report.

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 +2.3%, which compared to the local authority average return of 0.2%.

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 61.

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 101.

Pension Fund Accounts for 2015/16

Brent Pension Fund Account	Notes	2014/15 £'000	2015/16 £'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	Notes	31 March 2015 £'000	31 March 2016 £'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 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- the LGPS (Benefits, Membership and Contributions) Regulations 2013 (as amended)
- the LGPS (Administration) Regulations 2014 (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.mylgpspension.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.

2. Basis of preparation

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

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits 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 £129m. There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the Balance Sheet date

The EU referendum took place on the 23rd June 2016 to establish if the United Kingdom would remain or leave the EU. The vote saw the decision to leave the EU. As this took place after the 31st March 2016, there was no impact on the figures contained within the Pension Fund Accounts. However, this decision has the potential to significantly impact on future basis of assumptions, estimates and the value of investments.

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**

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments. Audit fees were £21k (23k 2014/15)

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**

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	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Pooled investments	476,369	34,150	34,779	(6,308)	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**	**17,806**	**638,051**

Investments

	Market value 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'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**	**32,134**	**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 £'000	31 March 2016 £'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**
	639,487	**638,051**

Investments analysed by fund manager

Market value

31 March 2015 £'000	%		31 March 2016 £'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	68793	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. Baillie Gifford is now managed through the London CIV under the pooling initiative.

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			Pooled investments	469,432		
37,006			Pooled property investments	39,269		
126,112			Private equity/infrastructure	129,350		
	17,080		Cash		36,184	
	1,489		Debtors		1,933	
639,487	**18,569**	**0**		**638,051**	**38,117**	**0**
			Financial Liabilities			
		(1,041)	Creditors			(231)
639,487	**18,569**	**(1,041)**	**Totals**	**638,051**	**38,117**	**(231)**

b) Net gains and losses on financial instruments

31 March 2015 £'000		31 March 2016 £'000
	Financial assets	
72,673	Fair value through profit and loss	17,806
72,673	**Total**	**17,806**

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 Carrying value £'000	31 March 2015 Fair value £'000		31 March 2016 Carrying value £'000	31 March 2016 Fair value £'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.

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	
	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	**38,117**	**508,701**	**129,350**	**676,168**
Financial liabilities				
Financial liabilities at amortised cost	(231)			(231)
Total financial liabilities	**(231)**	**0**	**0**	**(231)**
Net financial assets	**37,886**	**508,701**	**129,350**	**675,937**

Values at 31 March 2015	Quoted market price	Using observable inputs	With significant unobservable inputs	
	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	**18,604**	**513,375**	**126,112**	**658,091**
Financial liabilities				
Financial liabilities at amortised cost	(483)			(483)
Total financial liabilities	**(483)**	**0**	**0**	**(483)**
Net financial assets	**18,121**	**513,375**	**126,112**	**657,608**

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	Percentage change		Value on increase	Value on decrease
	£'000	%		£'000	£'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	Percentage change		Value on increase	Value on decrease
	£'000	%		£'000	£'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 £'000	31 March 2016 £'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	36,184	380	-380
Fixed interest securities	86,592	865	-865
Total change in assets available	**122,776**	**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	
		8%	**-8%**
	£'000	**£'000**	**£'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	
		+8%	**-8%**
	£'000	**£'000**	**£'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	136,201	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	12
Total	**1,491**	**1,400**

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 £44.9m (31 March 2015: £30.5m).

	31 March 2015 £'000	31 March 2016 £'000
Capital Dynamics	28,001	23,260
Alinda	2,517	21,641
Total	**30,518**	**44,901**

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 to the members of London Borough of Brent on the pension fund financial statements published with the Brent Pension Fund Annual Report and Accounts 2015/16.

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 16 to 49.

Respective responsibilities of the Chief Finance Officer and the auditor

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

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

In addition, we read the information given in the Brent Pension Fund Annual Report and Accounts 2015/16 to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion

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

Matters on which we are required to report by exception

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

- the information given in the Brent Pension Fund Annual Report and Accounts 2015/16 for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

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

We have nothing to report in respect of these matters.

Philip Johnstone
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30 September 2016

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.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: 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).	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members. The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.

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

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 Gareth Robinson, Investment and Pensions Manager, in the first instance at e-mail address gareth.robinson@brent.gov.uk or on mobile telephone number 07919299678.

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 – Note (f)	Administering Authority reserves the right to review contribution levels, and the level of any specific security provided by the employer to the Fund, at regular intervals between valuations					Particularly reviewed in last 3 years of contract

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.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
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.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. 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.
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.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	**Summary of Control Mechanisms**
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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.	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments.	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). 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.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.

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

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

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. **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 (Deloittes) 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**
To ensure that fund is informed of any changes in circumstances of employees Status : • Change of name • Marital Status • NI Number Conditions of Service: • Contractual hours • Pensionable Pay • Contribution Rate • Department and payroll number • Date joined scheme Absence : • 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 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.	To notify member of their 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 31st 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.

Brent	**Pension Fund Sub-Committee** 08 November 2016 **Report from the Chief Finance Officer**
For Decision-Making	Wards affected: ALL

Short Term Cash Investment

1.0 Summary

1.1 The purpose of this report is to address the challenge of having large cash balances on-hand awaiting investment decisions, achieving very low or nil returns, while being placed with a single bank. It will also allow the Pension Fund to be able to invest short-term quickly and reduce the risk of having up to 10% of the Fund at risk due to being held by a single bank.

2.0 Recommendations

2.1 The Pension Fund Sub-Committee agrees that the Pension Fund makes use of the Treasury Management function to make short-term investments and utilises Brent Council's existing framework to protect the cash.

2.2 The Committee delegates to the Chief Finance Officer responsibility for short-term cash investment decisions.

3.0 Detail

3.1 The Pension Fund has higher than anticipated cash balances. This is due to delays within the Collective Investment Vehicle (CIV) through which it plans to invest the majority of its funds in the near future. While the Pension Fund may consider its options if an appropriate investment becomes available externally, preferably one that shows a strong likelihood of being on-boarded into the CIV, this does not tackle the short-term issue of investing excess cash. This is why the Pension Fund wants to make use of the existing Treasury Management facility within the Council to ensure this short-term cash issue is dealt within appropriately.

3.2 The Pension Fund has a long-term horizon and focusses on making long-term investments and so inevitably will have periods of strategic re-allocation when large amounts of cash are held. The current 1% strategic allocation into cash refers solely to the long-term allocation of the Pension Fund. It does not reflect the short-term cash that may be held temporarily and that needs to be protected in order to pay for long-term investments.

3.3 While the Pension Fund seeks long-term returns and therefore anticipates higher levels of risk than the Council, it is important to make decisions for the long-term and not incur unnecessary transaction costs. Moving in and out of investments would be very expensive as entry and exit fees can be over a 1% of the value of the investment in instances. The Pension Fund expects to be in individual investments potentially for over a decade and so transaction costs are a fairly minor item in this timespan but not over a few months while waiting for appropriate investments to become available. Investing in equity choices outside the CIV would not benefit the Pension Fund as much as inside the CIV in most instances due to the fee savings that could be generated from economies of scale.

3.4 The Pension Fund anticipates making significant investments following the next three Pension Fund sub-committees, as this links to the current up-dated time-scales of the options highlighted within the briefing paper on the CIV. Therefore, holding cash in the short-term makes sense but it is important to invest it to protect the principal and generate a return when possible.

3.5 It is important that the Pension Fund has a robust approach to protecting its principal in such short-term investments. The Council has an existing Treasury Management strategy that is prudent and low-risk. It also has an existing framework and set of processes to manage such risk, therefore, this should protect the Pension Fund.

3.6 The Pension Fund will still consider investing with the Debt Management Office as that is currently very low risk but very low return, as that may the most appropriate option in many circumstances. However, with the cost of loaning out to appropriate bodies being covered within existing arrangements and an existing Treasury Management Strategy to manage risk, there is no reason that the Pension Fund cannot obtain some return from its short-term cash position. Particularly, with the inevitable re-alignment of the Pension Fund to achieve its strategic allocation target, there may be more cash on-hand than normal and a small rate on a large amount of cash even for a short period of time should produce a meaningful amount of interest.

3.7 This change would produce more benefit the Pension Fund more in a high interest environment. While that does not appear to be immediately likely, this option is another tool available to the Pension Fund.

3.8 As the Pension Fund would not be investing its monies in Brent Council but rather making use of Brent Council's existing Treasury function to loan its funds to other organisations, there is no anticipated increase in cost to the

Pension Fund nor conflict of interest.

3.9 Currently, the Pension Fund anticipates making loans via Brent's Treasury Function and being the sole owner of loans. As such, any risk would be borne directly by the Pension Fund.

3.10 An alternative option would be to loan to the Council and take a share of the interest from the shared amount of monies invested, this would change how risk was managed. Potentially, this would be simpler but it would mean that the Pension Fund would take a corresponding share of risk.

3.11 In such an instance, the risk would be shared in all investments on a straight-line basis relative to the size of the differing investment shares.

3.12 The first option of investing directly is preferred as it keeps the Council and the Pension Fund cash clearly separate. It is entirely conceivable that the Pension Fund might simply use the Treasury Management function to deposit its funds with the Debt Management Office, if rates dropped any lower.

4.0 Financial Implications

4.1 The Financial Implications are that the Pension Fund will benefit from the ability to invest short-term amounts of cash quickly at low risk, as the Council's policy to protect the principal rather than to generate significant returns.

4.2 Reduction of risk is dealt within the main body of the report.

4.3 There is no additional anticipated cost to using this facility as this is currently covered by the current charge to the Pension Fund for use of officer time.

5.0 Legal Implications

5.1 There are no direct legal implications from expanding the use of an existing relationship with the Council to invest directly in short-term investment with low risk profiles. As the risk is taken by the Pension Fund and the Treasury Management function solely its agent, the roles and responsibilities remain separate.

5.2 Choosing to invest through the Council by loaning it money to invest on its behalf would change the nature of the relationship between the entities. It would be necessary to agree a formal legal arrangement between the two legally separate bodies that came to an agreement on risk-sharing. Further legal advice would be needed if the Pension Fund chose the option detailed in 3.10 and 3.11.

6.0 Diversity Implications

6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 Not applicable.

Background Papers

Brent Council Treasury Management Strategy (February 2016)

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, on 020 8937 6567, Gareth.Robinson at Brent Civic Centre

MINUTES OF THE PENSION BOARD
Wednesday 27 July 2016 at 7.00 pm

PRESENT: David Ewart (Chair), Councillor Kabir, Trevor Dawson and Euton Stewart

1. **Apologies for absence**

   Received from Angela Cattermole and Bola George (Francesca Hammond attended in her place).

2. **Declarations of interests**

   The Chair declared that he was a member of the London Borough of Ealing pension fund.

3. **Minutes of the previous meeting**

   RESOLVED:

   that the minutes of the meeting held on 2 February 2016 be approved as an accurate record of the meeting.

4. **Matters arising**

   Communication of Pension Board business back to employees and scheme members
   It was noted that this matter remained outstanding from the meeting held on 2 February 2016. The Chair asked that the matter be addressed by the Head of Employee Services.

5. **Chair's Annual Report outlining the work of the Board for 2015/16**

   The Chair introduced his report which provided a summary of the work carried out by the Board covering the period from its inception and first meeting in July 2015 to March 2016.

   RESOLVED:

   that the annual report be noted and referred to the General Purposes Committee.

6. **A discussion on training needs in view of last year and the work programme**

   The Chair suggested that the Board should make a modest claim for funding to support a training session for Board members and sought views on what areas the training might best cover.

Euton Stewart raised issues regarding how the administration of the pension scheme adapted to meet the changing circumstances when services were shared between authorities. He also asked who was responsible for pensions when undertakings were transferred to a private company. It was recognised that the arrangements around shared services had become an important issue and the effect this had on individuals needed to be taken up with the Head of Employee Services. The Chair felt some aspects of the issues raised represented a risk factor and asked that a report on such risk be prepared so that a decision on how best to address the issues could be taken.

RESOLVED:

that the Chair and the Head of Finance identify appropriate topics for including in a training session to be held prior to a meeting of the Board.

7. **Draft Annual Report (Pension Fund Annual Accounts)**

The Board considered the draft Annual Report and Accounts 2015/16 for the Pension Fund. Members noted the figures that showed in comparison to 2014/15 that contributions had increased by a small amount but that payments had increased by a large amount which meant a negative cash flow. It was also noted that the net return on investments was far lower and that this was a situation that could well extend into future years. Net assets had increased but not to the extent they had in the past. The figures also showed that the number of active members in the scheme was lower than the number of retired members meaning the fund was now a 'matured fund'.

The Chair commented that in the past investments had tended to be low performing and that improvements to this were being pursued, however in present times this would be difficult and that it would take a number of years.

The Board noted the Governance Compliance Statement which showed compliance with the guidance on the governance of the Local Government Pension Scheme.

A question was asked whether there was an element of risk to new member organisations joining the scheme and it was explained that this depended on the nature of the organisation but that a check was made that they held guarantees. It was asked if a check was made on the level of restructuring in the Council that reduced the number of posts and whether this would affect employees in the future. It was explained that the Triennial Review would address this.

Members were invited to email Gareth Robinson, Head of Finance, if they had any questions regarding the detail contained in the report.

RESOLVED:

that the Brent Pension Fund Annual Report and Accounts 2015/16 be noted.

8. **Final Response to Government Consultation on Pooling**

The Board considered a paper on the proposal for asset pooling in the LGPS. Gareth Robinson, Head of Finance stated that he would be providing a briefing note to members of the Board on the London CIV and that the proposal would require further discussion in the future. He outlined the proposals in the paper and explained that assets would be transferred to the CIV over a period of time with the first payment being transferred at the present time.

RESOLVED:

that the paper be noted.

9. **Update on Performance of Capita**

The Board considered the report on the pension administration contract performance by Capita during 1 October 2015 to 31 March 2016. The Chair stated that compared to the previous year performance in all areas had either improved or stayed the same. However, performance on the timeliness of cases involving payments was still only at 66.2%.

In the absence of the Head of Employee Services, the Board asked that the report be re-submitted to its next meeting and that an update be provided on performance regarding providing Annual Benefits Statements and how the Board would be involved in the re-letting of the contract when the present contract with Capita ended.

RESOLVED:

that the improvements in the performance of Capita be noted but that concern be expressed over the continuing poor performance on the timeliness of cases involving payments.

10. **Re-enrolment update**

The Board considered the update on re-enrolment but in the absence of the Head of Employee Services, was unable to fully consider the current position. In agreeing to defer the item to the next meeting of the Board, concern was express that this may be too far off.

RESOLVED:

that the update report be noted and resubmitted to the next meeting.

11. **Actuarial Review**

Gareth Robinson, Head of Finance, referred Board members to the circulated presentation slides. He referred to the expected 2016 valuation timeline and stated that this was presently on schedule.

NOTED

12. **Verbal Update on the Triennial Actuarial Review Progress**

This item was covered in discussion on the item above.

13. **Smaller Admitted Bodies and the Triennial Review report**

The Board considered the briefing note updating members on the impact of the Triennial Review and the increasingly differentiated risks attached to the Various Bodies.

RESOLVED:

that the report be noted.

14. **Any other urgent business**

None.

15. **Items for next meeting**

The Chair proposed that the business for the next meeting of the Board should include:

- an update from the Head of Employee Services on the two items above deferred to the next meeting
- a report on the risk framework
- possible update on the Actuarial Review
- update from the Head of Employee Services on complaints
- possible update on admitted bodies

The meeting closed at 8.05 pm

D EWART
Chair

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

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Agenda Item 15

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