



## Pension Board

**Thursday 13 December 2018 at 6.00 pm**

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

### Membership:

#### Members

Councillors:

##### Members

Mr David Ewart (Chair)  
Councillor Crane  
Councillor Kabir  
Mr Euton Stewart  
Ms Bola George  
Mr Trevor Dawson  
Mr Sebastian Steer

#### Substitute Members

Councillors:

##### Substitute Members

Independent  
R Patel                      Employer Representative  
Mashari                    Employer Representative  
Member Representative (Trade Union)  
Member Representative (Trade Union)  
Member Representative (Pension Scheme)  
Employer Representative

**For further information contact:** Joe Kwateng, Governance Officer  
joe.kwateng@brent.gov.uk; 020 8937 1354

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**The press and public are welcome to attend this meeting**

### **Notes for Members - Declarations of Interest:**

If a Member is aware they have a Disclosable Pecuniary Interest\* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest\*\* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

#### **\*Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences** - Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

#### **\*\*Personal Interests:**

The business relates to or affects:

(a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party or trade union).

(b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;

a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members.

Item	Page
<b>1 Apologies for absence</b>	
<b>2 Declarations of interests</b>	
Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
<b>3 Minutes of the previous meeting - 24 July 2018</b>	1 - 8
To approve the minutes of the previous meeting as a correct record.	
<b>4 Matters arising (if any)</b>	
<b>5 Pensions Administration - monitoring and contract arrangements</b>	9 - 34
This is a performance report for the Brent Pension Board as part of its remit to oversee the administration of the Brent Pension Fund. The report includes commentary on performance indicators, administrative updates and recent developments.	
<b>6 Pensions Administration Strategy</b>	35 - 58
This report presents the revised Pensions Administration Strategy for the Brent Pension Fund Pension Administration Service.	
<b>7 Risk Management Strategy and Risk Register</b>	59 - 72
This report presents the revised Risk Management Strategy and Risk Register for the Brent Pension Fund Pensions Administration Service.	
<b>8 Local Government Association's Pensions (LGPS) regulations</b>	73 - 130
This report updates the board on recent changes to the Local Government Pension Scheme regulations and other key developments from the Local Government Association's Pensions Committee.	

**9 Proposed adoption of the new investment strategy** 131 - 146

The report updates the committee on the further work undertaken since the presentation of the investment review in June 2018 and the decisions now proposed to implement the strategy over the short to medium term.

**10 Responsible Investment Policy** 147 - 160

The report presents the Responsible Investment Policy of the London CIV. The purpose of the policy is to detail the approach that the London CIV aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

**11 Monitoring report on fund activity Quarter to June 2018** 161 - 178

The report provides a summary of the Fund's activity during the quarter ended 30 June 2018. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

**12 Brent Pensions Fund Annual Accounts and Annual report (audited version).** 179 - 308

The report presents the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018.

**13 Date of next meeting**

The next scheduled meeting of the Pension Board is on 26 February 2019.

**14 Any other urgent business**

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.



Please remember to **SWITCH OFF** your mobile phone during the meeting.

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



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## **MINUTES OF THE PENSION BOARD Tuesday 24 July 2018 at 6.00 pm**

PRESENT: Mr Ewart (Chair), Councillor Perrin, Stewart, Dawson and Steer

1. **Apologies for absence**

Received from Councillors.....

2. **Declarations of interests**

Mr David Ewart declared that he was a member of CIPFA.

3. **Minutes of the previous meeting - 12 March 2018**

The minutes of the last meeting held on 12 March were approved as an accurate record.

4. **Matters arising**

None.

5. **Deputations**

None.

6. **Pensions Board Annual Report**

Members received an annual report from the Chair that provided a summary of the Board's activities for the municipal year 2016/17. The report presented details of the Board members, training, the programme of work and highlighted issues of major concern that the Board wished to draw to the Council's attention.

Mr David Ewart (Chair) reiterated the Board's continued concern with the Brent Pension Fund's level of funding, which was still one of the lowest in Local Government. The Board however, noted the relatively good current performance of the fund's investments, and remained re-assured by the Council's commitment to bring the level of funding back to full funding over the longer term, as shown by the contribution rates agreed for the coming period. He then referenced the poor performance of the current contractor, in particular, its failure to issue the required Annual Benefit Statements by the deadline of 31<sup>st</sup> August 2017, resulting in the Council having to self-report to the Pensions Regulator for a second year running. The Board noted with concern that work undertaken to resolve these issues revealed underlying problems with member records.

Another matter concerning the Board was the requirement of the Pensions Regulator about breaches of the Statutory Regulations relating to the schemes record keeping. The Board was concerned that the Council had to re-submit, a much improved, Record Keeping Improvement plan required by the Pensions Regulator. The Board was however, encouraged by the work being undertaken to tackle the issue of record keeping and emphasised the need for continuous careful monitoring.

The Board was very pleased with the progress in the appointment of the pension service administration provider (Local Pensions Partnership (LPP)) and noted that the appointment was not made solely on cost grounds. The Board was also pleased that a new Local Government Pensions administration system (Aquila Heywood) had been obtained and that the Implementation plan which was on schedule, was being monitored. The Chair stated that although good progress appeared to have been made, the importance of careful monitoring of the change-over and working with new provider to gain the maximum benefit from this change could not be over emphasised.

Although the Board was concerned about these issues, they were to some degree, reassured that the Council was, as a matter of urgency, taking steps to address those matters, with a new pension service administration provider appointed and additional staffing resources committed over the long term to focus on pensions administration.

He outlined the Board's work plan and thanked members and officers for their input.

RESOLVED:

That the annual report from the Chair of Pension Board be noted.

## **7. Pensions Administration - monitoring and contract arrangements**

This report updated the Pensions Board on the performance of the external contractor (Capita), responsible for the delivery of the pension's administration services, including governance and record keeping. The report also introduced key documentation that would significantly improve governance of the scheme.

Ravinder Jassar (Head of Finance) stated that as previously reported to the Pensions Board, the scheme administrator did not send out 100% of annual benefit statements (ABS) by the statutory deadline of 31 August for both the 2015/16 and 2016/17 ABS roll out. As a result of the breach, the scheme administrator had had to report itself to The Pensions Regulator for two consecutive years. He explained that the root cause of some of the underlying data issues was information flow from payroll providers for schools and other employers. In view of the above challenging issues, the Council had agreed a number of actions to help prevent these issues from re-occurring. He updated members that as at 14 May 2018 (last formal update from Capita) all ABS for 2016/17 had been issued to those that were eligible and that for the 2017/18 ABS roll out Capita had received all end of year submissions from employers and were working to resolve any outstanding queries with those relevant employers.



The Head of Finance explained the significance of Record Keeping Plan (RKP) document and having provided key updates to it continued that as a result of the RKP, significant progress had been made in terms of the quality of member data, governance and effectiveness of the Pensions Board's scrutiny role. He reported on the scheme manager's regular meetings with The Pensions Regulator (TPR) and drew members' attention to appendix two to the report that set out key metrics and detailed all of the individual activities and actions taken with a view to having a robust governance arrangements in place and compliance with relevant regulations and guidance in relation to data management/quality. He advised that as part of the scheme's robust governance arrangements (such as a Pensions Administration Strategy, Risk Management Strategy and Record Keeping Plan) the Scheme manager was also proposing that a policy be put in place setting out how breaches of the law could be identified, recorded and reported. The policy, attached at Appendix four, set out further details of the decision processes involved in determining materiality and reporting arrangements.

In welcoming the report as a significant step in the right direction to address the issues highlighted in the report, members requested further information on the TPR's code of practice. Brian Aspinwall (Interim Pensions Analyst) was requested to circulate the code.

**RESOLVED:**

- (i) That the progress report be noted;
- (ii) that the Risk Management Strategy and Risk Register as set out in Appendix three to the report be agreed;
- (iii) that the breaches policy as set out in Appendix four to the report be agreed;
- (iv) that the high level principles that would feed into the draft Pensions Administration Strategy as set out in section eight of the report be agreed.

**8. Progress on Transition to LLP**

Members considered a report that provided an update to the Pensions Board on the transition of the Pension Administration contract from the current supplier, Capita, to the new supplier, Local Pensions Partnership (LPP) and a summary of the significant stages of the transition plan and actions required in the run up to the contract handover to LPP.

Ravinder Jassar (Head of Finance) informed the Board that the implementation phase was still ongoing with a view to ensuring LPP's successful transition for hand over in October 2018 when the current contract with Capita was due to end (September 2018). He advised that a number of legal documents had been received from LPP, including a Service Level Agreement, a Non-Disclosure Agreement and a Liability Agreement. Members heard that the initial expectation was for the documents to be approved by 31 January 2018. However, as the documents would serve as the binding contracts between the London Borough of Brent (LBB) and LPP, reviews were still being thoroughly carried out, by Brent's Legal and Finance teams, to ensure that the contents met the full requirements of the Fund with no undue oversights.

Mr Jassar advised members that a second cut of data was due to be transferred over to LPP from Capita during the week commencing 9 July 2018 with a final cut scheduled for week commencing 17 September 2018. He drew members' attention to appendix one to the report that set out the Implementation Plan to ensure a smooth transition to LPP.

RESOLVED:

- (i) That the progress report on the transition to LLP be noted;
- (ii) that the appendix accompanying this report be noted.

## **9. Changes to LGPS Regulations**

The report updated the Board on recent changes to the Local Government Pension Scheme regulations and other key developments. Ms Anna McCormack (Senior Pensions Officer) introduced the report and set out the changes. These included the payment of a surplus (an "exit credit") to an "exiting employer", publication of details of admission agreements by 13 May 2019, a facility to allow backdating of admission agreements and correction of the facility that allowed deferred members to draw reduced pensions. These significant changes were currently being considered by the Brent Pension Fund (The Fund) and any change in strategy would be reported accordingly.

Mr Ravinder Jassar (Head of Finance) referenced the Scheme Advisory Board report and drew members' attention to the key LGPS highlights as set out in the report. He then spoke about General Data Protection Regulations (GDPR) and the measures being taken by The Fund to ensure employing members' compliance and how the Fund was working with the Pensions Regulator (TPR) to improve governance fundamentals.

RESOLVED:

That the changes to the LGPS Regulations be noted.

## **10. Performance Monitoring - Quarter 4**

The Board received a report that provided a summary of the Fund's activity during the quarter ended 31 March 2018. It examined the economic and market background, and investment performance, as well as commenting on events in the quarter.

Mr Ravinder Jassar (Head of Finance) in summarising the headlines of the fund activity for the quarter, informed members that in the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m. During the quarter ending 31 March 2018, the Fund decreased in value by 2.9% (£24.8m) from £855m to £830.2m primarily due to falls in the value of UK and Global Equities. By contrast there was an appreciation in value in each of the previous three quarters. He drew members' attention to the tables within the report and clarified the reasons for performance/returns on the respective investments.

RESOLVED:

That the Brent Pension Fund quarterly performance report and the accompanying Independent Financial Adviser's investment report be noted.

## **11. Draft Pension Fund Accounts**

The Board received a report that presented the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018. Mr Ravinder Jassar (Head of Finance) informed the Board that the accounts (which were unaudited) aimed to give a true and fair view of the financial transactions and the level of assets and liabilities of the Pension Fund during the year ended 31 March 2018. He then highlighted the salient aspects of the accounts.

Members heard that against a backdrop of continued uncertainty in the global economy and increased volatility in the financial markets, the value of the Fund's investments increased from £802.6m to £830.3m with corresponding increases in total contributions received from employers and employees. These totalled £49.8m for the year, a marginal increase on the previous year's figure of £48.6m. He advised that total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.9m, a decrease on the previous year's £40.2m. The Head of Finance added that although the accounts were unaudited, the Council's external auditor (KPMG) had not identified or anticipated any material changes.

RESOLVED:

That the annual report and accounts for 2017/18 be noted.

## **12. Update on London Collective Investment Vehicle (London CIV)**

The report updated the Pension Board on recent developments within the London CIV and the timescales attached to making investment decisions. Ravinder Jassar (Head of Finance) informed members that as at 31 March 2018 the LCIV's assets under oversight had grown to just under £15 billion, which represented around 40% of the 32 London Local Authorities total assets under management. He continued that Brent had 61% (£507m) of its assets under management overseen by the LCIV and that the Fund had achieved fee savings in the region of £0.1m per annum as a result of being part of the LCIV.

He drew members' attention to the fixed income strategy funds being launched by the London CIV as set out in the report and added that Brent officers would be meeting representatives of the LCIV over the summer to discuss the Fund's next steps in terms of the timing of future investment decisions. The outcome would be presented to the Board's next meeting scheduled for 22 November 2018. He then updated members on the outcome of the governance review.

RESOLVED:

That the recent developments with the London CIV, in particular the outcome of the governance review and the new investments be noted.

### **13. Investment Advice Procurement**

Mr Ravinder Jassar (Head of Finance) introduced the report which set out the proposed procurement process to be adopted in relation to the contract for investment advice, when the current contract with MJ Hudson Investment Advisers Ltd would expire on 30 September 2018. Members were informed about the merits of National Framework for Investment Consultancy Services set up by Norfolk County Council including its transparency in fees and comparability between firms. Officers therefore recommended the use of that framework agreement in conducting procurement exercises. He drew members' attention to the list of firms that had signed up to the framework and outlined the stages of the procurement exercise as set out within the report.

Mr Jassar then drew members' attention to the recommendations of the report; the grant of delegated authority to the Chief Finance Officer to appoint a provider for investment advice services to the Fund, following a procurement process that will be carried out by officers and a representative of the Sub-Committee to sit on the interview panel.

RESOLVED:

- (i) That the Sub-Committee grant delegated authority to the Chief Finance Officer to appoint a provider for investment advice services to the Fund, following a procurement process that will be carried out by officers.
- (ii) That Councillor Choudhary (Chair of Brent Pension Fund Sub-Committee) be nominated to attend the interview and presentation stage of the procurement process.

### **14. Regulatory Oversight of LGPS**

The purpose of this report was to draw members' attention to the regulatory framework within which the LGPS operated, as part of the Public Services Pension Act 2013, and the work that had been undertaken to date by Central Government. In setting the background, Mr. Ravinder Jassar (Head of Finance) informed the Board that the Government Actuary Department (GAD) appointed by Central Government to oversee the activity of LGPS had reported on whether the LGPS funding valuations complied with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency.

He continued that a number of schemes were flagged by GAD as a cause for concern with regards to solvency and long term cost efficiency. Apart from the known funding level matter, Brent was not flagged as a significant cause for concern, principally due to having set appropriate contribution levels, demonstrating a reducing deficit recovery period between valuations and adopting reasonable actuarial assumptions. Members were advised that the schemes that were flagged as a cause for concern were those with relatively low contribution rates combined with low funding levels and deficit recovery periods that were not reducing between valuations. He undertook to report the findings to a future meeting of the Sub-Committee. The representative of the Fund's actuary added that no major issues of concern had been identified in Brent's valuation.

RESOLVED:

- (i) To note that the Pension Fund would need to comply with the section 13 process, responding to all queries and requirements of the Government Actuary Department (GAD);
- (ii) to note that the outcome of the review by GAD would be presented to the Board when the work had been completed.

15. **Any other urgent business**


None.

16. **Date of next meeting**

The meeting closed at 8.15 pm

MR. D EWART  
Chair

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 <b>Brent</b>	<b>Pensions Board</b> 13 December 2018
	<b>Report from the Chief Finance Officer</b>
<b>Pensions Administration – monitoring and contract arrangements</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
<b>No. of Appendices:</b>	1
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

## 1.0 Purpose of the Report

- 1.1 This is a performance report for the Brent Pension Board as part of its remit to oversee the administration of the Brent Pension Fund. The report includes commentary on performance indicators, administrative updates and recent developments.

## 2.0 Recommendation(s)

- 2.1 The board is recommended to note the report.

## 3.0 Annual Benefit Statements 2018

- 3.1 An annual benefit statement (ABS) was issued to all members identified on the year end returns from employers by the statutory deadline of 31 August 2018 for active members within the scheme. There were a small number of records where either data was missing or queries from year end returns had not been resolved in time. For these members an ABS could not be produced as employers had not been forthcoming with the relevant information. The vast majority of these employers were schools that were closed over the summer months and could not respond to Capita's queries in time for the scheduled print run in mid-August. That said, as part of the project management of the ABS rollout officers were aware of

these employers and both Capita and Brent officers have been in contact with the employers pursuing the required information and escalating where appropriate. Despite the non-compliance of some employers, both the number of employers and the volume of outstanding queries has significantly reduced compared to last year.

- 3.2 Given the change in administrator during this period, each of these outstanding queries have been logged and case files have been transferred to LPP. As part of the transition to LPP, this work was expected and built in to the project plan for post go live. LPP will be working with the relevant employers to resolve the remaining outstanding queries to enable them to issue a manual statement of benefits to those members.
- 3.3 In relation to deferred members, an ABS was sent to all members where an up to date address was held. Last year 1,478 records did not have an up to date address and so did not receive an ABS. The scheme manager then procured the services of a specialist tracing company, Target, who were successful in finding the new addresses of over 75% of these members. There remain 364 deferred members where an up to date address could not be found and so did not receive an ABS in this year's ABS rollout. These members are proving more difficult to find and so further, more extensive, search options are being explored with both Target and LPP. If these are pursued then they will necessarily be somewhat expensive, as Target suspect that some of these members may have moved overseas and some could be deceased.
- 3.4 Although it is unsatisfactory that not all ABS could be produced, as per Breaches Policy agreed at the last Pension Board, a decision as to whether to report a breach to The Pensions Regulator (TPR) was considered. At this stage, following a discussion with the Independent Chair of the Pension Board, the Chief Finance Officer and the LPP, it is considered that this is not a material breach to report to TPR. The main considerations for this decision are set out below.
  1. In relation to active members, prompt action has been taken and a plan has been put in place to resolve the outstanding issues as soon as reasonably practical.
  2. The scheme manager will work closely with LPP and employers to resolve the outstanding queries as soon possible, treating the overall exercise as a high priority.
  3. The scheme manager has contacted those employers who have not complied with their legal responsibilities.
  4. LPP's online portal for updating member records will be made available for all employers to update missing information.
  5. Employer engagement, support and training has been arranged. An Employers Forum was held on 12 October and included presentations from Hymans and LPP. Further training on pensions administration, delivered by LPP, was held on 22 November and all employers were invited to attend.
  6. A revised Pensions Administration Strategy has been issued to all employers that sets out their legal responsibilities, acceptable levels



of performance and actions that will be taken for non-compliance (including fines).

7. In relation to deferred members, the scheme manager has taken action to find the majority of missing addresses of these members and a small cohort now remains. Further options are being explored however at this stage it is considered not to be a material breach to the report to TPR.

- 3.5 In reaching these decisions, the scheme manager has taken note of the new guidance issued by TPR. The guide sets out an annual review process, the importance of planning and the importance of regularly reviewing the quality of data. The guide is attached at Appendix A and also includes a number of useful case studies that reflect similar issues with those experienced by Brent.

#### **4.0 Transition to LPP and data cleanse project**

- 4.1 The transition to LPP was successful and the service went live on 1 October 2018 as planned. Monthly contract performance meetings have been arranged where performance against agreed service level agreements (for example time taken to process joiners, transfers in/out, retirements, deaths, refunds, etc.) will be monitored and it is planned to report these to the Pension Board on a quarterly basis. Unfortunately, at the date of despatch of this report the first performance report was not available.

- 4.2 In addition to the business as usual (BAU) contract arrangements described above, a separate project has been commissioned to cleanse common and scheme specific (conditional) data. This includes resolving the outstanding queries in relation to annual benefit statements described in section 3.2. This is to be treated as a separate project so that additional dedicated resources can be put in place, to ensure the data issues can be resolved as quickly as possible and to not affect performance against the day to day service.

- 4.3 LPP use a bespoke data analysis tool, CODEX, to evaluate scheme data and assess the level of compliance against specific measurements, common data, scheme specific data and a range of other data areas taken from actuarial checks carried out at valuation.

- 4.4 Common data is data that The Pensions Regulator states must be 100% complete for all members of the pension scheme. The list below confirms the type of data items TPR considers to be common data;

- National Insurance Number
- Surname
- Forenames and/or initials
- Sex
- Date of Birth
- Date Pensionable service started
- Membership Status
- Expected Retirement data
- Last Event Date

- Address
  - Postcode
- 4.5 Scheme specific data or conditional data is less descriptive, but TPR does specify some guidance on the type of information that should be measured. The measured data should focus on information which is key to running the scheme and meeting legal obligations. LPP have identified scheme specific data to be;
- Pension value data
  - Date joined employer
  - Date joined scheme
  - Date of leaving
  - Date pension started
  - Final salary details
  - Salary (different measurement to final salary)
  - Contribution data
  - Scheme employer
  - Marital status
  - Missing pension detail screens
  - Age discrepancy
  - Invalid CAY
- 4.6 In addition to common and scheme specific data LPP also carry out several checks in line with type of data errors the scheme actuary will pick up during valuation. These include but not limited to;
- Missing GMP data
  - High Pensionable remuneration
  - Low Pensionable remuneration
  - High Pensions
  - Missing dates on keys screens, such as CARE pension dates
  - AA and LTA information
  - Pension Increase date
- 4.7 LPP has run the CODEX analysis against our data and discussions have taken place with Hymans Robertson, the Fund actuary, and Brent officers to agree priorities for the data cleanse plan ahead of the next triennial valuation planned for 2019. The initial analysis found that the Common data score was 98.6% (TPR require that this is 100%) and the Scheme Specific (conditional) data score was 93.4%. Although no comparative analysis is available on conditional data it has been deemed as adequate, albeit requiring improvement, by LPP and the Hymans Robertson. It is envisaged that this data cleanse project will subsequently be incorporated into the scheme's Record Keeping Plan and presented to the Pensions Board at its next meeting.
- 4.8 The Local Government Association are currently looking to coordinate a standard for conditional data across Local Government Pension Schemes to ensure consistency across Funds for comparison.

- 4.9 During the transfer there was a period of downtime between when the live pension scheme data was extracted from the Capita Hartlink system and the go live date with LPP (17 September 2018 to 1 October 2018). This downtime was accounted for in the project plan and all cases received or requiring action during the down time were sent to LPP and it was agreed that these would be worked on as part of the normal BAU activities. Upon receiving the ongoing task list from Capita, it was clear the backlog of cases extended further back than the agreed downtime period with 393 cases in progress but with a contractual due date before the 17th September. It was therefore agreed that these cases would fall outside of BAU activities and be dealt with as a separate project so that additional resources could be deployed and queries could be resolved as soon as possible. At the time of despatch of this report 53 cases have been resolved.
- 4.10 The project team will be made up of several pension administration team members all with the relevant experience in handling the varying types of cases associated with these projects. The cost of clearing the backlog of inherited cases is £7,376. At the time of despatch of this report the cost cleansing common and conditional data had not yet been agreed, although it is estimated to be in the range of £75,000.

## **5.0 Annual Scheme Return**

- 5.1 Public service pension schemes are legally required to provide 'registrable information' to TPR. This includes completing a scheme return each year. TPR also ask for some additional information to help them build up as accurate a picture of public service schemes as possible. Failing to complete the scheme return by the required date could lead to TPR fining the scheme manager or taking other enforcement action.
- 5.2 Information from the scheme return is used for a number of purposes. This includes maintaining a register of pension schemes and calculating schemes' annual levy charges.
- 5.3 Information required in the scheme return includes:
- Scheme details – including name, Pension Scheme Registry (PSR) number, address, scheme type, HMRC reference number and current status.
  - Number of members – active, deferred and pensioner.
  - Scheme manager – name, address and contact details.
  - Pension board members – name, address and contact details.
  - Employer details.
  - Service provider details – such as third-party/in-house administrator, auditor and insurer.
  - Scheme contact – name, address and contact details.
  - Pension Tracing Service contact details – name, address, telephone number and email address.
- 5.4 The 2017/18 Scheme Return for the Brent Pension Fund was submitted to TPR ahead of the statutory deadline of 6 November 2018.

## **6.0 The Pensions Regulator**

- 6.1 The Pensions Regulator wrote to the scheme manager in August 2018, informing them that they will be conducting in depth engagement to discuss governance and administration of the scheme.
- 6.2 TPR are focusing on Local Government Pension Schemes because their recent public service governance and administration survey found that some of the improvements the schemes had been making have stalled and would like to explore further.
- 6.3 The aim of these meetings is to get a wider understanding of the scheme in more depth and ask a range of questions in relation to the schemes wider governance and administration. The aim is not to seek out breaches of the law, however if they become aware of areas of concern they will investigate further to consider whether regulatory action is appropriate.
- 6.4 Five two hour sessions are planned and the topics to be covered are administration risk, record keeping, member communications, internal controls, employer non-compliance, maintaining contributions, the Pension Board's knowledge and relationship with the scheme manager, conflicts of interest, cyber security and fraud.

## **7.0 Pension Board Training**

- 7.1 Training is important to make sure the Pension Board as a whole has the skills, knowledge and understanding to support the scheme in running properly.
- 7.2 Following the May 2018 elections a number of training sessions have been organised for Pension Board members to increasing their knowledge and awareness of relevant issues. In May, a bespoke training session was delivered by officers and Hymans to members of the Pension Board and members of the Pensions Sub Committee. Also, at the July meeting of the Pension Board a more in depth training session was delivered on the role of the Pension Board, focussing specifically on governance and the importance of record keeping. At the meeting of February 2019 a training session is being developed to focus other relevant topics, in particular the valuation. Further invites will be sent to Pension Board members when other relevant training, seminars, conferences and networking events are identified.
- 7.3 TPR provide a free online learning programme call the Trustee toolkit and they expect all Pension Board members complete these courses. The courses cover the basic knowledge and understanding required by law to support the scheme manager. The courses are free, easy to use and allows one to learn at their own pace.

## **8.0 Financial Implications**

- 8.1 LPP have been commissioned to undertake two separate projects alongside the normal day to day running of the pensions administration contract in order to comply with The Pensions Regulator's expectations. It is envisaged that the total cost of these projects will be in the region of £82k and will be funded by the Brent Pension Fund.

## **9.0 Legal Implications**

- 9.1 Not applicable.

## **10.0 Equality Implications**

- 10.1 Not applicable.

## **11.0 Consultation with Ward Members and Stakeholders**

- 11.1 Not applicable.


## **12.0 Human Resources**

- 12.1 Not applicable.

**Report sign off:**

**Conrad Hall**  
Chief Finance Officer

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Information  
for those  
running public  
service pension  
schemes

Public service pension schemes

# **An essential guide to issuing annual benefit statements**

## Introduction

Annual benefit statements (ABS) are critical in enabling members to effectively plan or make decisions about retirement.

They provide members with information about their pension benefits, based on the data the scheme currently holds.

Through our engagement with public service schemes, we have identified a number of key points they may wish to consider when preparing to issue an ABS, the process for which we set out on the next page. We have also created a checklist for schemes to use which is available at [www.tpr.gov.uk/ps-comms](http://www.tpr.gov.uk/ps-comms).

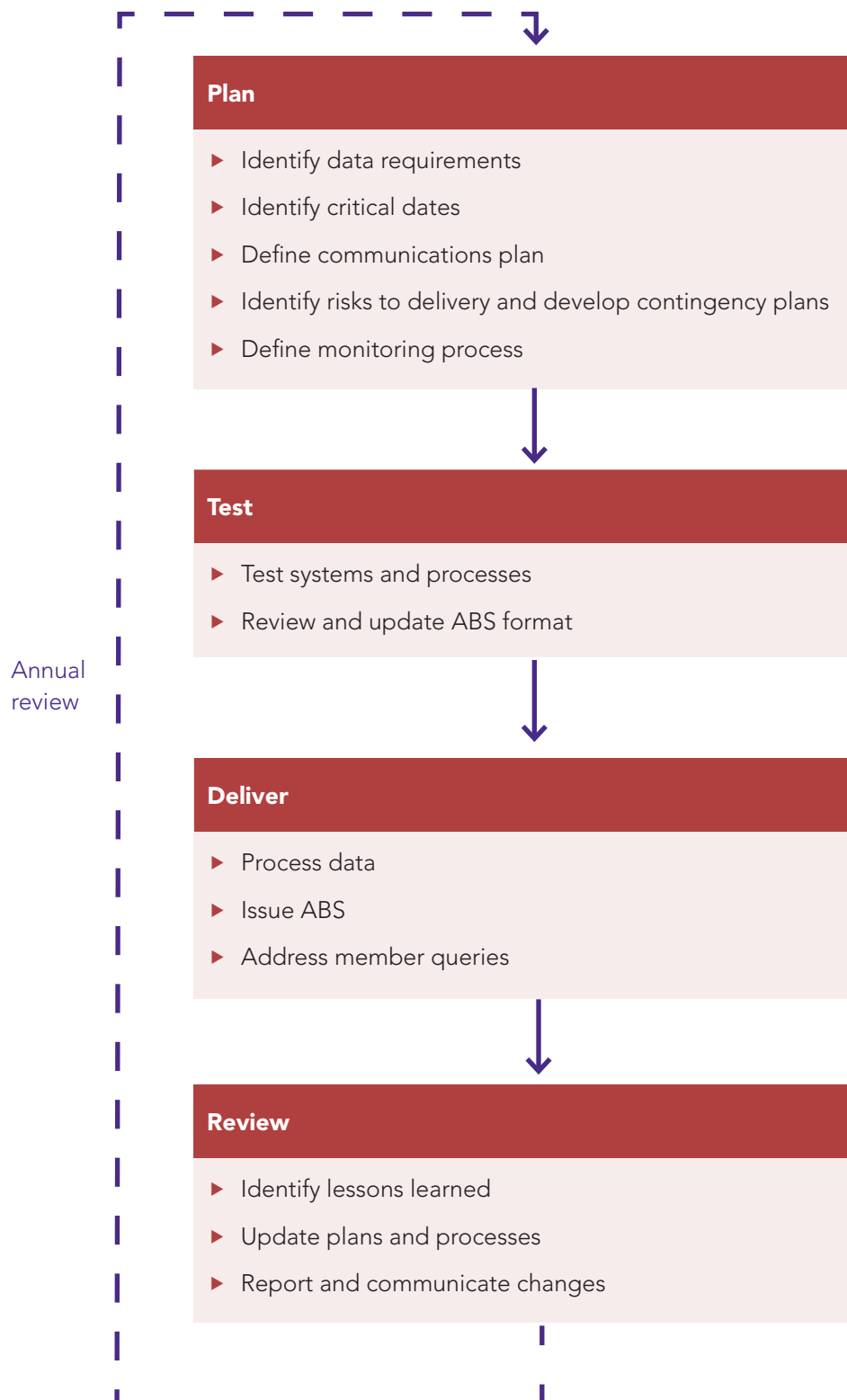
This guide is aimed at administrators, scheme managers and others involved in the running of PS schemes. This guide does not intend to set out comprehensively all the steps or actions schemes should take, and should be considered alongside the relevant legislation<sup>1</sup>, and the practical guidance and standards set out in our code of practice, which can be viewed at [www.tpr.gov.uk/code14](http://www.tpr.gov.uk/code14).

In addition, we have updated this guide to reflect a number of case studies that highlight some of the specific issues that we identified, and the outcomes of our engagement during TPR's Annual Benefit Statements 2017 Project.

<sup>1</sup>  
Including scheme regulations, the Public Service Pension Schemes Act 2013 (PSPA13), the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), HM Treasury directions and corresponding legislation in Northern Ireland.



## The ABS process

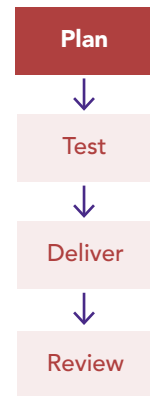


## The importance of planning

As you plan for your scheme's year-end activity, you should consider what information you require and the steps you need to take to deliver an ABS in a timely and accurate manner. You should ensure early on that all stakeholders are clear on their roles and responsibilities, and what is required of them.

"We didn't anticipate the extent of the impact the new data requirements would have on employers' ability to provide accurate data in time. We had to reallocate resources to chasing employers and resolving data issues and we couldn't meet the timetable." Scheme administrator

"We communicated with all employers on the changes to the scheme and the change in our requirements regarding scheme member data. We did this through bulletins, information on our website, employer forums and specific training events."  
Pensions manager



## Areas to consider

### Identify data requirements

You'll need to identify the information your scheme administrator needs to enable them to produce an ABS. For example:

- ▶ What data is required as a result of PSPA13, scheme regulations, disclosure requirements or Treasury directions? Have there been any changes to these legal requirements you need to consider? Are there any gaps which need resolving eg outstanding joining details?
- ▶ Are any additional data items required by the scheme actuary for scheme valuation?
- ▶ Is any other information required?

You'll also need to consider who needs to provide this data, for example employers, payroll, HR or external payroll providers. Check when the data is needed by and in what format.

Find out what the process is for data quality assurance. For example:

- ▶ Process and ownership of data testing
- ▶ Process and ownership for resolution of data errors
- ▶ Resourcing required to deliver

### Identify critical dates

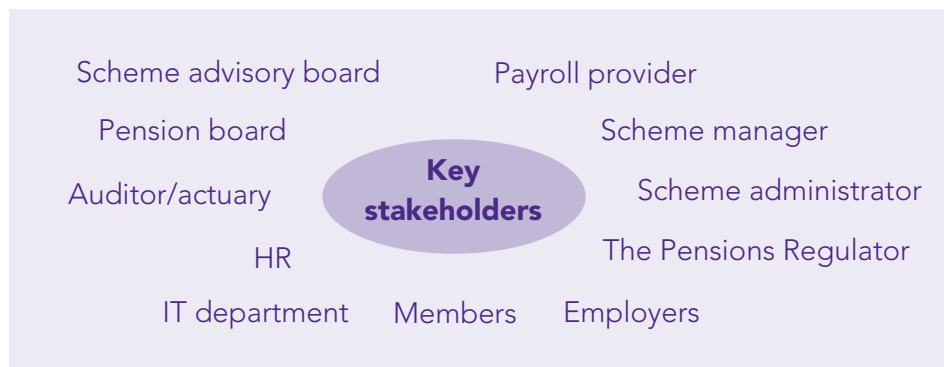
What are the critical dates which need to be met? Consider:

- ▶ Deadline for identifying and setting out data requirements
- ▶ Deadline for receipt of data from employers or payroll providers
- ▶ Data quality assurance process
- ▶ IT scheduling (eg testing)
- ▶ Internal or external governance deadlines
- ▶ Printing or publishing lead times
- ▶ Order in which ABS will be issued
- ▶ Deadline for issuing ABS in order to meet the legislative requirements



## Communications

Identify your key stakeholders.



Are roles and responsibilities clearly defined? Have you clearly communicated the timelines?

Have you made sure that all stakeholders (in particular employers) are aware of what you need, in what format, and when you expect it by? Do you need to run through requirements with them to test their understanding?

Do you need to provide training? This may include training employers on data requirements, or training for the scheme administrator on answering queries from employers and members.

Consider additional engagement with new stakeholders, eg new scheme employers.

Keep employers, pension boards, and others informed on progress and issues in a timely manner.

Is a process in place for member queries once the ABS has been issued? Has ownership been defined, volumes estimated, targets set and resources assigned?

## Identify risks to delivery and develop contingency plans

What are the potential risks to delivery?

- ▶ What action can you take to prevent the risk materialising?
- ▶ What actions are available to you if the risk does materialise?
- ▶ What are your points of contact and escalation routes?

Do you need to build in time for contingency into the plan?

Are your processes for identifying, assessing and reporting breaches of the law to us in place and fit for purpose? Are all relevant parties aware of these? See [www.tpr.gov.uk/ps-breaches](http://www.tpr.gov.uk/ps-breaches) for more information.

## Define the monitoring process

Now the requirements, timelines, stakeholders and risks have been identified, who is responsible for monitoring the progress of delivery? How will it be reported and to whom?



### The planning process in summary

1. Identify data requirements
2. Identify critical dates
3. Define communications plan
4. Identify key risks to delivery and develop contingency plans
5. Define monitoring process

## Test to pre-empt issues

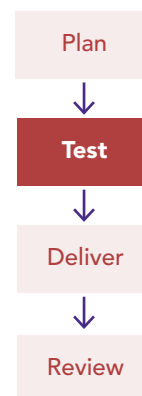
Inappropriate systems and processes pose a major risk to schemes being able to issue timely and accurate benefit statements. It is important that you put appropriate systems in place and test them ahead of time.

“The main cause of delays was software conflicts with the administration system provider. These took a long time to fix, and after the data we also had to test the printing.”

Pensions manager

“Our employers can choose to provide an ‘early’ year-end file. This allows employers to ensure the reports are working correctly and allows us to start looking for data queries.”

Pensions manager



## Areas to consider

### Test systems and processes

Are the systems and processes fit for purpose? For example:

- ▶ Data receipt process – testing the employer interface, testing of data file format.
- ▶ Are the administration software and payroll software compatible – if not, can these incompatibilities be resolved or are workarounds required?
- ▶ Are your security protocols fit for purpose? Eg information handling protocols, encryption and password protection, process for resetting passwords.

Do your benefit calculation formulas need updating? Have there been changes to the benefit design (eg final salary to career average) or have new schemes been established?

If providing online statements – are any updates to the system required before ABS can be uploaded?

## Review and update ABS format

Do you need to review the format of your ABS? For example:

- ▶ Does it meet the disclosure requirements?
- ▶ Is it easy to understand?
- ▶ Should you include a glossary or a frequently asked questions section as an appendix, or a guide to understanding the statement?
- ▶ Are appropriate processes in place for providing statements to members who require alternative formats for reasons of accessibility?
- ▶ Who needs to sign off the format of your ABS?

Is there any other information you should be including alongside the statements (eg on cessation of contracting out, death benefits nominations, new governance arrangements, update on the pension board's work)?



### The testing process in summary

1. Test systems and processes
2. Review and update ABS format

## Managing delivery

Careful management of the delivery phase of the ABS process will help you swiftly identify and resolve issues, as well as inform the planning for following years.

“We tested the data but there were a number of ‘gone-away’ members in the data file so it was another month before the printers got the clean data file. There was then a delay in the enveloping of the statements.” Pensions manager

“We accept monthly returns from employers so we can check and reconcile data on a more regular basis.” Pension services manager



## Areas to consider

### Data processing

When processing data, there are a number of issues to consider:

- ▶ Have you checked the data against all member categories you are issuing statements to?
- ▶ Have you allowed for iterative quality assurance processes? For example load and test received data, resolve queries with employers and payroll providers, receive updated file, load and test updated file, resolve outstanding queries?
- ▶ Have you kept a log of any systemic issues for which you may have had to develop workarounds, so that these can be resolved before the next cycle?
- ▶ Have you tested the output of your calculations?
- ▶ Who will sign-off on the ‘clean data’ for submission to the printers or publishers?

### Issuing the ABS

- ▶ Have you done a test run of the ABS print and preparation for postage? Are there any issues to resolve?
- ▶ If providing electronic copies, have you done a test run of the electronic file format?
- ▶ Is a process in place for returns (‘not known’ at address or email invalid)? Ensure these are logged and followed up on.

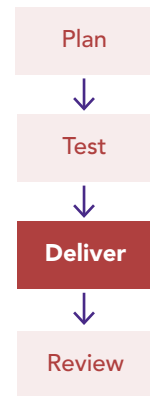


## Member queries

Are you monitoring delivery? Ensuring appropriate records are being kept of member queries, processing times, and outcomes can inform your planning and resourcing in the following year.

The use of targets and key performance indicators (KPIs) can help you measure performance and identify where resources need to be deployed.

Capturing issues and trends helps you to understand training needs, but also where you may need to consider a more systemic fix to a problem.



### The delivery process in summary

1. Process data
2. Issue ABS
3. Address member queries

## Reviewing and refining

The end of the ABS process provides an opportunity to learn and to inform the following year's plans. This is particularly important when new requirements are introduced. You should use this opportunity to proactively address issues and minimise the risk of issues arising again.

"Our administrator experienced technical problems and the ABS were delayed. They conducted a review of lessons learned to avoid the situation recurring and they discussed it with the scheme manager. We submitted a breach of law report to the regulator as there was a delay of three weeks, which affected thousands of members." Chief technical officer

"Following consultation with the largest employers in the scheme, we agreed a timetable for next year, taking into account all the issues we encountered this year. We set this timetable out in an all-employer bulletin to clearly set expectations for next year." Pensions manager

"We have conducted a survey of employers to try and identify what improvements can be made, with the aim of making next year's process less troublesome." Scheme administrator



## Areas to consider

### Identify lessons learned

In addition to an internal lessons learned exercise, consider seeking feedback from other stakeholders including payroll providers, employers, printers and members, for example:

- ▶ What issues arose?
- ▶ How were these resolved?
- ▶ What could be done to prevent the issue from recurring?
- ▶ Are there any other areas that could be improved?

### Update plans and processes

- ▶ Update your scheme year end and ABS processes to reflect lessons learnt.
- ▶ Where issues could not be resolved and workarounds had to be used, ensure that remedial work is scheduled in time for completion before the next year end cycle.

## Report and communicate changes

Consider any other reporting or communications which may be required, for example:

- ▶ Reporting to the pension board, employers, members and other stakeholders on lessons learned, any changes to the process and any additional action required to prevent issues from recurring.
- ▶ Individual feedback to stakeholders on issues, eg feedback to each employer on their end of year return.
- ▶ Reporting in line with the governance arrangements for the scheme, eg capture issues on the scheme's risk register.
- ▶ Where issues resulted in a failure to comply with legal duties (eg a failure to produce the ABS) and this is likely to be of material significance to us, you should submit a breach of law report. This includes where the failure occurs as a result of a third party's actions (eg employer failure to provide data or outsourced administrator failure). This should be done as soon as reasonably practicable and not only once the issue has been resolved.

Further information can be found on our website at:

[www.tpr.gov.uk/ps-breaches](http://www.tpr.gov.uk/ps-breaches)



### The review process in summary

1. Identify lessons learned
2. Update plans and processes
3. Report and communicate changes

## Case Outcomes

TPR undertook the Annual Benefit Statements 2017 Project after the statutory deadline for providing that year's ABSs to relevant members had passed. This involved engaging with schemes, on both a proactive and case investigation basis, to determine the extent to which they had met their legal requirement to provide ABSs to members by 31 August 2017.

As part of our engagement, a number of scheme managers informed us that they had been unable to meet (in full) the statutory deadline. Several other schemes provided us with breach of law reports, details of the challenges they had encountered during the process and copies of their plans for resolution of these issues in a timely manner. These plans generally reflected an overall lack of complete and/or accurate data. We engaged further with these schemes to establish a greater understanding of the underlying issues, and determined that this was due to a variety of different reasons.

It was evident in a number of instances that scheme managers were not governing their schemes appropriately in terms of managing relationships with employers, and the provision of data by them. Some scheme managers were clearly not communicating sufficiently with employers, and there was also a lack of formal policies and processes to cater for situations where employers were non-compliant in providing complete, accurate and timely data. Where scheme managers have specific powers available to tackle these issues, this may also have indicated that they had a poor understanding of those powers. This allowed poor behaviours on the part of employers to continue unaddressed.

Equally we found that, on the part of employers, there was also a lack of understanding of their role and their obligations to engage appropriately with schemes and provide timely, complete and accurate data to scheme managers.

In one specific case, we were advised by the scheme manager that they would only be able to issue around 75% of ABSs to the active membership before the statutory deadline. The scheme had in excess of 400 participating employers, and the key issue was that their existing process for reconciling contribution returns operated on an annual basis. This did not allow adequate time to rectify any issues with the data prior to the statutory deadline.

We engaged with the scheme manager and obtained further information about their rectification plan. This detailed their intention to resolve issues in relation to the outstanding ABSs before issuing on a weekly basis. The entire process was expected to be completed within a reasonable timeframe.

The scheme manager recognised that, in order to address poor performance and lack of engagement by participating employers, they should better communicate that they had the ability to issue penalties to employers for non-compliance with their obligation to provide timely and accurate data. This was incorporated in the scheme's administration strategy to ensure that the process was formally documented. The implementation of this approach proved highly successful, with 94% of employers providing their annual returns on time compared to 52% the year before.

Going forward the scheme has also identified a way to improve its performance in processing and reconciling contributions. This will involve moving from an annual to a monthly reconciliation basis, allowing earlier detection of data errors, and helping to ensure member records are updated on a more regular basis rather than waiting until the year end. The scheme manager was confident that, once implemented, future ABSs would all be provided in advance of the annual statutory deadline.

In another case the scheme manager advised TPR of longer-standing issues, including difficulties engaging with employers and issues arising from the migration to a new administration system. TPR engaged with the scheme manager, had sight of their plan and provided the appropriate challenge which led to a more robust process being adopted. This included ensuring the scheme manager developed internal controls to help improve the level of employer engagement and record keeping for the scheme. We also discussed the importance of educating employers about their duties to the scheme.

Following on from our engagement, the scheme manager secured additional resource and strengthened its approach to dealing with employers - including working closely with them to increase their understanding of their obligations in relation to the scheme. The scheme manager was subsequently able to obtain accurate member data and validate it more quickly. Members were then contacted by the scheme with information about their benefit entitlements. This engagement also strengthened the position of the scheme manager in relation to future compliance. Following our engagement they are developing a new administration strategy document, which explains the roles and responsibilities of both the scheme and employers, including the consequences of not complying with the various duties.

We concluded that - based on the improvements implemented, the proactive engagement with the affected members, and the progress made in issuing the remaining ABSs within a reasonable timeframe - no further action would be taken by TPR.

In other cases we have seen issues which have arisen with outsourced administration providers. In one particular case all ABSs were provided to active members by the statutory deadline. However, it emerged shortly afterwards that there were significant errors in the statements, which affected approximately 10% of the active membership of the scheme. TPR received a very clear and detailed breach of law report shortly after the scheme manager was alerted to the issue. Members had identified errors in their statements, which included incorrect dates of birth, names, service history, and benefit calculations. There were clearly fundamental issues in respect of the quality of the scheme's member data that were causing the volume of errors in this case.

Generally throughout the period of their contract with the administrator, the scheme manager had experienced poor delivery of accurate performance reports, which were due under the terms of their service level agreement. This had resulted in the scheme having to use its own resources in order to respond to member queries, in addition to carrying out their own compliance reviews. The scheme manager therefore found it necessary to escalate to the administrator's senior management.

Once the issues had been identified, the scheme manager engaged with all relevant stakeholders at an early stage, including the pension board and its independent chair. In addition, a communication was promptly issued to all members advising them of the situation, and confirming that action was being taken to determine the scale of the problem. Online content for both the scheme and the administrator was updated, providing members with contact details for the team within the administrator that was co-ordinating and responding to queries. Additional resource was also allocated to deal with any queries as quickly as possible, while a formal rectification plan was being produced. This process allowed the administrator to quickly identify the cause of the problem and rectify it accordingly.

The administrator provided assurances that the core data on the scheme's pension administration system was not compromised in any way. The problem was identified as being the result of errors in the manual process. TPR were advised that this was not indicative of a wider systematic problem and there was not any form of data breach. Most importantly, we were also assured that none of the scheme members had suffered any financial detriment as a result of the issue. In addition, when a member identified an error and advised the administrator accordingly, they were able to reissue a replacement statement immediately.

The administrator acknowledged that the manual errors represented a quality assurance issue. Their processes were therefore amended to include additional quality checks on the accuracy of the data held before statements were issued.

This case illustrates the fact that when scheme managers outsource services to a provider, it is essential to establish clear, robust performance measures, and incorporate measurable key performance indicators (KPIs) in any contract or service level agreement. These must then be monitored to allow the scheme manager to review performance, and take action if necessary to ensure that the contractual obligations on the provider to submit certain information and reports in a timely manner are adhered to. This is essential given that scheme managers continue to be ultimately accountable for any activities delegated to an outsourced provider. It may therefore be necessary for scheme managers to seek their own assistance from their own legal advisers, and also refer to TPR's guidance:

[www.tpr.gov.uk/6-advisers-providers.aspx](http://www.tpr.gov.uk/6-advisers-providers.aspx)

## How to contact us

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

[www.tpr.gov.uk](http://www.tpr.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

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Free online learning for those running public service schemes

## The essential guide to issuing annual benefit statements


Public service schemes

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The Pensions  
Regulator



	<b>Pensions Board</b> 13 December 2018
	<b>Report from the Chief Finance Officer</b>
<b>Pensions Administration Strategy</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Ravinder Jassar, Head of Finance

## 1.0 Purpose of the Report

- 1.1 This report presents the revised Pensions Administration Strategy for the Brent Pension Fund.

## 2.0 Recommendation(s)

- 2.1 The board is asked to note the report.

## 3.0 Background

- 3.1 A Pensions Administration Strategy (PAS) is a statement that outlines the policies and performance standards towards providing a high quality, effective and efficient pensions administration service. The aim of the strategy is to ensure that both the Fund and its employers are fully aware of their responsibilities under the Scheme and to set acceptable levels of performance.
- 3.2 Delivery of such an administration service is not the responsibility of one person or one organisation, but is rather the joint working of a number of different stakeholders, which between them are responsible for delivering the pensions administration service to meet the diverse needs of the membership. Therefore, it is important that it is developed in consultation with employers within the Fund to promote good working relationships, improve efficiency and ensure agreed standards in quality

3.3 Brent's Pensions Administration Strategy was last updated in 2014. Given the regulatory changes within the LGPS since that time, the intervention of the Pensions Regulator in 2017 and the transition to LPP from October 2018 it is an opportune time to update the statement. In addition it is important to have an overarching strategy statement that underpins all of the improved governance arrangements that have been implemented in the last twelve months, for example the Record Keeping Plan, the Breaches Policy and the Risk Management Strategy.

3.4 In producing a revised strategy officers worked closely with LPP and the Pension Board, at its last meeting, agreed the following high level principles:

- Consultation with employers to be undertaken to obtain feedback and other relevant comments. This includes presenting the strategy to the next Employers' Forum and contacting each individual employer for comments.
- The ultimate aim of this strategy is to educate employers to provide accurate and timely data to the Fund which will improve the service provided to scheme members. The administering authority will seek, at the earliest opportunity to work closely with employers in identifying areas of poor performance and provide the necessary training and development to put in place appropriate processes to improve the level of service into the future. In the event of continued poor performance and a lack of any evidence of measures being taken to achieve improvement by an employer the Fund will seek to recover any additional costs arising and in some cases charge for other services (for example failure to pay over monthly contributions or failure to notify the Fund of key information such as starters and leavers). Charging is a last resort but the Fund reserves the right to levy a charge(s) on a scheme employer whose performance repeatedly falls short of expectations. It is also The Pensions Regulators' expectation that actions such as this are taken for non-compliance of legal obligations.

#### **4.0 Revised Pensions Administration Strategy**

4.1 On receipt of the new proposed strategy a number of comments were received, primarily from schools. The main concern was, as expected, the concept of charging for non-compliance and that it appeared the revised strategy introduced new work for school business managers. Regarding the latter, it was clarified that the revised PAS (and the move to LPP) did not introduce any new work for schools other than move from a manual process to an online process where training would be provided.

4.2 Following this feedback it was agreed to revise the PAS to clarify to employers the legal and regulatory framework within which pension's administration operates. It was also agreed to be more explicit that charging would be a last resort and that this option would only be pursued in exceptional circumstances where performance repeatedly falls short of expectations. The first port of call would always be to engage and educate employers before such action would be considered.

4.3 The revised PAS is attached as Appendix A and the board is asked to comment and provide feedback. It is envisaged that the revised strategy will be sent to employers in mid-December.

## **5.0 Financial Implications**

5.1 There are no specific financial implications associated with noting this report.

## **6.0 Legal Implications**

6.1 None arising directly from this report

## **7.0 Equality Implications**

7.1 None arising directly from this report

## **8.0 Consultation with Ward Members and Stakeholders**

8.1 Not applicable for this report.

## **9.0 Human Resources/Property Implications (if appropriate)**

9.1 None arising directly from this report

**Report sign off:**

**Conrad Hall, Chief Finance Officer**

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# Brent

## London Borough of Brent

### Pension Administration Strategy (PAS)

December 2018

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- 2.2 Legislative Context
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- 5.2 Circumstances on when we would charge
- 5.3 Monitoring after a Levey has been made on an employer

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##### Annex1

#### Appendix 1 – Regulation Extract

#### Appendix 2 – Employers Guide

# London Borough of Brent Pension Administration Strategy (PAS)

## 1. Introduction

The Local Pensions Partnership (LPP) started as the pension administrators for the Brent Pension Fund on 1 October 2018. The LPP perform their pension administration in a different way to the previous pension administrators and the PAS has been revised to take those changes into account.

In addition, the Pension Administration Strategy has been updated to take account of changes to the LGPS regulations and the guidance from The Pensions Regulator.

This revised Pension Administration Strategy applies to all employers, academies, and maintained schools (referred to as here as scheme employers or employers).

The aim of the revised Pension Administration Strategy is to ensure that the London Borough of Brent Pension Fund ("the Fund"), "the Administering Authority" (The London Borough of Brent), and employers work together to ensure that accurate data is submitted in a timely manner and member events are notified within the service level agreement set out in this document. The Fund's strategy is to work with employers to achieve this and to assist and support employers to do so.

## 2. Pension Administration Strategy Policy Statement

### 2.1 Pensions Administration Strategy Statement

The statement sets out the aims and objectives of the Pensions Administration Strategy and gives a summary of the major elements which make up the strategy.

### 2.2 Legislative context

- Local Government Pension Scheme (Benefits, Membership and Contributions)
- Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions and savings) Regulations 2013.

### 2.3 Aims

In making this strategy the Funds aims are:

- To clarify the roles and responsibilities of the "Fund" and scheme employers in administering the Local Government Pension Scheme
- To ensure the services provided by the "Fund" are equitable and transparent
- To assist employers in the effective provision of necessary data.

### 2.4 Objectives

The Pension Administration Strategy will meet those objectives by introducing a service level agreement between the "Fund" and scheme employers.

## 2.5 Documents which make up the strategy

Together with this statement the strategy is set out in the following documents:

Pensions Administration Strategy - Service Level Agreement

The service level agreement sets out the roles and responsibilities of the “Fund” and scheme employers.

Pensions Administration Strategy - Employer guide

The guide sets out the processes and procedures employers should follow in order to comply with their legal responsibilities under the LGPS regulations.

### 3. Service Level Agreement

#### Pensions Administration Strategy - Service level agreement

##### 3.1 Employer Functions

The following functions have been designated employer functions. This means that they are outside the responsibilities of the administering authority. The “Fund” provides these services for a fee (staffing charges applied by the day or per hour) and the amounts are set out in Annex 1.

There are no changes to these functions as a result of the revised strategy.

Task	Description
Redundancy and Severance	Calculation and payment of redundancy and/or severance payments
FRS 17	Provision of data required for FRS17 calculations
Cessation and interim valuation data	Provision of data required for interim and/or cessation valuations
Miscellaneous non LGPS	Any requests for advice or work which are outside of the requirements of an administering authority as defined by the LGPS regulations
Admission Agreements	Setting up and amendment of admission agreements
3 <sup>rd</sup> Party activity	Recharges will apply to any work for which a third party is required e.g lawyer or actuary, and the cost will be incurred by the employer

### 3.2 Actuarial Functions

The following functions have been designated actuarial functions that employers will require input from both the LPP and the Fund's Actuary Hymans Robertson. This means that they are functions which if required, must be provided by the LPP and/or Hymans Robertson.

As above, there are no changes to these functions as a result of the revised strategy.

Task	Description
Legal work & non-standard actuarial work	Any work in relation to this will require input from both the LPP and the Funds Actuary
Cessation valuations	Any work in relation to this will require input from both the LPP and the Funds Actuary
Employer actuarial valuations	Any work in relation to this will require input from both the LPP and the Funds Actuary
Academy conversion	Any work in relation to this will require input from both the LPP and the Funds Actuary
Valuation of unfunded liabilities	Any work in relation to this will require input from both the LPP and the Funds Actuary



### 3.3 Administrating Authority Functions

The following functions have been designated administrating authority functions since they relate directly to the core purpose of administering the scheme.

Also shown are the timescales we will complete the task within (from receipt of all information) and the on time target for each task.

<b>Case Type/Task</b>	<b>Limitation</b>	<b>Timescale (working days)</b>	<b>Target (% within timescale)</b>
Admissions	No	10	95%
Transfers In	No	10	95%
Transfer Out	No	15	95%
Estimates employee	No	10	95%
Retirements	No	5	95%
Deferred Benefits	No	10	95%
Refunds	No	10	95%
Deaths	No	5	95%
Correspondence	No	5	95%
PR update	No	20	95%
Queries to employer	No	15	95%

### 3.4 Employer Responsibilities

Employers will be responsible for the following functions/tasks to be performed/supplied in the manner and timescale set out below.

An employer guide can be found at Annex 2.

<p><b>Payments of monies due</b></p>	<ul style="list-style-type: none"> <li>• Monthly contributions – on time and the correct amount</li> <li>• Payroll Recharge – on time, and the correct amount</li> <li>• Capital Sums – on time, and the correct amount</li> <li>• Single payments of contributions</li> </ul>
<p><b>End of year error rates</b></p> <p>Examples of end of year errors</p> <ul style="list-style-type: none"> <li>• A missing joiner Form</li> <li>• A missing leaver Form</li> <li>• A missing change of hours</li> <li>• A missing notification of absence</li> <li>• Return from absence</li> <li>• Missing additional contributions</li> <li>• Significantly low/high pensionable remuneration compared to the previous year with no explanation as to the reason</li> </ul>	<p>Respond to errors within 10 working days of notification</p> <p>If you are unable to respond in ten working days then inform the LPP of the likely time frame that you can respond in and advise Brent Pensions of the delay</p>
<p><b>Submission of year end return</b></p>	<p>You must submit your year end return by 30th April each year</p> <p>If you are unable to submit your yearend return then inform the LPP of the likely time frame that you can provide it and the reason why and advise Brent Pensions of the delay</p>
<p><b>Response to other queries raised</b> (e.g. by the LPP Pensions Services or Employer Services teams)</p> <p>There are times where the LPP may need to confirm with you that a member's record is correct before issuing them with a benefit calculation. It is these types of queries that we are referring to</p>	<p>2 weeks from notification by the LPP Pensions Operations or Data Management teams</p> <p>If unable to respond in 2 weeks then inform the LPP of the likely timeframe that you can respond in and advise Brent Pensions of the delay</p>

<b>On-line access</b> <b>Employer LPP portal “YourFund”</b>	Use of online Forms for all relevant tasks
<b>Submission of joiners/leavers</b>	<ul style="list-style-type: none"> <li>• Notification of joiners within 1 month of joining the scheme</li> <li>• Notification of leavers within 1 month of leaving the scheme</li> <li>• Notification of retirement within 1 month prior to the last day of service</li> </ul>
<b>Notification of other changes during employment</b>	<ul style="list-style-type: none"> <li>• Relevant changes e.g. change of hours, absence notification online within 1 month of the event</li> </ul>
<b>Correct admission of members into the Fund</b>	You must ensure that you are correctly admitting members into the “Fund”
<b>Up to date discretions policies in place</b>	Discretionary policies to be in place and up to date
<b>Customer Relationship Management contacts</b>	<ul style="list-style-type: none"> <li>• LPP notified of contact change or new contact within 1 month via the employers contact form</li> </ul>

#### **4. Staff Charging Schedule**

The Fund’s staffing charges for work over and above the responsibilities of the administering authority as at December 2018.

VAT is charged on all applicable items.

<b>Staffing level</b>	<b>Charge per day excluding VAT</b>	<b>Charge per hour excluding VAT</b>
Admin Staff	£382.00	£53.00
Team Leader	£534.00	£78.00
Specialist	£534.00	£78.00
Manager	£727.00	£103.00
Senior Manager	£998.00	£142.00
Director	£1,470.00	£210.00

## **5. Pensions Administration Strategy – Charging**

### **5.1 Why we need to charge**

Whilst the vast majority of employers do provide accurate scheme data on time and process member pension events such as joiners and leavers, there remains a small cohort of employers who have not done so. The Pension Regulator is insistent that all employers comply with their legal duties and for the “Fund” to have in place a mechanism to impose a levy on employers who fail to do this. Following The Pension Regulator’s guidance the “Fund” has incorporated levies for non-compliance of these duties.

### **5.2 Circumstances on when we would charge**

The “Fund” has not set out to arbitrarily impose levies on employers for every minor infraction an employer makes in regards to providing scheme data and processing member’s events. The aim is for all employers to work together with the “Fund” and our pension administrator to comply with their legal duties. The service level agreement sets out the timeframes on how long particular functions should be completed by. The “Fund” recognises that there are times when this will not be met or be possible and it is not the Funds intention to automatically levy an employer for this, however employers are expected to remedy matters as soon as is practicable. Should it be the case that an employer persistently takes no regard of the Funds request to comply with their legal duties, and does not work with the Fund to overcome these shortcomings, then imposing a Levy on an employer would be considered (please note that it is the Funds aim is to actively engage with employers to provide them with support to bring them into line with meeting their legal duties before imposing a levy).

### **5.3 Monitoring after a Levy has been made on an employer**

Should it be the case that the “Fund” has imposed a levy on an employer, then that employer will be encouraged and supported to meet its legal duties. Their performance will be monitored and if they are complying with and continue to comply with their legal duties, then consideration will be made by the “Fund” to refund the Levy imposed on them by the “Fund”.

## 6. Fees – Annex 1

As a last resort and after trying to assist the employer with support or training, the “Fund” reserves to right to levy a fee on an employer whose performance consistently falls short of the standards set out in this document.

Activities	Fees excluding VAT
<b>Late payment of monthly contributions</b> - electronically after 22 <sup>th</sup> Calendar month following deduction and 19 <sup>th</sup> for cheques (Required by law)	£60 plus interest calculated on a daily basis
<b>Monthly Contributions</b> – non provision of the correct schedule of payments in stipulated Format and accompanying the respective contribution payment	£60 per occasion
<b>Change Notification</b> – failure to notify administrators of a change to a members working hours, leave of absence with permission (maternity, paternity, career break) or leave of absence without permission (strike, absent without permission) – within 1 month of the change of circumstances	£60 per occasion
<b>Year End Data</b> – failure to provide year end data by 30th April following the year end	£235 initial fee then £95 for every month the information remains outstanding
<b>Year End Data Queries</b> – failure to respond to the administrators requests for information to resolve data queries within the prescribed timescale	£60 initial fee then £25 for every month the information remains outstanding
<b>New Starter</b> - failure to notify the administrator of a new starter within 1 month of joining the scheme	£60 initial fee then £25 for every month the information remains outstanding
<b>Leaver</b> – failure to notify the administrator of any leaver within 1 month of leaving the scheme	£60 initial fee then £25 for every month the information remains outstanding
<b>Retirees</b> – failure to notify the administrators when a scheme member is due to retire within 1 month before the retirement date	£60 initial fee then £25 for every month the information remains outstanding

<p><b>Late payment of pension benefits</b> – if due to an employer’s failure to notify the administrator of a scheme members retirement, interest becomes payable on any lump sum paid. The administrator will recharge the total interest paid to the employer</p>	<p>Interest charged in accordance with regulation 44 of the LGPS administration regulations</p> <p>Charged at Bank of England Base rate plus 1%</p>
<p><b>Change of employer contact details</b> - The “Fund” not notified of contact change or new contact within 1 month of alteration</p>	<p>£60 per occasion</p>
<p><b>Submission of pension contribution data</b> – The “Fund” not informed by the employer of not having submitted pension contribution data or contributions within the timelines set out in this agreement</p>	<p>£60 per occasion</p>

## **Appendix 1 - Regulation Extract**

### **LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013**

The Regulations in relation to the Pension Administration Strategy are contained in the Local Government Pension Scheme Regulations 2013, and are set out below:

#### **Pension administration strategy**

Regulation 59(1) of the Local Government Pension Scheme Regulations 2013, enables a Local Government Pension Scheme Fund to prepare a written statement of the authority's policies ("its pension administration strategy") as one of the tools which can help in delivering a high quality administration service to its scheme members and other interested parties.

In addition, Regulation 59(2)e of the 2013 regulations, allows a fund to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the fund is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

**59.** (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are-

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

- (i) the setting of performance targets,
- (ii) the making of agreements about levels of performance and associated matters, or
- (iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

- (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
  - (ii) such other matters arising from its pension administration strategy as it considers appropriate;
- and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

#### *Payment by Scheme employers to administering authorities*

69.—(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

- (a) all amounts received from time to time from employees under regulations 9 to 14 and 16 (contributions);
- (b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;
- (c) a contribution towards the cost of the administration of the fund; and
- (d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

(a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995(41); and

(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund)(42).

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—



(a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),

(b) the total employee contributions deducted from the pensionable pay referred to in sub-paragraph (a),

(c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),

(d) the total employee contributions deducted from pensionable pay referred to in sub-paragraph (c),

(e) the total employer contributions in respect of the pensionable pay referred to in sub-paragraphs (a) and (c),

(f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and

(g) the total additional pension contributions paid by the employer under regulation 16 (additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) cannot be settled by agreement, it must be determined by the Secretary of State.

*Additional costs arising from Scheme employer's level of performance*

70. (1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating-

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and

(c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

## Background

- (A) The Administering Authority is an administering authority. It administers and maintains the Fund in accordance with the Regulations.
- (B) The Employer is a transferee admission body listed in Schedule 2 of the Administration Regulations.
- (C) In accordance with Regulation 59 of the Administration Regulations, the Administering Authority has prepared the Pension Administration Strategy Statement setting out amongst other things the Service Level Agreement.
- (D) In preparing the Pension Administration Strategy Statement, the Administering Authority consulted the employing authorities in the Fund (including the Employer), the Pensions Board, and such other persons it considered appropriate.

The Administering Authority published the Pension Administration Strategy Statement and sent a copy of it to each of the employing authorities in the Fund (including the Employer) and to the Secretary of State.

- (E) The Administering Authority will keep the Pension Administration Strategy Statement (including the Service Level Agreement) under review and will make such revisions as are appropriate following any material change in its policies in relation to any of the matters contained in the Pension Administration Strategy Statement.
- (F) The Administering Authority and the Employer have agreed to enter into this Agreement to document their agreement to comply with and be bound by the terms of the Service Level Agreement.

Now it is agreed as follows:

### 1. Interpretation

1.1 The following expressions have the following meanings:

<b>“1997 Regulations”</b>	the Local Government Pension Scheme Regulations 1997 (to the extent applicable by reason of the Transitional Regulations)
<b>“Administration Regulations”</b>	the Local Government Pension Scheme (Administration) Regulations 2008
<b>“Benefit Regulations”</b>	the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
<b>“Core Scheme Functions”</b>	the functions identified in the Service Level Agreement as being core Scheme functions
<b>“Fund”</b>	the Pension Fund

<b>“Pension Administration Strategy Statement”</b>	the Administering Authority’s statement prepared in accordance with Regulation 59 of the Administration Regulations as revised from time to time in accordance with that Regulation
<b>“Regulations”</b>	the Administration Regulations, the Benefit Regulations, the Transitional Regulations and the 1997 Regulations
<b>“Scheme”</b>	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under sections 7 and 12 of the Superannuation Act 1972
<b>“Service Level Agreement”</b>	the section of the Pensions Administration Strategy Statement setting out the levels of performance which the Administering Authority and its employing authorities are expected to achieve in carrying out their Scheme functions including performance targets. The Service Level agreement may be revised from time to time as part of the Pensions Administration Strategy Statement. A copy of the Service Level Agreement current as at the date of this Agreement is included in the documentation
<b>“Transitional Regulations”</b>	the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 & 2013

1.2 Expressions have the same meaning as in the Regulations, except where the context otherwise requires.

1.3 Any reference in the Agreement to any law or piece of legislation shall include any subsequent amendment to it and any ancillary legislation made under it.

## 2. The Service Level Agreement

2.1 With effect from the date of this Agreement, the Administering Authority and the Employer agree to use their best endeavours to comply with and be bound by the terms of the Service Level Agreement.

2.2 In consideration of this Agreement the Administering Authority will charge the Employer a contribution towards the cost of the administration of the Fund which reflects the fact that compliance with the Service Level Agreement will result in greater efficiencies and lower administration costs for the Fund.

2.3 If in the opinion of the Administering Authority the Employer has not complied with the terms of the Service Level Agreement the Administering Authority may charge the Employer a higher contribution towards the cost of the administration of the Fund.

2.4 When considering whether to charge the Employer a higher contribution towards the cost of the administration of the Fund in accordance with Clause 2.3 the Administering Authority shall take into account any failure on its own part to comply with the terms of the Service Level Agreement.

2.5 Clause 2.3 shall not affect the Administering Authority's ability under Regulation 70 of the Administration Regulations to give written notice to the Employer where it has incurred additional costs which should be recovered from the Employer because of the Employer's level of performance in carrying out its functions under the Regulations or the Service Level Agreement.

2.6 The Employer acknowledges that the Service Level Agreement may be revised from time to time by the Administering Authority in accordance with Regulation 59 of the Administration Regulations and that the Employer will comply with and be bound by the terms of the revised Service Level Agreement.

### **3. Other Charges**

3.1 The Employer acknowledges that the contribution it is required to pay towards the cost of the administration of the Fund is to cover the cost of meeting the Core Scheme Functions.

3.2 Where the Employer requests that the Administering Authority provides services beyond these functions the Administering Authority reserves the right to charge the Employer for the provision of such services. Non-core services include by way of example and without limitation the provision of FRS17 reports, bulk redundancy calculations, bulk information requests, member presentations, site visits and the payment of compensatory added year's benefits. Such services will be provided on terms agreed at the time with the Administering Authority and the Employer.

### **4. Notices**

Any notices under this Agreement shall be in writing and shall be served by sending the same by first class post, fax, facsimile or by hand or leaving the same at the headquarter address of the Employer or the headquarter address of the Administering Authority.

### **5. Waiver**

Failure or neglect by the Administering Authority to enforce at any time any of the provisions of this Agreement shall not be construed nor shall be deemed to be a waiver of the Administering Authority's rights nor in any way affect the validity of the whole or any part of this Agreement nor prejudice the Administering Authority's rights to take subsequent action.

### **6. More than one Counterpart**

This Agreement may be executed in more than one counterpart, which together constitute one agreement. When each signatory to this Agreement has executed at least one part of it, it will be as effective as if all the signatories to it had executed all of the counterparts. Each counterpart Agreement will be treated as an original.

### **7. Laws**

This Agreement will be governed by and interpreted in accordance with the laws of England and Wales.

Any rights that a third party may have under the Contracts (Rights of Third Parties) Act 1999 are excluded.

## **Appendix 2 – Employer Guide**

### **Employer Guide**

What the “Fund” and the LPP needs from you to administer your employees’ pensions, with accuracy and efficiency.

#### **Clean and accurate data**

This means that we need to know details of all changes to your employees regarding their pension.

This includes:

- Joining the scheme
- Changing their working hours and/or working weeks
- Any unpaid leave (i.e. authorised absences, whether maternity/paternity/adoption leave, or ordinary unpaid leave)
- Any unauthorised absences (these are automatically entered as breaks in service as the member is not allowed to repay pension contributions for that period)
- Any strike periods
- Any reductions in pay
- Leaving the scheme (whether opting out, normal leaver or retiring).

The above changes can be notified by completing the relevant online Form.

We also need accurate data for the end of year returns. This enables us to identify any missing data in our records quickly, thus enabling accurate valuation of the fund and thereby keeping employer contribution rates down.

#### **Brief Summaries of Actions needed**

##### **Joining the scheme**

The online Joining Form must be completed with the following information:

- date from which the member first had contributions deducted
- the contribution rate
- the weekly hours the member works, and, if appropriate, the weeks per year that they work
- what pensionable pay the member receives, and, if appropriate, the full-time equivalent pensionable pay
- confirmation that the member has a contract of employment that lasts at least three months.

##### **Change of hours**

The online Change of Hours Form must be completed when you need to inform the LPP that a member has changed their weekly working hours, their working weeks per year, or both. We will need to know the hours (and/or weeks) they are changing to, and also the hours (and/or weeks) that they have changed from to enable us to check that our records are completely up to date.

##### **Sick Leave**

The LPP does not need to be informed if a member of the scheme is placed on reduced pay, or no pay due to sick leave.

## **Unauthorised Absence**

It is not common for an employee to have a leave of absence that is not authorised by their employer. However, if a member does have such a period, the LPP need to be informed as this period will not count towards the calculation of their benefits and they will not have the opportunity to repay the contributions for that period. Therefore, please complete the Unauthorised Absence online Form if such a situation occurs.

## **Unpaid leave (Including maternity/paternity/adoption leave)**

Any period of ordinary unpaid leave (or leave on reduced pay) that lasts less than 31 days does not need to be notified to LPP, although the member must have contributions for that period deducted from his pay on his return, and employer contributions must also be paid.

If the ordinary unpaid leave (or leave on reduced pay) lasts 31 days or more, then the LPP must be informed. The online Notification of Absence and Return from Absence Forms must be completed.

A strike period must be treated differently to ordinary unpaid leave, but it is not classified as unauthorised absence. The online Notification of Absence and Return from Absence Forms must be completed.

A member who goes on parental leaves must continue to have contributions deducted, but on the pay that they are actually receiving (including any statutory entitlement), not the pay they would have received, but for being on leave.

Once the member goes onto unpaid parental leave, the online Notification of Absence Form must be completed.

The LPP do not need to be informed if a member has a period of leave to enable them to perform jury service, but the contributions for that period must be paid by both employer and employee and must be based upon the pay that the member would have received if not performing jury service.

## **Leaving the scheme**

It is essential that the LPP receives accurate, timely information regarding a member's pay when they cease to contribute to the pension scheme. When a member leaves the scheme, please complete the online Leaver Form. The appropriate online Ill Health Declaration Form, must also be completed if the member is retiring on the grounds of ill-health.

A member who opts-out of the scheme with less than three months membership must have their pension contributions refunded to them and will be treated as never having been in the scheme. In such cases, please complete the online Leaver Form.

If a member leaves your employment with less than three months membership, their contributions will be refunded to them. Please complete the online Leaver Form.

## **Monthly remittance/end of year returns**

Each month a schedule of contributions paid must be completed with details of:

- Total pensionable remuneration against which contributions calculated
- The total employees' contributions
- The total employer's contributions
- Any cash payments that may be due from the employer

- The payment method and date.

The completed schedule of contributions paid and the contributions must be received by the Fund within 21 days of the end of the month, or 19 days for cheques, within which they were deducted from the employees' pay.

At the end of each year, a full submission of contributions must be submitted by each employer.

Please note that late submission of end of year returns will result in delayed annual benefit statements being sent to your employees, and could result in the Fund being incorrectly valued, leading to an increase in your employer contribution rate.

## **Using online Forms**

To fully co-operate with the terms of the Pension Administration Strategy, online Forms must be used. To enable you to do this, a member of staff must be nominated to be your "Site Administrator" who will be able to/responsible for:

- Set up new users and determine their access levels
- Reset usernames and password
- Unlock locked accounts
- Disable user accounts
- Keeping your organisation's contact details up to date.

In this way, you can retain control over who has access to the site and is able to input the information required. The Site Administrator will also be our first contact for any news on updates to the website.

Nothing in this guide can override the information given in the Employer's Guide, the provisions of the Pension Regulations, or related legislation. The guide was up-to-date at the time of publication in October 2018. It is for general use and cannot cover every personal circumstance, nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over a member's pension benefits, the appropriate legislation will prevail as this guide does not confer any contractual or statutory rights and is provided for information purposes only. The Fund will not be held responsible for any loss, damage or inconvenience caused as a result of any inaccuracy or error.


## **Online Forms**

Online Forms must be completed and the details immediately forwarded to the LPP to enter onto the relevant LPP systems. Any errors or inconsistencies in the data can be quickly identified and can be remedied.

End.

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	<b>Pensions Board</b> 13 December 2018
	<b>Report from the Chief Finance Officer</b>
<b>Risk Management Strategy and Risk Register</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1
<b>Background Papers:</b>	▪ N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Ravinder Jassar, Head of Finance

## 1.0 Purpose of the Report

- 1.1 This report presents the revised Risk Management Strategy and Risk Register for the Brent Pension Fund Pensions Administration Service.

## 2.0 Recommendation(s)

- 2.1 The board is asked to note the report.

## 3.0 Background

- 3.1 Effective risk management is the foundation of sound corporate governance and for the LGPS the focus should be on all aspects of the scheme's operation, not just investment matters. Having a strategy and register in place is a way for the scheme manager to identify and manage scheme risks and it is considered good practice to have a strategy and register in place alongside established reporting mechanisms.
- 3.2 Using guidance from The Pensions Regulator and CIPFA, together with Brent's internal risk management resources, a process was undertaken to produce a risk management strategy that was unique to Brent's circumstances. This involved a workshop that identified all of the relevant risks, assessed those risks in terms of likelihood, understanding risk management and contingency planning, monitoring risks and documentation in a register.

- 3.3 It is recognised that risk management works well when the administering authority, the Pensions Board and employers work together. All parties then understand each other's capacity and appetite for risk. Key elements of this strategy were discussed at a recent working party set up with the scheme manager, administrator and select employers for feedback and comment. Further engagement is planned as part of the employer consultation of the new Pensions Administration Strategy.
- 3.4 Since the Risk Register was presented to the Pension Board at its last meeting, it has been revised and updated following the move to LPP as the new systems and processes change the risk profile of certain activities.
- 3.5 The revised Risk Management Strategy and Risk Register are attached at Appendix A and it is proposed to present any changes or updates to this document to the Pension Board at every meeting.

## **5.0 Financial Implications**

- 5.1 There are no specific financial implications associated with noting this report.

## **6.0 Legal Implications**

- 6.1 None arising directly from this report

## **7.0 Equality Implications**

- 7.1 None arising directly from this report

## **8.0 Consultation with Ward Members and Stakeholders**

- 8.1 Not applicable for this report.

## **9.0 Human Resources/Property Implications (if appropriate)**

- 9.1 None arising directly from this report

**Report sign off:**

**Conrad Hall, Chief Finance Officer**

# London Borough of Brent

## Risk Strategy

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## 1. Introduction

- 1.1 This is the Risk Strategy for the London Borough of Brent Fund ("the Fund"), which is part of the Local Government Pension Scheme ("LGPS") managed and administered by the London Borough of Brent ("the Administering Authority").

The Risk Strategy details the Fund's approach to managing risk including:

- the risk approach adopted for the management of the Fund, attitudes to risk, how risk is managed and implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process

- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund

## 2. Strategy objectives

- 2.1 In relation to understanding and monitoring risks, the Administering Authority aims to:
- integrate risk management into the procedures, internal controls, and the day-to-day activities of the Fund
  - raise awareness of the need for risk management by all those connected with the management of the Fund including, the Pensions Board, maintained schools, academy's, employers and other partners
  - minimise the probability of negative outcomes for the Fund and its stakeholders
  - establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice and TPR guidance of risk
  - ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.
- 2.2 To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:
- the CIPFA Managing Risk publication
  - the Pensions Act 2004
  - the Pensions Regulator code of practise 14 as related to risk
  - the pensions Regulator Essential guide to the public service code as related to risk

## 3. Purpose of the strategy

- 3.1 The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:
- demonstrate best practice in governance
  - improve financial management
  - minimise the risk and effect of adverse conditions
  - identify and maximise opportunities for improvement and a reduction in risk along with better outcomes for members
  - minimise threats
- 3.2 The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

## 4. Effective date

- 4.1 This policy is to go before the Pension Board on 24 July 2018 for approval and will be in effect from that date.

## 5. Review

- 5.1 To be viewed quarterly by the Scheme Manager and the Pensions Board and updated as required, or if the risk management arrangements, or other matters included within it, merit reconsideration.

## 6. Scope

- 6.1 This Risk Strategy applies to all members of the Pension Board and the Pensions Fund Sub-Committee, including scheme member and employer representatives. It also applies to officers involved in the management of the Fund including the Chief Finance Officer (Section 151 Officer), Head of Finance and the Head of Pensions.
- 6.2 Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee and Sub-Committee members and Board members as required in meeting the objectives of this Policy.

## 7. Risk Management Philosophy

- 7.1 The Administering Authority recognises that it is not possible to eliminate all risks. Accepting and actively managing risks is therefore a key part of the risk management strategy for the Fund.
- 7.2 In managing risk, the Administering Authority will:
- ensure that there is a proper balance between risk taking and the opportunities to be gained
  - adopt a system that will enable the Fund to anticipate and respond positively to change
  - minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
  - make sure that any new areas of activity (new investment strategies, further joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.
- 7.3 The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## 8. CIPFA and the Pensions Regulator's Requirements

### 8.1 CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### 8.2 The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

#### ***"249B Requirement for internal controls: public service pension schemes***

- 1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed:
- (a) in accordance with the scheme rules, and
  - (b) in accordance with the requirements of the law.
- (2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.” Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator’s code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly.

The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the experience of the person(s) performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

8.3 The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Strategy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

## 9. Responsibility

9.1 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the officers are responsible for ensuring the process outlined below is carried out, subject to the oversight of the Pension Board.

However, it is the responsibility of each individual covered by this Strategy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## 10. The London Borough of Brent Pension Fund Risk Management Process

10.1 The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.

(1)	Risk Identification
(2)	Risk Analysis
(3)	Risk Control
(4)	Risk monitoring

### 10.2 Risk identification (1)

The risk identification process is both a proactive and reactive one. Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises overseen by the Scheme Manager, Pension Board, and Pension Sub Committee
- performance measurement against agreed objectives
- monitoring against the Fund's business plan to be available Q4 2018
- findings of internal and external audit and other adviser reports
- feedback from the Pension Board, maintained schools, academy's, employers and other stakeholders
- liaison with other organisations, regional, national associations, and professional groups

Once identified, risks will be documented in the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

### 10.3 Risk analysis (2)

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Risk level Reasoning		Likelihood	Impact	Score	Risk Types	Risk Planning	Expected Outcomes
Risk Level	%	1 Least Likely 10 Most Likely	1 Least Likely 10 Most Likely	Likelihood Times Impact			
<b>Low</b>	1 to 20	1	10	10	Risk known	Planned for in advance	Countered by plans and procedures in place if needed
Green Low							
<b>Low to Medium</b>	20 to 50	2	10	20	Risk possible concerns	Monitored	Monitored and plans in action or more actions will be put in place if required
Yellow Low to Medium							
<b>Medium to High</b>	50 to 75	5	10	50	Risk manageable	Managed	Active and pro active longer term plans in place,
Orange Midium to High							



							subject to close monitoring and rapid action if required
High	75 to 100	8	10	80	Risk having a major impact	Planned actions in place	Action plans in place, monitored weekly, longer term before risk will reduce
Red High							

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

#### 10.4 Risk control (3)

The Head of Finance (Pensions) will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur.

Before any such action can be taken, Pension Board and Pension Sub Committee approval may be required where appropriate officer delegations are not in place.

The result of any change to the internal controls could result in any of the following:

- Risk elimination, for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction, for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer, for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Administering Authority will update the Fund's business plan (Due Q4 2018) in relation to any agreed action as a result of an identified risk.

#### 10.5 Risk monitoring (4)

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Board. In monitoring risk management activity, the Pension Board will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- are there any lessons to be learned for the future assessment and management of risks.

### 11. Reporting and monitoring

11.1 Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on a quarterly basis to the Pension Board.

The Pension Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 10 or more) or new major risks (for example, scored 25 or more).

As a matter of course, the Pension Fund Board will be provided with the same information as is provided to the Pension Committee (or Pension Sub-Committee as appropriate) and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Strategy on a quarterly basis taking into consideration any feedback from the Pensions Board and Pensions Sub Committee.

## 12. Key risks to the effective delivery

12.1 The key risks to the delivery of this Strategy are outlined below. The Pension Board will monitor these and other key risks and consider how to respond to them following updates and recommendations from officers:

- Risk management is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately
- Risk plan is not monitored to ensure actions to reduce risk have been taken and new risks that have been identified are not recorded, monitored and carried out, will lead to risk not being managed in line with Risk Policy

## 13. Risk Register Appendix A

The Risk Register Appendix A :

- 1 Risk Area Disaster Recovery
- 2 Risk Area Business Continuity Planning
- 3 Risk Area Risk Planning
- 4 Risk Area Data Security
- 5 Risk Area Pension Administration
- 6 Risk Area Plan Events
- 7 Risk Area ns
- 8 Risk Area TPA Transition
- 9 Risk Area Regulatory
- 10 Risk Plan Funding & Accounting


End

1	Risk Area Disaster Recovery	Risk & Outline	Likelihood	Impact	Score	Control	Owner	Test	Review Due	Comment 1
1.1	Operational Disaster Recovery Plans Brent	Loss of or unable to access admin systems for: a) Pensions b) Payroll c) Pensioner payroll	1	10	10	Brent Council Business Continuity Procedures	Brent	Annual	2019	Brent Council disaster recovery plan in place
1.11		Pension Systems I.T.	1	10	10	Database of all: a) Advisors b) Suppliers c) Contracts	Brent	Annual	2019	Held as hard copy by Brent Council's Legal Department
1.2	Operational Disaster Recovery Plans LPP	Loss of or unable to access LPP admin systems for pensions	1	6	6	LPP Shared Service Agreement.	LPP	Annual	2019	From 1 October 2018 LPP disaster recovery plan in place as part of their Shared Service Agreement with Brent Council
1.21		LPP Pensions Admin System (Altair) used by Brent Council Employers, Maintained Schools and Academy's	1	6	6	LPP Shared Service Agreement	LPP	Annual	2019	LPP have a recovery plan in place for their pension admin platform Altair (External provider Aquila/Haywood)
1.3	<b>Risk Area Business Continuity Planning</b>		<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
1.31	Business Continuity	LPP Financial Standing	1	10	10	LPP Service Contract	Brent	Annual	2019	Brent Council unaware of any financial problems for the LPP
2	<b>Risk Area Risk Planning</b>		<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
2.1	Risk Planning And Monitoring	Not monitoring: a) Risk and the risk plan b) And amending it as required c) Or adding new areas of risk as they appear  Will lead to the risk plan being: a) Inaccurate b) Known risks not being accounted for c) No plans to address these risks	1	10	10	Risk Plan	Brent	Annual	2019	The Risk Register is monitoring and reviewed by the Scheme Manager and the Pensions Board.  Areas of risk are when required: a) Updated b) Amended c) New risks added if identified
3	<b>Risk Area Data Security</b>		<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
3.1	Data Security	External attack, loss of data, locked out of data, poor internal procedures can lead to an increased risk of attack from: a) outside b) or internal fraud	2	10	20	Brent Council Data Security Procedures	Brent	Annual	2019	Procedures on data security in place, systems kept up to date with latest security updates
3.12		Not backing up data regular using secure backup systems	2	10	20	Data Back Up Procedures.	Brent	Annual	2019	Data is backed up on an incremental basis daily and fully backed up weekly, data kept in secure sites.
3.12		a) Clean desk policies not being adhered to: b) Cabinets left open or not locked c) Documents left out overnight d) Documents left on colleagues desk when they are away e) Computer not locked when operator leaves their desk	2	5	5	Brent Council Data Security Procedures	Brent	Annual	2019	Possibility of: a) Sensitive data being seen by unauthorised persons b) Data theft c) GDPR breached e) Brent Councils reputation put at risk
3.14		Taking laptops away from desk that are not password protected with encryption, using them on public transport  Not storing laptops in secure location when not in use	1	5	5	Brent Council Data Security Procedures	Brent	Annual	2019	This can lead to: a) Large losses of sensitive data b) Unauthorised people seeing sensitive data while on public transport c) Breach of GDPR d) Breach of Councils policies and dismissal from service
3.2	General Data Protection Regulations	New General Data Protection Regulations (GDPR) came into effect 25 May 2018, failure to comply with GDPR will lead to: a) Complaints b) Data breaches c) Possible fines d) Loss of reputation	1	10	10	Brent GDPR Policies	Brent	Annual	2019	Brent has GDPR policies in place and publishes GDPR privacy notices: a) Online b) Yammer c) In news letters d) In communications to its members, employers, academy's, maintained schools
3.21		Sending sensitive data by email ensuring it will be sent to the right recipient and encrypted, or using a secure transmission system	2	8	16	Brent GDPR Policies	Brent	Annual	2019	Sensitive data being sent to an unauthorised person or business leading to breach of GDPR
4	<b>Risk Area Pension Administration</b>		<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
4.1	(Backlog) LPP Pension Administration Post Capita Handover November 2018	Backlog of work from Capita: a) Delay in administrative processing because of incomplete scheme data b) Increased administration costs c) Members benefits being delayed d) Increase in complaints e) Places an unwarranted and costly drain on Brent resources	5	10	50	LLP Shared Service Agreement	Brent	Monthly	Monthly	Backlogs of work from Capita must be cleared as soon as possible, extra resource outside of BAU to be provided by the LPP  Plan in place to treat the backlog inherited from Capita is being done as a separate project so resources not take away from BAU administration
4.2	(Scheme Data) Scheme Data Provided to LPP by Capita for: Maintained Schools Academy's Employers	Missing common and Scheme Specific data not provided by employers, maintained schools and academy's leads to delay in progressing administration for members	5	10	50	LPP Data Check November 2018	Brent	Annual	2019	LPP run a test of the data sent by Capita October 2018 Common Data 98% improved from 2017 Scheme Specific data 93% same as 2017
4.3	Record Keeping Planning	Not updating the record keeping plan to take into account changes of circumstances through the year could lead to a failure to take corrective action leading to a drop in the quality of scheme data or delays in processing member benefits	5	10	50	RKP 2018	Brent	Monthly	Monthly	Brent record keeping plan to be created December 2019 to deal with poor common data and scheme Specific data being below requirements as highlighted the LPP November 2018 data check
4.4	(Employer Data) Maintained Schools Academy's Employers Supplied Data to Capita	Failure by Maintained Schools, Academy's, Employers to provide data accurately and on time to the LPP results in poor scheme data held by the LPP	5	10	50	PAS 2018	Brent	Annual	2019	Employers to export data monthly to LPP system highlighting data problems by import validation, also reporting from the admin systems of missing files leads to early indication of employers having data problems  Training to be provided to employers by the LPP on using the systems and what LPP requires from employers  Revised PAS sets out what employer need to be doing
5	<b>Risk Area Plan Events</b>		<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>

5.1	Pension Plan Events Planning	Plan events such as: a) Annual benefits statements b) Year end reporting to the TPR c) Accounting d) Pension increases e) Plan valuations f) All require planning in advance to ensure completion on time	4	10	40	Plan Calendar	Brent	Annual	2019	Plan Calendar to identify events: a) What work is required b) What recourses will be used c) Completion and sign off
5.12		Pension projects such: a) GMP reconciliation b) Changes in legislation that needs to be actioned c) GMP equalised for men and woman	5	10	50	Plan Calendar	Brent	Annual	2019	To allow longer term planning for items such as: a) GMP reconciliation b) New legislation coming in to effect c) Ensure Plan events are completed on time d) Prepare for GMP equalisation
5.3	Active Benefits Statements 2017/18	Failure to have the necessary correct and accurate data will lead to: a) Statements not being sent b) Possible delay sending statements whilst this data is obtained and systems updated	6	10	60	LLP Shared Service Agreement	Brent	Annual	2019	Data improvement being carried out under RKP 2019
5.31		Annual Benefits Statement dependant on: a) Common Data b) Scheme Specific data c) Data being improved from the RKP 2019 (RKP 2019 to be finalised December 2018)	5	10	50	LLP Shared Service Agreement	Brent	Annual	2019	Improvement to common and Scheme Specific data will be complete by 2019
5.4	Deferred Member Benefit Statements 2017/18	Incorrect Statutes, no address, missing data to calculate leads to: a) Statements not being issued b) statement inaccurate c) Incorrect valuation and liabilities for the Plan.	5	10	50	LLP Shared Service Agreement	Brent	Annual	2019	Member data is being dealt with under the 2018 Record keeping Plan Address updates from common data improvements plan have lead to more annual benefits sent out in 2018
5.5	Year End Return	Failure to complete year end return and submit on time leads to fines	2	10	20	PAS 2018 & Plan Calendar	Brent	Annual	2019	All Plan calendar events to be recorded with plans to ensure they are carried out, better planning for EOY with pro active action to get employers to provide data on time in place, 2019 data from employers moves to monthly electronic submissions which will improve the presence of data considerably
5.51	Admission Agreements	Failure to process an admission agreement within the time frames set on in LGPS regulations can lead to transferring employers pension entitlements being delayed, legal issues stopping the agreement from being implemented and costs incurred that can not be recovered	5	10	50	Internal Controls	Brent	Annual	2019	Process for admission agreements to be strengthened
5.52		Not having procedures and processes to processes and monitor agreements are on track and any reason for delayed identified and acted on could lead to delays in implementation of the agreement	5	10	50	Internal Controls	Brent	Annual	2019	Monitoring for admission agreement to be improved
5.53		Oversight of the legal team and ensuring that they are processing the legal agreements in the time set out in the procedures and requirements of admission agreements is a major factor on processing an admission agreement on time	5	10	50	Internal Controls	Brent	Annual	2019	Overseeing of the legal team on admission agreement by the Scheme Manager to ensure no delays and prompt processing of agreement becomes a priority
5.54		Failure to keep to rules and regulation on admission agreement will require this failure to be reported to the TPR	5	10	50	Internal Controls	Brent	Annual	2019	Breaches log to bring attention of failing and lessons learned in processing admission agreements
6	<b>Risk Area Auto Enrolment</b>	<b>Risk Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
6.1	Auto Enrolment	Failure to process auto enrolment on time leads to: a) Member complaints b) Members unable to opt out or in c) Delayed administration d) Possible action by the regulator to improve or be fined	1	40	40	Auto Enrolment Procedures	Brent	2019	2019	Auto enrolment checked monthly for: a) Enrolment b) Opt outs c) Opt ins d) Auto Enrol Renewal, as part of Brent procedures for pensions and payroll
7	<b>Risk Area Regulatory</b>	<b>Risk &amp; Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
7.1	Anti Fraud Initiatives Mortality Existence	Benefits paid to people not entitled to benefits from the LGPS	2	5	10	2019 Anti Fraud Plan	Brent	Annual	2019	Administration processes check for fraud
7.2	Pension Board Training	Pension Board members not having the appropriate degree of knowledge and understanding to perform their duties. Pension Board member not having the right knowledge to make informed decisions and challenge Officers of the Council	1	5	5	Pension Board Training Plan	Brent	Annual	2019	Regular training is provided via a training programme for Pension Board members All Pensions Board members to complete and pass the TPR public pensions course online
7.3	Pension Board Conflict Of Interest	Conflicts of interest must be declared in the Register of Interests Failure to declare an interest can lead to serious consequences and pose a risk to the Plan and possibly member	1	5	5	Conflict of Interest Register	Brent	Annual	2019	The register of interests and other relevant documents are circulated to the Pension Board for ongoing review and are published on the Brent Council's website
7.4	Governance	Failure to have good governance plans in place which are reviewed and monitored can lead to: a) Poor administration b) Increased administration costs c) Poor investment outcomes d) Increased levels of risk e) Not understanding what the risks are and having plans to manage the risk f) Statutory requirements not being met such as: g) Annual benefits statements not being produce and sent out h) Pension saving statements not being produce and sent out i) Year end returns late	1	3	3	Multi areas cover governance: a) Plan Rules b) Business Plan c) PAS 2018 d) Scheme Manager e) Pensions Board f) Pensions Sub Committee.	Brent	Annual	2019	Governance is monitored by: a) Scheme Manager b) Pensions Board c) Pensions Sub Committee d) Internal and External Controls

7.5	Failure to make provision for oversight of the administration of the Plan	Failure to ensure that overall oversight is in place and carried out can lead to: a) Breaches of the law b) Poor administration and record keeping c) Unauthorised payments d) Poor administration being allowed to continue e) Failure to meet deadline on time f) Possible fines g) Fraud to occur h) Loss of confidence and reputation for the Council	1	2	3	The Pension Board assists the Scheme Manager in the provision of oversight of how the Plan is administered	Brent	Ongoing	2019	The oversight of the plan is carried out by the Scheme manger with assistance from the Pension Board
7.6	Discretions	A decision to add pension or disregard a reduction on pension for early payment leads to increased costs to the employer	1	5	5	Chief Financial Officer	Brent	Annual	2019	Discretions under review on early retirement with actuarial reduction, Discretions are covered under LGPS Rule 30 (2&5)  In preparing such a statement the Council must have regard to the extent to which the discretions are exercised to avoid a loss of confidence in the service provided
7.7	Pension Breeches	Breaches not recorded and failure to report a breach to the regulator can lead to fines and loss of reputation	1	5	10	Breaches Log	Brent	Monthly	Monthly	Breaches log to monitor all breaches and report of breached to the regulator Pension Board reviews the breaches log
8	Risk Plan Funding & Accounting	Risk & Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
8.1	The Fund's Assets Insufficient To Meet Long Term Liabilities	Pension Fund Assets not sufficient to pay: a) Pension benefits b) Transfers c) Death benefits d) Could lead to raising of pensions contributions e) Plan has to reduce benefits f) Reassessment of the funding strategy	2	10	20	Public Sector Payroll Controls	Brent	2018	2019	Contributions are checked on a monthly basis Overdue Contributions: Employers Academy's Maintained Schools Are actively chased
8.11			1	10	10	The Funding Strategy Statement	Brent	Tri Annual	2019	The next Triennial Review is 2019 and will be reported to the Pension Board and is reviewed to ensure asset allocation is appropriate
8.12			1	10	10	Fund's Funding Level Assessment	Brent	Quarterly	2019	The actuary Hymans Robertson provides regular reports on funding levels
8.2	Pension Contributions not Paid by:	Effects the Plans abilities to: a) Pay out benefits b) Braking the law on pension contribution collections. c) Unnecessary costs for chasing for contributions. d) Continuing non payment for pension contributions will lead to: e) Breaches for the payment of pension contribution regulations f) Being reported for breaches as required by law g) Delay benefits beginning paid h) Can lead to delays in accounting for pension contributions	2	10	20	PAS	Brent	2018	2019	Procedures in place to deal with pension contributions not being made or late
8.21	Maintained Schools Academy's Employers		2	10	20	PAS	Brent	Annual	2019	Engaging with: a) Employers b) Academy's c) Maintained Schools d) With working parties and employer forums e) LPP to provide more support in this area
8.23	a) On time b) Or not at all c) Refusal to pay		2	10	20	PAS	Brent	2019	2019	Contributions are monitored on a monthly basis and late or non payers reported. 2019 Revised PAS to include fines for non compliers
8.3	Pension Plan Accounting	Failure to comply with accounting regulations will lead to serious consequences: a) Possible fines b) Loss of reputation	2	10	20	Annual audit	Brent	2019	2019	Accounts for the year to 31 March 2017 signed off by auditors KPMG LPP
8.31			1	10	10	Triennial valuations	Brent	Tri Annual	2019	Last triannual was 2016, next triannual valuation 2019
8.32			1	10	10	The Funding Strategy Statement	Brent	Tri Annual	2019	The next triennial review is 2019 and will be reported to the Pensions Committee This is reviewed in line with the triennial valuation to ensure asset allocation is appropriate.
8.33			1	10	10	Fund's Funding Level Assessment	Brent	Quarterly	2019	The actuary Hymans Robertson provides regular reports on funding levels
8.34			1	10	10	Annual Audit	Brent	Annual	2019	Accounts for the year to 31 March 2017 signed off by auditors KPMG LPP

Risk level Reasoning		Likelihood	Impact	Score	Risk Types	Risk Planning	Expected Outcomes
Risk level	%	1 Least Likely 10 Most Likely	1 Least Likely 10 Most Likely	Likelihood Times			
Low	1 to 20	1	10	10	Risk known	Planned for in advance	Countered by plans and procedures in place if needed
Low to Medium	21 to 50	2	10	20	Risk possible concerns	Monitored	Monitored and plans in action or more actions will be put in place if required
Medium to High	51 to 75	5	10	50	Risk manageable	Managed	Active and pro active longer term plans in place, subject to close monitoring and rapid action if required
High	76 to 100	8	10	80	Risk having a major impact	Planned actions in place	Action plans in place, monitored weekly, longer term before risk will reduce

	<b>Pensions Board</b> 13 December 2018
	<b>Report from the Chief Finance Officer</b>
<b>Local Government Pension Scheme (LGPS) Regulations</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Ravinder Jassar, Head of Finance Anna McCormack, Senior Pensions Officer

## 1.0 Purpose of the Report

- 1.1 This report updates the board on recent changes to the Local Government Pension Scheme regulations and other key developments from the Local Government Association's Pensions Committee.

## 2.0 Recommendation(s)

- 2.1 The board is asked to note the report.

## 3.0 Auto enrolment

- 3.1 Every three years all employers have a legal duty to assess and re-enrol staff who have left the workplace pension scheme. This is known as 're-enrolment'. Each employer must then submit a re-declaration of compliance to The Pensions Regulator informing them that our legal duties have been met, even if there are no staff to re-enrol.
- 3.2 Brent last carried out re-enrolment duties on 1 February 2016 and will need to do so again. The key steps required in order to complete these duties are:
1. Choose a re-enrolment date.

This is the date on which Brent will need to assess and re-enrol eligible staff. A date between 1 November 2018 and 30 April 2019 needs to be chosen.

2. Work out who needs to be re-enrolled.

On the chosen re-enrolment date an assessment will need to be carried out to work out who needs to be put back in to the pension scheme.

3. Write to staff that are being re-enrolled.

Within 6 weeks of the chosen re-enrolment date all eligible staff will need to be written to to explain that they have been put back in the pension scheme.

4. Re-declaration of compliance.

A re-declaration of compliance will need to be signed, confirming that we have met our legal duties, by 1 July 2019.

- 3.3 Auto enrolment is a legal duty for all employers. Failure to comply with all of the relevant steps may result in enforcement actions by The Pensions Regulator, including fines.

#### **4.0 Triennial valuation of the LGPS**

- 4.1 The next triennial valuation of the Brent Fund will be as at 31st March 2019. The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets meet its liabilities. Employer contribution rates may change depending on the results of valuations
- 4.2 The fund's actuary, Hymans Robertson, will carry out the valuation. Hymans use a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.
- 4.3 The portion of the total employer contribution which relates to the past service cost is known as the deficit contribution, and is often payable in cash terms. The portion of the total employer contribution which relates to the future service cost is known as the future service rate and is normally payable in percentage of pay terms.
- 4.4 In order ensure a smooth 2019 valuation process, planning with the actuary has begun as well as early completion of key valuation calculations. This includes:

1. **Carrying out early data cleansing.**

Looking back to the 2016 valuation, and with the complexities introduced by the CARE scheme, the most significant efficiency barrier was poor data quality. As part of the move to LPP a detailed review of key valuation dependent data sets is being undertaken to ensure data submitted is as accurate as possible.



## **2. Doing some of the valuation now.**

We have engaged with Hymans earlier than previous valuations to agree a valuation timetable and review and test key contribution strategies.

## **3. Engage with employers.**

Doing some of the valuation modelling earlier will allow more time to engage with employers to discuss funding plans and reflect changes in contribution rates into their budgets. An employer forum was held on 12 October notifying employers of the valuation plans and a further event is planned in February 2019.

## **5.0 Local Government Pensions Committee monthly bulletins**

- 5.1 The Local Government Association's Pensions Committee produces a monthly bulletin for employers and members that covers a wide range of pensions administration topics. The bulletins produced in the months up to the date of despatch of this report are attached as appendices. The main noteworthy topics for the Pension Board to note are:

### **1. The Pensions Regulator 2017/18 Scheme Return – conditional data.**

The scheme return is a statutory annual return to The Pensions Regulator. The 2018/19 return will include new requirements to report and score scheme specific (conditional) data to reflect the additional scrutiny TPR are applying on the LGPS.

LPP have reviewed the data that transferred from Capita in November 2018 and assessed the accuracy as 93.4%. Although no comparative analysis is available on this score it has been deemed as adequate, albeit requiring improvement, by LPP and the Hymans Robertson. As a result, Brent has commissioned LPP to conduct a separate project to rectify all error types and to prioritise errors that will have a significant impact on the valuation.

### **2. Analysis of the LGPS Academy Sector**

The Government Actuary Department (GAD) has now published the work commissioned by MHCLG and DfE to review the treatment of academies within the Local Government Pension Scheme. In particular, GAD was asked to gather evidence on the variation in treatment of academies within and across different LGPS Funds.

The principle conclusions were that there is a high degree of variability in individual contribution rates (some academies contribution rates exceed 30% of pay, whilst others pay less than 10%) and funding levels for academies both within and across Funds (some academies have funding levels below 25% whilst others are above 100%). A wide range is also observed for LAs. The data indicates that, on the whole, academies are treated consistently with LAs with regard to the 2016 valuation funding assumptions.

### **3. Reporting of pension fund transactions**

The Government's Actuary Department (GAD) has introduced a new requirement for the reporting of LGPS pension fund transactions for cash flows from April 2017 onwards.

A new split of transactions is required in order that GAD may undertake their cost control calculations under sections 11 and 12 of the Public Service Pensions Act 2013.

Under regulation 114(4) of the LGPS Regulations 2013, Brent as an administering authority must provide GAD with the information it requires in order to undertake a valuation of the Scheme. Brent must therefore hold and be able to provide the information required by GAD from 2017/18 onwards in order to comply with the 2013 Regulations.

Previous communications on this topic have suggested that this information would also be required to be included in LGPS fund accounts via amendments to the Accounts and Audit Regulations 2015 (SI2015/234). However, it has since been agreed that this data need not be included in fund accounts and the accounting regulations will therefore not be amended for the purposes.

In 2019, Brent would be required to provide the data to GAD for the 2017/18 and 2018/19 scheme years.

## **6.0 Financial Implications**

6.1 There are no specific financial implications associated with noting this report.

## **7.0 Legal Implications**

7.1 None arising directly from this report

## **8.0 Equality Implications**

8.1 None arising directly from this report

## **9.0 Consultation with Ward Members and Stakeholders**

9.1 Not applicable for this report.

## **10.0 Human Resources/Property Implications (if appropriate)**

10.1 None arising directly from this report

**Report sign off:**

**Conrad Hall, Chief Finance Officer**

Local Government Pensions Committee  
Secretary, Jeff Houston

## **LGPC Bulletin 174 – July 2018**

Please contact [Jayne Wiberg](#) with any comments on the contents of this bulletin or with suggestions for other items that might be included in future bulletins.

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## LGPS England & Wales

### Exit credits – tax position confirmed

The LGPS (Amendment) Regulations 2018 introduced the requirement to pay an exit credit to exiting employers where, at the exit date, an employer's assets in the fund exceed the liabilities.

As confirmed in [bulletin 171](#), the tax position of an exit credit was initially unclear and MHCLG were seeking clarification from HMRC.

By way of background, section 207 of the Finance Act 2004 sets out the tax rules governing authorised surplus payments paid from a registered occupational pension scheme to a sponsoring employer. Any tax due, is paid under the Registered Pension Schemes (Authorised Surplus Payments) Regulations 2006 [SI 2006/574]. Regulation 3 of those regulations applies to those schemes that fall under section 37 of the Pensions Act 1995. However, section 37 of the Pensions Act 1995 only appeared to apply to trust based schemes, hence the reason for doubt as to whether or not an Exit Credit should be treated as an authorised surplus payment under section 207 of the Finance Act 2004, and taxed accordingly.

On 24 July 2018, we confirmed in an email to administering authorities that HMRC have made the pronouncement below in relation to exit credits payable to former scheme employers:

*"I can now confirm that there will be no tax charge on the payment and that there is no requirement for the scheme administrator of the pension scheme (or sub-scheme administrator of the sub-scheme) to report the payment to HMRC".*

### TPR 2017/18 Scheme return – conditional data

On 16 July 2018, Bob Holloway, secretary of the Scheme Advisory Board (SAB) informed administering authorities that the Government Actuary's Department has shared a comprehensive list of conditional data with the attendees of the five regional data quality/section 13 roadshows. The prevailing view was that the complete list of 84 data items, which comprised of around 60 items from the [Universal Data Extract \(UDE\)](#) (this is the version that the pensions software providers are working too), would entail a significant amount of additional coding by software providers and extra cost for administering authorities.

In a meeting with the Pension Regulator's (TPR) public service team, TPR confirmed that the first year of conditional data will, to a certain extent, be used as a tool to assess the current position of the scheme managers' data score. It will be used to assess the methodology adopted by each scheme in both selecting and measuring their conditional data. On that basis, in the first year, TPR are not overly concerned with consistency across all LGPS scheme managers.

In his email of 16 July, Bob Holloway asked for scheme managers' comments on adopting the UDE as a basis for completing the conditional data section of the forthcoming TPR administration and governance survey. It is appreciated that the UDE is essentially a tool used in connection with local fund valuations, so it would be helpful if any comments could include reference to any data items that are not on the

UDE but should be included in the conditional data list. The extended deadline for comments to [Bob Holloway](#) was 30 July 2018.

We understand that TPR will issue guidance on completing the survey in August 2018. The survey will be issued in September 2018 with a six-week turnaround for completion.

### Updates to bulletin 171

In May 2018, we published [bulletin 171](#) providing a commentary for LGPS administering authorities in England and Wales on the changes to the LGPS introduced by the Local Government Pension Scheme (Amendment) Regulations 2018 ([SI 2018/493](#)).

Since publication, we have made a number of clarifying amendments to the bulletin and have now published an updated version (dated July 2018). The updated version replaces the first version with the amendments shown in tracked changes.

### Updates to guides

Following the issue of the LGPS (Amendment) Regulations 2018 [[SI 2018/493](#)] by MHCLG in April 2018, the following documents have been updated and are available under [guides and sample documents](#) on [www.lgpsregs.org](http://www.lgpsregs.org)

- Discretionary policies (version 1.8)
- Discretions list (version 1.6)
- Underpin scheme administrator guide (version 1.8)
- Freedom and Choice – AVC technical guide (version 2.0)
- Freedom and Choice - AVC template letters (version 2.0)

Please note, as mentioned in [bulletin 171](#), the expansion of the underpin change is backdated to 1 April 2014. Administering authorities are reminded that they need to review past cases to determine if the underpin should have applied to benefits that are already in payment.

### Updates to timeline regulations

The timeline regulations pages on [www.lgpsregs.org](http://www.lgpsregs.org) have been updated to incorporate the Police, Fire and Crime Commissioner for Staffordshire (Fire and Rescue Authority) Order 2018 [[SI 2018/696](#)].

The Order comes into effect from 1 August 2018 and deals with the transfer of the fire and rescue function from Stoke-on-Trent and Staffordshire Fire Authority to Staffordshire PCC.

Regulation 11 modifies regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained) of the LGPS Regulations 2013 so that they are to be read as if after 64(8), new paragraphs (8A) and (8B) were inserted.

These paragraphs confirm that no exit payment is due where the exiting employer is the Stoke-on-Trent and Staffordshire Fire Authority and the liabilities of the fund in respect of the benefits due to the Stoke-on-Trent and Staffordshire Fire Authority's

current and former employees (or those of any predecessor authority) have been or are to be transferred to the Staffordshire Commissioner Fire and Rescue Authority under a transfer scheme made under section 4C of the Fire and Rescue Service Act 2004.

## **LGPS Scotland**

### **Draft Regulations - The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2018**

As reported in [bulletin 167](#), Scottish Ministers have decided that the approach to be taken concerning overpayments arising from the contracted-out reconciliation exercise should be in keeping with a similar [exercise](#) that took place in 2008/2009.

This means that any LGPS pension in payment affected by the contracted-out reconciliation exercise would not be reduced. The GMP related overpayment would be converted into an 'increased pension entitlement' (IPE) allowing the pension to continue at its existing level (the IPE will be an authorised payment for tax purposes because the scheme rules are to be amended – regulation 14(5) Registered Pension Scheme (Authorised Payments) Regulations 2009 [[SI 2009/1171](#)]).

On 12 July 2018, SPPA published a [consultation](#) to facilitate the above approach. There is at least one difference between the 2008/2009 approach to that within the 2018 consultation. In so much, that the IPE awarded following the 2008/2009 [exercise](#) was 'frozen' at the level of discovery, however, the 2018 consultation provides for 'annual indexation' to be applied to the IPE.

The consultation closes on 11 October 2018 and anyone wishing to respond must do so by that date. All of the documents have been uploaded to the '[Scheme consultations](#)' page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **Letter of comfort – LGPS (Scotland) Regulations 2018**

Following the introduction of the 2018 Regulations [[SSI 2018/141](#)], SPPA identified a number of areas that required further clarification. In particular, a concern regarding the revocation of the LGPS (Scotland) 2014 Regulations [[SSI 2014/164](#)], which had the unintended effect of revoking rights and liabilities built up under the 2014 Regulations.

SPPA are working on a set of amendment regulations to correct the issues identified. Meanwhile, on 30 July 2018, they issued a [letter of comfort](#) to Scottish administering authorities, signed by Kate Forbes, Minister for Public Finance and Digital Economy, to cover the interim period between 1 June and the amendments coming into force.

### **SLGPS structure review consultation**

On 19 June 2018, the Scheme Advisory Board to the Scottish LGPS issued a [consultation](#) on how the Scottish Local Government Pension Scheme (SLGPS) should best be structured to serve its members and sponsors.

The consultation seeks to compare the advantages and disadvantages of the current scheme structure against three options that, by differing degrees, consolidate the functions of the scheme's 11 constituent funds by collaboration, pooling and merger.

The purpose of the consultation is to seek views on four possible options ranging from maintaining the status quo to full consolidation into one or more larger funds.

The consultation is open to LGPS employers and employee representative groups only. Responses should be made online by downloading and completing the consultation response form and returning this form to the [Pensions Institute](#) by 7 December 2018.

### Updates to timeline regulations

Following the publication of the consolidated LGPS (Scotland) Regulations 2018 [SSI2018/141] in May 2018, a [timeline version](#) of the new regulations is now available on [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

## HMRC

### Contracted-out reconciliation – urgent action

In [countdown bulletin 24](#) (set out in [bulletin 156](#)) HMRC confirmed that the reconciliation exercise must be completed by December 2018 and that there will be no facility to raise queries after October 2018. Most importantly, HMRC also confirmed that the October 2018 deadline is for ‘follow up/final queries’, suggesting that it would not be appropriate to leave the submission of ‘first time around’ queries until October 2018.

Earlier this month the Secretariat met with HMRC who raised their concerns regarding the progress LGPS administering authorities are making towards the completion of the contracted-out reconciliation exercise. The statistics are set out in the table below.

Of particular concern are the 24 administering authorities who have raised less than 10% of queries, against the total membership HMRC have recorded as being eligible for reconciliation. As mentioned in countdown bulletin 24, the October 2018 deadline date, is for raising all queries, including follow up/final queries. Experience amongst the public service has shown that follow up queries are necessary, once the administrator receives their first batch of responses from HMRC. Essentially, this brings forward the deadline date for raising ‘first time around’ queries to HMRC.

We strongly urge administering authorities, who have yet to raise all of their ‘first time around’ queries with HMRC, to do so as a matter of urgency. Where the reconciliation exercise is not completed administering authorities are at risk of paying incorrect pensions (over and under payments) and retaining liability for GMP’s which may not belong to that authority.

% of queries raised against HMRC recorded membership of LGPS Fund	No. of administering authorities
0%	12
Greater than 0% and less than 5%	9
Greater than 5% and less than 10%	3



Greater than 10% and less than 30%	20
Greater than 30% and less than 50%	24
Greater than 50%	28

### Countdown bulletin 35

On 29 June 2018, HMRC published [Countdown bulletin 35](#) including articles on:

- scheme cessation guidance for Pension Scheme Administrators (PSAs)
- new automated solution for 2R local authority funds liability part period
- new automated solution for change of Responsible Paying Authority (RPA)
- Guaranteed Minimum Pension (GMP) checker

Of particular interest is the article concerning the new automated solution for recording liability for part periods of contracted out membership within the LGPS. Local authority pension funds use a generic contracted-out ECON (2R) and this has caused issues for HMRC when individuals have transferred between local authority jobs. HMRC membership records are not always recorded as separate periods, resulting in a continuous period incorrectly existing on their records. HMRC have implemented a solution that will interrogate the employer history for the HMRC period and, where it suggests the scheme membership is correct, the membership will be debited and re-input as separate periods accordingly. The input file deadline for scheme administrators of the LGPS to raise any queries with HMRC is **1 August 2018**.

### New automated solutions

HMRC have issued two new automated solutions:

- the [Change of Responsible Paying Authority automated solution](#) targets “Not In Scheme” (NIS) or “Was In Scheme” (WIS) queries.
- the [CEP Debit automated solution](#) is required to answer queries around memberships where a Contribution Equivalent Premium (CEP) method of preservation has incorrectly been added to a membership.

### Pension Schemes Newsletter 100

On 29 June 2018, HMRC published [pension schemes newsletter 100](#) including articles on:

- manage and register pension schemes service (see article in [bulletin 173](#))
- registering as a scheme administrator and applying to register a pension scheme
- transfers between registered pension schemes
- annual allowance calculator
- recognised overseas pension schemes (ROPS) notifications list
- taxation of flexi access payments

Of particular interest are the articles on:

- **Transfers** - where a member elects to transfer their pension savings to another registered pension scheme, the scheme administrator of the transferring scheme can ask HMRC for confirmation of a receiving scheme's



registration status. HMRC will only confirm the registration status of a receiving scheme if both of the following apply:

- the scheme is registered
- HMRC does not hold information to suggest that there is a significant risk of the scheme being set up or being used to allow pension liberation.
- **Annual Allowance calculator** –the Annual Allowance calculator was moved back on line on 6 July 2018 (this was confirmed in an email circulated to administering authorities by the LGPC Secretariat on 13 July 2018).

## The Pensions Regulator (TPR)

### Beware cold-calls from fraudsters claiming to be from TPR

On the 17 July 2018, TPR published a [press release](#) concerning fraudsters who may be trying to steal the savings of workers by falsely claiming to be calling from TPR.

TPR has received reports of pension holders being cold-called by individuals who have posed as TPR staff offering the workers a 'free pension review'. TPR have confirmed that this is a common warning sign of a scam as TPR never cold-calls individuals about their pensions. TPR has reported the cases to the Information Commissioners Office (ICO) for investigation and will also report any future cases.

TPR has advised pension holders that if they are cold-called about their pension, or believe they could be the victim of pension fraud, to contact Action Fraud on 0300 1232040.

We recommend administering authorities bring the contents of this [press release](#) to the attention of their members.

## Other News and Updates

### The Pensions Ombudsman (TPO) newsletter

TPO has published the fourth edition of its stakeholder [newsletters](#). If LGPS funds have ideas for topics TPO could include in future newsletters, please contact [Mairi Spiby](#) (TPO).

## Training

### Circular 308

On 9 July 2018, we published [Circular 308](#) advertising our Understanding workshops on Transfers and 'Insight' residential course.

In September 2018, we will be running a series of "Transfers" workshops:

4 September	Leeds	Marriott Hotel
7 September	London	Victoria Park Plaza Hotel
11 September	Manchester	McDonald Hotel
13 September	Bristol	Double Tree Hilton Hotel
25 September	London	Etc Venues

Additionally, the 'Insight' residential training course will be held on 17 – 20 September 2018 in Blackpool. For information concerning how to book either of these events, please refer to [Circular 308](#).

### **Circular 309**

On 17 July 2018, we published [Circular 309](#) advertising the forthcoming 'Fundamentals' training programme aimed at pension committee and local pension board members. The programme runs from October to December 2018.

The circular also advertises the annual LGPS Governance Conference (formerly known as the "Trustees" Conference) being held in January 2019.

We would be grateful if administering authorities would bring the circular to the attention of all pension committee and local pension board members along with those who attend/advise the meetings, sub-committees etc.

The fundamentals training programme will be take place at three locations:

#### **Leeds**

Day 1	2 October 2018	Park Plaza Hotel
Day 2	6 November 2018	Park Plaza Hotel
Day 3	5 December 2018	Park Plaza Hotel

#### **London**

Day 1	10 October 2018	Park Plaza Hotel
Day 2	30 October 2018	Park Plaza Hotel
Day 3	4 December 2018	Park Plaza Hotel

#### **Cardiff**

Day 1	23 October 2018	Marriott Hotel
Day 2	13 November 2018	Marriott Hotel
Day 3	11 December 2018	Marriott Hotel

The delegate rate for each session, inclusive of lunch, refreshments and all delegate materials is £260 plus VAT at the standard rate, making the cost of the three-day course £780 plus VAT. Early booking is recommended as places are limited. Bookings can be made via the on-line events booking facility, which is part of the Local Government Association website. Each event has a link attached to the date in order to book direct. The main events booking page for all LGA events are viewable at <http://www.local.gov.uk/events>

## **The wider landscape**

### **Ban on pensions cold calling – second consultation published**

On 12 July 2018, HMT laid before Parliament a [Ministerial Statement](#) to set out government progress on the ban on pension's cold calling, as required under section 21 of [the Financial Guidance and Claims Act 2018](#). The statement confirmed that the government would imminently publish a second consultation seeking final views on a set of draft regulations to ban pension's cold calling.

Section 21 of the Financial Guidance and Claims Act 2018 provides that the Secretary of State may make regulations prohibiting unsolicited direct marketing relating to pensions. The regulations may include provision about:

- when communication is / is not treated as unsolicited;
- provide exceptions to the rules;
- grant function on the Information Commissioner and on OFCOM (including the ability to make a discretion);
- apply the provisions of the data protection legislation or the privacy and Electronic Communications (EC Directive) Regulations 2013 with regards to provisions relating to enforcement.

On 20 July 2018, following on from the [initial consultation](#) issued on 5 December 2016, HMT published their [second consultation](#) with a closing date of 17 August 2018. The initial consultation concerned government policy and resulted in the prescription within the Financial Guidance and Claims Act 2018 (as described above). The second consultation is a technical consultation intended to seek final views on the draft regulations to ensure they meet our policy objectives.

## Legislation

### United Kingdom

Act	Reference Title
2018	The European Union (Withdrawal) Act
SSI	Reference Title
2018/676	The State Pension Credit (Additional Amount for Child or Qualifying Young Person) (Amendment) Regulations 2018
2018/216	The Firefighters' Pension Scheme (Amendment) (Scotland) Order 2018
2018/215	The Firefighters' Pension Scheme (Scotland) Amendment Order 2018

## Useful Links

[LGA Pensions page](#)

[LGPS member website](#) (England and Wales)

[LGPS 2015 member website](#) (Scotland)

[LGPS Advisory Board website](#) (England and Wales)

[LGPS Advisory Board website](#) (Scotland)

[LGPS Regulations and Guidance website](#) (England and Wales)

[LGPS Regulations and Guidance website](#) (Scotland)

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

## LGPS pensions section contact details

*If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension's advisers will get back to you.*

**Jeff Houston (Head of Pensions)**

Telephone: 0207 187 7346

Email: [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

**Jayne Wiberg (Pensions Adviser – LGPC Secretariat)**

Telephone: 07979 715825

Email: [jayne.wiberg@local.gov.uk](mailto:jayne.wiberg@local.gov.uk)

**Lorraine Bennett (Pensions Adviser – LGPC Secretariat)**

Telephone: 0207 187 7374

Email: [lorraine.bennett@local.gov.uk](mailto:lorraine.bennett@local.gov.uk)

**Karl White (Pensions Adviser (Training) – LGPC Secretariat)**

Telephone: 07464 652886

Email: [karl.white@local.gov.uk](mailto:karl.white@local.gov.uk)

**Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))**

Telephone: 07919 562847

Email: [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk)

**Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))**

Telephone: 0207 664 3328

Email: [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

**Elaine English (LGPS Executive Officer)**

Telephone: 0207 187 7344

Email: [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)

## Distribution sheet

Pension managers (internal) of administering authorities

Pension managers (outsourced) and administering authority client managers

Local Government Pensions Committee

Trade unions

CLG

COSLA

SPPA

Regional Directors

Private clients

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Local Government Pensions Committee  
Secretary, Jeff Houston

## **LGPC Bulletin 175 – August 2018**

Please contact [Jayne Wiberg](#) with any comments on the contents of this bulletin or with suggestions for other items that might be included in future bulletins.

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## LGPS England & Wales

### High Court judgment in the case of *Elmes v Essex*

In previous bulletins, we covered the above High Court judgment with the latest position set out in [bulletin 172](#) in May 2018, which stated:

*“The judgement states:*

*The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefit, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first protocol to, and Art 14 of, the European Convention on Human Rights and must therefore be disapplied.”*

*As confirmed in bulletin 166, in our view, the judgment now enables administering authorities to pay a cohabiting partner’s pension where the member left the LGPS (England and Wales) between 1 April 2008 and 31 March 2014 (and died before 1 April 2014) without a nomination form, provided the cohabiting partner criteria in Schedule 1 of the LGPS 2013 regulations are met. We have amended the timeline regulations accordingly”.*

The above position has not changed, though on 31 July 2018 the Judge (Mr Justice Walker) published his final [conclusions](#). Other than been critical of various parties, the conclusion holds no surprises. There is a small reference on the impact to children’s pensions should a survivor’s pension be paid (paragraphs 189 to 191), though only in so much to state that it is important that any affected children receive independent advice.

### TPR 2017/18 Scheme return – conditional data

On 3 August 2018, Bob Holloway, secretary of the Scheme Advisory Board (SAB) informed administering authorities that, despite there being general support and agreement for a standardised basis for scoring conditional data for the purposes of the forthcoming scheme return; it has not proved feasible or cost effective for the first year.

Accordingly, administering authorities are advised to adopt their own approach for scoring their 2017/18 conditional data. In adopting a local approach, administering authorities may need to liaise with their software provider and/or actuarial adviser on how best to meet the TPR survey’s requirements. TPR has issued [guidance](#) on how to complete the 2018 pension scheme return, including the new questions on record keeping and measuring data. We understand TPR will issue the survey in September with a six-week window for completion.

It is our firm intention to re-engage with administering authorities and stakeholders later in 2018, to re-open discussions about formulating a standardised basis for scoring conditional data for 2018/19 and beyond. This more relaxed timetable will also allow us to take on board similar work we are doing on standardised data extracts as part of the academies administration project.



## Updates to guides

Following the issue of the LGPS (Amendment) Regulations 2018 [[SI 2018/493](#)] by MHCLG in April 2018, the following documents have been updated and are available under [guides and sample documents](#) on [www.lgpsregs.org](http://www.lgpsregs.org):

- Scheme administrator guide to the 85 year rule (version 1.12)

## HMRC

### Countdown bulletin 36

On 14 August 2018, HMRC published [Countdown bulletin 36](#) including articles on:

- phase 7 automation (re-runs of existing solutions and scheme financial reconciliation)
- Not in scheme (NIS) Contribution Equivalent Premium (CEP) automation
- change of responsible paying authority update.

Of particular interest are the articles confirming that:

- the last date a scheme can request a re-run of their data will be **30 September 2018** (revised from 30 June 2018) and no further requests will be considered after that date.
- the deadline for submitting SRS queries which require clerical action is 31 October 2018. HMRC have confirmed that they will respond to all queries received by that date.
- an administering authority can submit automation queries after 31 October for all **available** automation re-runs. However, administering authorities must be responsible for the quality of the data submitted after 31 October, because the files rejected by automation will be returned to those authorities unchecked, and the clerical remainder from automation will be returned unworked.
- where the administering authority has not paid a CEP in response to an NIS CEP automated run, or has paid a CEP and not provided a breakdown (or all the necessary information required in that breakdown) of their payments (see [countdown bulletin 34](#)), any refresh of SRS data will temporarily show the CEP liability removed from the scheme. However, if within 3 months of the debt raised by HMRC, if not all of the monies and necessary information is received by HMRC, the CEP will be **removed** and HMRC will **reinstate** the liabilities in the scheme.
- HMRC will provide each administering authority with a **final scan** of their data in March 2019.

Further to our article in [bulletin 174](#), we strongly urge administering authorities, who have yet to raise all of their 'first time around' queries with HMRC, to do so as a matter of urgency. Where the reconciliation exercise is not completed, administering authorities are at risk of paying incorrect pensions (over and under payments) and retaining liability for GMPs that may not belong to that authority.

### Contracted-out reconciliation – liability part period solutions

On 13 August 2018, on behalf of HMRC the Secretariat forwarded additional guidance for administering authorities regarding the 'liability part period' solution. The [guidance](#) should be read in conjunction with the HMRC notes below:

1. *The solution we are developing in Phase 6 is 'Liability Part Period Single'. This will be re-run 3 times in Phase 7 if funding is approved.*
2. *We are considering a 'Liability Part Period Multiple' for Phase 7 if funding is approved and volumes are sufficient. Any volumes you can get would help greatly.*
3. *POA on the spreadsheet is the TPS 'Period of Acceptance'*
4. *POD on the spreadsheet is the TPS 'Period of Discrepancy'*

Any queries regarding contracted-out reconciliation should be sent to the HMRC [Customer Relationship Team](#).

### **Contracted-out reconciliation – proposed phase 7 automation timetable**

On 22 August 2018, on behalf of HMRC the Secretariat forwarded the proposed phase 7 automation [timetable](#).

HMRC have provided this information in anticipation of obtaining 're-run' funding approval, to allow administering authorities to prioritise their queries. The dates on the plan are fast approaching and these dates are the dates that the files must be with HMRC's supplier.

Once funding is approved, HMRC will confirm the final timetable together with their response dates.

### **Pension Schemes Newsletter 101**

On 31 July 2018, HMRC published [pension schemes newsletter 101](#) including articles on:

- taxation of flexi access payments
- annual allowance calculator
- QROPS transfer statistics
- manage and register pension scheme service – completing enrolment information (see article in [bulletin 173](#)).

### **Pension Schemes Newsletter 102**

On 30 August 2018, HMRC published [pension schemes newsletter 102](#) including articles on:

- manage and register pension scheme service
- master Trusts
- reporting on non-taxable death benefits.

## **Other News and Updates**

### **Equitable Life**

On 15 June 2018, Equitable Life [announced](#) that they have entered into an agreement to transfer the Society and all its policies to [Reliance Life](#). As a result, they hope to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%. However, for this to take place eligible policyholders will be asked to vote (expected to take place mid-2019) in favour of removing policy guarantees as well as on the arrangements to transfer to Reliance Life.

Equitable Life's proposal (which is to be reviewed by an independent expert whose report will be made available to policyholders before voting) is as follows, to:

- increase the current 35% capital distribution to a level expected to be between 60% and 70%
- close the with-profits fund, which means the guaranteed investment return would end
- convert with-profits policies to unit-linked
- transfer all policies to Reliance Life

Following the vote, the proposal will be put before a High Court judge for approval. There is currently no action for policyholders to take. Equitable Life will provide more information in October 2019. The full background to this change can be found on Equitable Life's [website](#).

We are aware that within the [FAQs](#) on Equitable Life's website Q7 states the following:

***Q7. What happens if a policyholder leaves before the values are enhanced?***

*A7. The opportunity to increase the current 35% capital distribution to a level expected to be between 60% and 70% would be lost. Policyholders should exercise great care before taking benefits in advance of the proposed enhancement and an Independent Financial Adviser may help with this decision. One important consideration, where there is an urgent need for cash, is to draw down only a portion of savings. Most pension policyholders over age 55 are able to make withdrawals of £1,000 or more, leaving the balance of their with-profits fund to benefit from the enhancement if the vote is in favour.*

We would like to remind administering authorities in England & Wales that, notwithstanding the above, the rules governing the payment of AVCs are explained in the AVC technical guide, which can be found in the '[Guides and sample documents](#)' page of [www.lgpsregs.org](http://www.lgpsregs.org).

### **LGA LGPS pensions team**

In July 2018, Con Hargrave left the LGA pension's team to work permanently for MHCLG. We would like to thank Con for all his contribution since he joined the team in November 2013 and wish him well for the future.

The LGA is currently recruiting for a part time pensions advisor. The position provides the opportunity for flexibility in terms of work pattern and location, subject to the requirements of the role. The closing date is 14 September 2018. More information and details on how to apply can be found on [jobtrain](#).

Meanwhile, until such a time those new team members are appointed we request that administering authorities and employing authorities only send urgent technical queries. Please email all queries to [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

### **Transfers out – failure to meet anti-fraud duties**

In a recent [determination](#), the Pensions Ombudsman (TPO) found a public authority (Northumbria Police) guilty of maladministration when, in 2014, transferring the member's savings out of the Police Pension Scheme (PPS). The authority did not

carry out adequate checks on the receiving scheme and failed to provide the officer with the official TPR literature. The authority was ordered to reinstate the member's benefits in the PPS (or provide equivalent benefits) and to pay £1,000 damages for distress.

Administering authorities are reminded to make sure that their transfer-out processes, take into account the [guidance](#) issued by TPR to reduce the risk of fraud.

### **TPO corporate plan**

TPO has published its [Corporate Plan for 2018-21](#), which sets out its priorities for the next three years, including three strategic aims:

- supporting and influencing the pensions industry
- providing a centre for the resolution of workplace and personal pension complaints
- transforming and improving its services and processes.

### **TPR uses Proceeds of Crime Act for the first time**

TPR has used its production order power under the Proceeds of Crime Act 2002 for the first time as part of a pension fraud investigation. TPR's latest quarterly [compliance and enforcement bulletin](#) also shows that, in the period April-June 2018, TPR fined a trustee that failed to complete a DB pension scheme valuation under section 10 of the Pensions Act 1995 and prosecuted offences under the Computer Misuse Act 1990 for the first time.

Nicola Parish, TPR's Executive Director of Frontline Regulation, said: "Our actions over the quarter demonstrate how we are continuing to develop as an organisation to be clearer, quicker and tougher."

### **FCA and TPR launch new ScamSmart campaign**

On 14 August, TPR [announced](#) that, in conjunction with the FCA they have launched a new ScamSmart TV advertising campaign to raise awareness of pension fraud and the most common tactics used by scammers.

### **Consultation on the Gender Recognition Act 2004**

The government is currently consulting on amending the Gender Recognition Act (GRA) 2004 to make the legal gender recognition process less bureaucratic and intrusive.

The consultation also seeks initial views on the possibility of extending the GRA to provide legal recognition to a third, or non-binary, gender (see page 51). The consultation acknowledges that non-binary recognition is a complex issue, with many potential knock-on implications for the law and public service provision, which is why the consultation is only seeking views at this stage. The [consultation](#) closes on 19 October 2018.

In [bulletin 173](#), we included an article on the European Court of Justice [ruling](#) in favour of a transgender woman who was refused payment of her UK state pension in 2008 at age 60 (on the grounds that she did not have a Gender Recognition Certificate (GRC)). The impact of this ruling for the LGPS is still unclear; however, any changes

to UK legislation in light of the ruling are likely to be made as part of the reforms to the Gender Recognition Act 2004.

In the meantime, administering authorities should still request that a member produce a copy of their new birth certificate showing their acquired gender before amending their gender for pension purposes.

### **Teachers' Pension Scheme Pension Board - recruitment of an independent pension specialist**

The Department for Education is looking for an independent pension specialist to sit on the TPS pension board. The closing date is 10 September 2018. For more information and details on how to apply, see the Pensions Careers [website](#).

### **Training**

The London Fundamentals courses are now full; however, there are still places available at the Leeds and Cardiff venues which you can book using the links below.

Leeds	Day 1	<a href="#">2 October</a>
	Day 2	<a href="#">6 November</a>
	Day 3	<a href="#">5 December</a>
Cardiff	Day 1	<a href="#">23 October</a>
	Day 2	<a href="#">13 November</a>
	Day 3	<a href="#">11 December</a>

The understanding transfers course will run in September and there are still some places left at our Leeds and Manchester venues which you can book using the links below:

Leeds	<a href="#">4 September</a>
Manchester	<a href="#">11 September</a>

We will shortly be advertising the LGPC Governance conference, which is being held in Bristol on the 17 and 18 January from lunchtime to lunchtime. This will be open to bookings within the next few weeks.

### **Useful Links**

[LGA Pensions page](#)

[LGPS member website](#) (England and Wales)

[LGPS 2015 member website](#) (Scotland)

[LGPS Advisory Board website](#) (England and Wales)

[LGPS Advisory Board website](#) (Scotland)

[LGPS Regulations and Guidance website](#) (England and Wales)

[LGPS Regulations and Guidance website](#) (Scotland)

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

## **LGPS pensions section contact details**

*If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension's advisers will get back to you.*

**Jeff Houston (Head of Pensions)**

Telephone: 0207 187 7346

Email: [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

**Jayne Wiberg (Pensions Adviser – LGPC Secretariat)**

Telephone: 07979 715825

Email: [jayne.wiberg@local.gov.uk](mailto:jayne.wiberg@local.gov.uk)

**Lorraine Bennett (Pensions Adviser – LGPC Secretariat)**

Telephone: 0207 187 7374

Email: [lorraine.bennett@local.gov.uk](mailto:lorraine.bennett@local.gov.uk)

**Karl White (Pensions Adviser (Training) – LGPC Secretariat)**

Telephone: 07464 652886

Email: [karl.white@local.gov.uk](mailto:karl.white@local.gov.uk)

**Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))**

Telephone: 07919 562847

Email: [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk)

**Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))**

Telephone: 0207 664 3328

Email: [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

**Elaine English (LGPS Executive Officer)**

Telephone: 0207 187 7344

Email: [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)

## **Distribution sheet**

Pension managers (internal) of administering authorities

Pension managers (outsourced) and administering authority client managers

Local Government Pensions Committee

Trade unions

CLG

COSLA

SPPA

Regional Directors

Private clients

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Local Government Pensions Committee  
Secretary, Lorraine Bennett

## LGPC Bulletin 176 – September 2018

Please contact [Jayne Wiberg](#) with any comments on the contents of this bulletin or with suggestions for other items that might be included in future bulletins.

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## Scheme Advisory Board (SAB) - England & Wales

### Analysis of the LGPS Academy Sector

GAD has now published the work commissioned by MHCLG and DfE to review the treatment of academies within the Local Government Pension Scheme. In particular, GAD was asked to gather evidence on the variation in treatment of academies within and across different LGPS Funds. Data from the most recently completed valuations as at 31 March 2016 was obtained for this purpose. A copy of the report can be found at <https://www.gov.uk/government/publications/academies-lgps-pension-arrangements>

### Code of Transparency compliance system tender exercise

On 3 September 2018, the Scheme Advisory Board launched a "Code of Transparency compliance system" tender exercise. The tender is to design, build, host and support a system to validate / check for completion the templates received from the relevant fund managers for each of the relevant LGPS funds and or Pools. Delta eSourcing is being used to run this exercise, please visit [www.delta-esourcing.com/respond/R87C47F5VR](http://www.delta-esourcing.com/respond/R87C47F5VR) for more details.

### Options for separation of host authority and pension fund

In 2015, SAB commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from their host authorities. As part of SAB's 2018/19 work programme, a further project was established to see how the recommendations that emerged from the exercise undertaken in 2015 could be made to work in practice.

In August 2018, SAB invited interested parties to assist in developing options for change. Three bids were received before the closing date of 21 September. These will be considered at the next Board meeting on 10 October. For more information, see the SAB [website](#).

### Third tier employers

At the SAB meeting on 27 June 2018, Aon presented members with a summary of the [final draft report](#) commissioned by SAB, to review the current issues in relation to third tier employers participating in LGPS funds in England and Wales. On 24 September 2018, SAB published this report on their [website](#).

The report **does not** make any recommendations, instead, it outlines a range of issues raised by stakeholders and how they envisage these concerns being resolved. SAB will now establish a small working group to evaluate the options for change. The working group will report to SAB later this year with a set of recommendations for further consideration.

Once approved, stakeholders will be given the opportunity to comment on SAB's recommendations before any formal approach is made to MHCLG for changes to the scheme regulations and guidance.

## HMRC

### HMRC Approved Phase 7 Automation Re-run timetable

On 14 August 2018, HMRC published [Countdown bulletin 36](#) that included an article on the proposed timetable for the phase 7 automation (re-runs of existing solutions and scheme financial reconciliation). The [timetable](#) has now been confirmed and Jayne Wiberg sent this to administering authorities on 26 September 2018.

### Pension Saving Statements 2017/18

On 13 September 2018, Lorraine Bennett forwarded confirmation from HMRC that scheme data regarding pension savings statements (PSS) for 2017/18 can be submitted on an excel spreadsheet rather than through the scheme's event report. This concession is on the clear understanding that the PSS data represents part of the administering authority's formal event reporting obligations for the 2017/18 Report. The data must be submitted by 31 January 2019 or penalties will be due for late filing.

### Pension Schemes Newsletter 103

On 25 September 2018, HMRC published [pension schemes newsletter 103](#) including articles on:

- Updating your scheme administrator details
- Operating PAYE on pension payments
- Master Trusts
- Reporting of non-taxable death benefits
- Annual allowance - pension savings statements for tax year 2017 to 2018

## HMT

### HM Treasury statement on quadrennial scheme valuation of public service pension schemes

On 6 September 2018, in a [Written Ministerial Statement](#) the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial national scheme valuation of public service pension schemes.

For the unfunded schemes, initial results from the HMT Employer Cost Cap (ECC) process show that their members will get improved pension benefits over the period April 2019 to March 2023. In addition, due to the proposed changes to the SCAPE discount rate, which is used to assess the current cost of future payments from public service pension schemes (excluding Local Government Pension Schemes (LGPS)), early indications are also that the amount employers pay into the unfunded schemes will need to increase.

In the case of the funded LGPS in England and Wales, the Scheme Advisory Board England & Wales (SAB E&W) operates an additional cost cap process (called the Scheme Advisory Board Future Service Cost (FSC) process). In accordance with agreed policy, the FSC will be allowed to complete before the ECC is tested. Therefore, it is not possible at this stage to give any indication of what the outcome might be. If the FSC process results in a recommendation that changes to the scheme

should be made and the government accepts the SAB E&W recommendations, the ECC process will be adjusted to consider the new scheme design.

The Chief Secretary also announced in the [technical annex](#) to a [letter](#) to Frances O'Grady at the TUC, that the scheme valuation under ECC process should be moved from the current triennial to a quadrennial cycle in line with other public service scheme valuations. This is not to be confused with local fund valuations; however, discussions with MHCLG and actuarial advisers will take place shortly to consider the implications of this change for local fund valuations.

A statement from the SAB E&W can be found at [www.lgpsboard.org](http://www.lgpsboard.org).

### **Draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018**

On 6 September 2018, HM Treasury issued the above [draft amendments](#) to the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. The draft Direction (and the 2014 Direction) set out the principles relating to the national public service pension scheme valuations and the HMT ECC process for public service schemes.

There are a number of amendments within the draft Direction, though one of particular importance is the proposal to further reduce the SCAPE discount rate (which sits outside of the HMT ECC). The draft Direction reduces the SCAPE discount rate to CPI + 2.4% (from CPI + 2.8% which had already seen a reduction in 2016 from CPI + 3%).

The Direction is in draft form to allow employee representatives, public service employers and government departments' time to comment.

Whilst the draft directions propose using the discount rate of CPI + 2.4% from 1 April 2019 for setting employer contribution rates for the unfunded pension schemes, the reduced rate will become effective for other purposes (such as in the calculation of actuarial factors in the LGPS) from the date it is formally announced. We expect the announcement will be made in the next Budget, which is set to take place on 29 October 2018.

As last time, once the change is announced, transfer and interfund calculations will need to be put on hold until new actuarial factors are issued. Similar transitional arrangements will be put in place where a guaranteed transfer quote has been issued and the member elects to proceed with the transfer in the guarantee period. The transitional arrangements that were put in place when the last discount rate change was announced on 16 March 2016 can be viewed here <http://lgpslibrary.org/assets/actgui/ew/Note201610.pdf>

We understand that GAD are working upon a new suite of LGPS factors that include the proposed change to the SCAPE discount rate.

## **TPO**

### **Clearer signposting for pension dispute resolution**

In [bulletin 170](#) we reported changes to the way pension disputes should be signposted. However, there was some confusion across the industry due to existing legislation, resulting in the danger that pension schemes were failing to update their signposting. Discussions took place between TPO, TPR and DWP on how best to resolve this problem.

The outcome of those discussions resulted in a [joint statement](#) from DWP and TPR to clarify the [signposting provisions](#) for referring to TPO and TPAS. To confirm, TPAS deals with guidance requests and TPO deals with all complaints and disputes. Therefore, with the aim of improving the customer journey and resolving matters earlier, DWP and TPR recognise that schemes do not want to wait until legislation is in place and that they wish to update their signposting now, to reflect that:

- Complaints or disputes concerning workplace or personal pension arrangements should be referred to TPO; and
- General requests for information or guidance should be referred to TPAS.

In the joint statement, TPR confirms that, despite the current absence of legislation, there would be no purpose served in considering penalties for schemes referring disputes and complaints to TPO that have not first gone through the scheme's internal dispute resolution process (IDRP). TPO considers this excellent news for both the pensions industry and its customers. It also believes that it is a very sensible interim measure, especially with the formation of the new Single Financial Guidance Body later this year and necessary legislative change not expected until 2019, when parliamentary time allows.

Going forward it is the intention to modify relevant legislation by at the latest April 2020, to reflect that:

- Signposting of complaints or disputes concerning occupational or personal pension arrangements, including any difficulty with the scheme that cannot be resolved or that might become a complaint or dispute, should be referred to TPO; and pure requests for information or guidance should be referred to TPAS/SFGB; and
- Complaints going to TPO that are intended for ERS (TPOs Early Resolution Service), or looked at by ERS, will not be expected by TPO to have first been through the scheme's IDRP.

Administering authorities can find the TPO [news story](#) on TPO's website, which has links to the joint statement and their signposting template.

### **Guidance on redress for non-financial injustice**

In September 2018, TPO issued [revised guidance](#) about redress for applicants for non-financial injustice caused by maladministration, replacing their previous guidance on this topic.

Following consultation with various stakeholders TPO have introduced five categories of awards for non-financial injustice (i.e. 'distress and inconvenience' awards) ranging from nominal (no award) to exceptional (more than £2,000).

The guidance defines non-financial injustice as:

*“**‘Inconvenience’** or ‘time and trouble’ suffered by an applicant. That is the time and effort spent by an applicant in relation to the maladministration and in having to pursue their complaint. This includes needing to go through a complaints process where the maladministration was both avoidable and identifiable at an earlier stage.*

*‘**Distress**’ suffered by an applicant. It could, for example, be concern, anxiety, anger, disappointment, embarrassment or loss of expectation that an applicant may experience. Distress can vary from mild irritation to (exceptionally) anxiety that requires medical treatment.*

*The non-financial injustice suffered must be caused directly by the maladministration.”*

Further information is available on the [TPO website](#).

### **PO-20770 / Mr E v Greater Manchester Pension Fund (GMPF)**

The above [case](#) was determined by the Ombudsman on 29 August 2018 and was found in favour of GMPF.

The claimant’s complaint against GMPF concerned the fact that he believed that GMPF had not met its statutory obligations to inform him there was a material change to the Scheme, regarding a change to the late retirement factors. The claimant contested that had he been aware of the changes he would have acted to avoid being affected.

The case focussed on whether or not a change in late retirement factors constituted a material change in the information listed in Part 1 of Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [[SI 2013/2734](#)]. A TPO Adjudicator (and thereafter the TPO) confirmed that the definition of a, “material change” under the Disclosure Regulations applicable to GMPF, relates to the rate at which pension is accrued or how it is calculated. In the claimants case the change was the reduction to the late retirement factors, and this did not fall within the definition of a, “material change” under these Disclosure Regulations.

## **TPR**

### **New approach to workplace pensions regulation**

On 17 September 2018, TPR launched a [new approach to workplace pensions regulation](#). The flexible new model accommodates DB, DC and PS schemes, as well as incorporating AE and master trusts. This new operating model directly affects the way TPR works and will be established over the next 12 – 18 months.

To date, TPRs approach has been to ‘educate, enable, and enforce’, which has worked well, though no longer accurately reflects how the TPR operates in an ever evolving political, economic and pensions landscape.

Through their [TPR Future programme](#), they have completed a review of their entire approach to regulation and this year have started to implement a new regulatory model to drive up standards and tackle risk by engaging proactively with a larger proportion of the schemes and employers that they regulate.



Four key areas form the bedrock of TPRs new operating model, which will help them take forward the work they want to achieve and do it in the most effective way, these are:

1. **Setting clear expectations:** TPR will work with those they regulate to ensure that the standards they expect are clear and adopted. They will ensure that pension schemes and employers comply with clear, measurable standards.
2. **Identifying risk early:** TPR will prevent risks to members from increasing over time through prioritisation, monitoring, supervision and early proactive intervention.
3. **Driving compliance through supervision and enforcement:** TPR will use a wider range of regulatory interventions through a process of systematic and escalating interaction with those they regulate. They will test, measure and adapt the way they work to continue to drive behavioural change.
4. **Working with others:** TPR will work with their regulatory partners, stakeholders, advisers and intermediaries to deliver a comprehensive and consistent regulatory framework.

TPRs ['Making workplace pensions work'](#) publication, guides users through their new way of operating and outlines the further changes that users can expect to see in the future. Key to the new approach is the introduction of a supervision regime to monitor schemes more closely, which will include higher and lower intensity interventions depending on the risks identified.

## Other News and Updates

### Communications working group

In September 2018, a meeting of the national communications working group took place. Topics of discussion included, the General Data Protection Regulations (GDPR), the national member website (including member videos), annual benefit statements, AVCs FAQ, pension scams and the communications work plan for 2018/19. See the [actions and agreements](#) for more information.

The proposed date of the next meeting is 15 January 2019.

### LGA pensions team

Further to our article in [bulletin 175](#) concerning the LGA LGPS pension's team, the LGA is pleased to confirm that Lorraine Bennett has been promoted to the role of senior pensions adviser. Accordingly, Lorraine will become Secretary to the LGPC with immediate effect.

The LGA is currently recruiting for a part time pensions adviser with interviews to take place shortly. Additionally, the LGA will also be recruiting for a full time pensions adviser to replace Lorraine's previous role. This post will be advertised shortly on [jobtrain](#).

Meanwhile, until such a time those new team members are appointed we request that administering authorities and employing authorities only send urgent technical queries. Please email all queries to [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

## NI Database

On 6 September, Lorraine Bennett emailed pension managers in England, Wales and Scotland about extending the usages of the NI Database.

Each fund was asked to respond to the email by **Friday 21 September** confirming:

- If your organisation is in agreement that the usages of the NI Database should be extended
- If yes, that your organisation is committed to signing the revised ISA (subject to agreement) and uploading data on a monthly basis

***If your fund has not yet responded, please do so ASAP.***

## Background

The National Insurance Database (NI Database) was launched in 2015 with the aim of preventing the double payment of death grants and facilitating the Tell Us Once Service for LGPS administering authorities. As at 6 September 2018, 79 funds have uploaded data to the LGPS Database and 67 funds are fully on-boarded for Tell Us Once.

In order to use the LGPS Database each fund must sign an Information Sharing Agreement (ISA). The current ISA is an agreement between the “fund”, South Yorkshire Pensions Authority (who host the database) and the LGA.

## Proposal

The ISA needs to be reviewed and potentially updated to ensure it is GDPR compliant. This provides a good opportunity to expand the usages of the database at the same time. The potential additional usages for the database are summarised below:

- To check for previous LGPS membership when a member re-joins the LGPS with a view to automatically aggregating that membership as required by the LGPS 2013 Regulations
- To check if the member is entitled to a refund of contributions
- To check if a member has other rights that would either prevent payment of, or need to be taken into account when assessing the eligibility for, trivial commutation
- To check if a member has a statutory right to a transfer out in accordance with the Pension Schemes Act 1993
- Tracing lost members

The [technical group paper](#) sets out these options in more detail along with the data protection implications. It also confirms that no new data will need to be stored on the LGPS Database in order to make data sharing for these purposes effective.

***To clarify, funds are not currently permitted to use the database for any other purpose other than for preventing the payment of double death grants.***

## Next steps

The ISA will need to be updated in order for funds to be able to use the database for the additional usages outlined above. This means that every fund will need to sign an updated ISA. At this stage we are asking funds whether they agree to extending the



usages in principle so that we can make the necessary amendments to the ISA. Once amended, we will then contact each fund again asking them to sign the updated ISA. Please note, we will not be able to proceed with the changes unless 100% of funds agree.

### **Written Statement - update on the Pensions Dashboard and the Single Financial Guidance Body (SFGB)**

On 4 September 2018, Guy Opperman (Parliamentary Under Secretary of State for Pensions & Financial Inclusion), provided a pension update in a written statement to House of Commons.

The statement confirms that in the government's view "*the work that the Department for Work and Pensions has done in assessing feasibility for a pensions dashboard has made it clear that we should not underestimate the size or complexity of the challenge. An industry-led dashboard, facilitated by government, will harness the best of industry innovation.*" It goes on to confirm that the government "*will continue to engage with industry on this model and Government will protect pension savers and personal information by legislating where necessary. This will build on the Government's 'Check your State Pension' online service for the State Pension. We will shortly report on the findings from the Feasibility Study.*"

The statement also reports that the [Chair](#) and [Chief Executive](#) of the new Single, Financial Guidance Body (SFGB) have been appointed and that DWP expect to establish the body as a legal entity in October when they take up their roles. The SFGB will then launch in January when it takes on its delivery functions of money and pension guidance, and debt advice.

## **Training**

### **Circular 310 – LGPS Governance Conference**

The 15<sup>th</sup> annual LGPS governance conference (formerly the trustee conference) is held on 17/18 January 2019 in Bristol. Please see [circular 310](#) for costs and booking information.

The conference is aimed at elected members and others who attend pension committees and local pension boards e.g. employer representatives, trade union and other member representatives, as well as officers. It is suitable for an audience with a wide range of knowledge and experience. Although the programme is not yet finalised, we can confirm that it will include sessions on:

- Investment costs
- Responsible Investment and Climate Risk
- Infrastructure investment
- Fund valuation
- Upcoming scheme consultations
- Investment spotlight
- Legal update

### **Circular 309 – Fundamentals Programme**

Please note that London dates are now fully booked however, places are still available at both Leeds and Cardiff. Please see [Circular 309](#) for costs and booking information.

## The wider landscape

### Financial Guidance and Claims Act 2018

In [bulletin 170](#), we confirmed that on 10 May 2018, the Financial Guidance and Claims Act 2018 ('the Act') received royal assent and introduced a new Single Financial Guidance Body (SFGB). In addition, the Act made provision about the funding of debt advice in Scotland, Wales and Northern Ireland, and regulated the claims management services.

On 6 September 2018, the Financial Guidance and Claims Act 2018 (Commencement No. 1 and Transitional Provision) Regulations 2018 [[SI 2018/987](#)] were made, bringing into force section 35 (cold calls and claims management services) of the Act on 8 September 2018.

Section 35 of the Act amends the Privacy and Electronic Communications (EC Directive) Regulations 2003 ("the 2003 Regulations"). Essentially, this prohibits unsolicited marketing calls from claims management services (i.e cold calls) to recipients, unless the recipients have previously opted in to receiving them. Transitional measures within the commencement order, exclude calls made prior to 8 September from prohibition.

On a slightly different note, though still in relation to 'cold calling', the consultation covering a ban on cold calling in relation to pensions closed on 17 August 2018 (see [bulletin 170](#)). This will be followed by a consultation response with the intention of laying regulations in the autumn of 2018.

## Legislation

### United Kingdom

SI	Reference Title
<a href="#">2018/1030</a>	The Occupational Pension Schemes (Master Trusts) Regulations 2018
<a href="#">2018/1003</a>	The Financial Guidance and Claims Act 2018 (Commencement No 2) Regulations 2018
<a href="#">2018/997</a>	The Police and Firefighters' Pensions (Amendment) Regulations 2018
<a href="#">2018/988</a>	The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018
<a href="#">2018/987</a>	The Financial Guidance and Claims Act 2018 (Commencement No 1 and Transitional Provision) Regulations 2018

<a href="#">2018/983</a>	The Occupational Pension Schemes (Master Trusts) Regulations 2018
<a href="#">2018/965</a>	The Pension Schemes Act 2017 (Commencement No 2) Regulations 2018

## Useful Links

[LGA Pensions page](#)

[LGPS member website](#) (England and Wales)

[LGPS 2015 member website](#) (Scotland)

[LGPS Advisory Board website](#) (England and Wales)

[LGPS Advisory Board website](#) (Scotland)

[LGPS Regulations and Guidance website](#) (England and Wales)

[LGPS Regulations and Guidance website](#) (Scotland)

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

## LGPS pensions section contact details

*If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension advisers will get back to you.*

### **Jeff Houston (Head of Pensions)**

Telephone: 0207 187 7346

Email: [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

### **Lorraine Bennett (Senior Pensions Adviser – LGPC Secretariat)**

Telephone: 0207 187 7374

Email: [lorraine.bennett@local.gov.uk](mailto:lorraine.bennett@local.gov.uk)

### **Jayne Wiberg (Pensions Adviser – LGPC Secretariat)**

Telephone: 07979 715825

Email: [jayne.wiberg@local.gov.uk](mailto:jayne.wiberg@local.gov.uk)

### **Karl White (Pensions Adviser (Training) – LGPC Secretariat)**

Telephone: 07464 652886

Email: [karl.white@local.gov.uk](mailto:karl.white@local.gov.uk)

**Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))**

Telephone: 07919 562847

Email: [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk)

**Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))**

Telephone: 0207 664 3328

Email: [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

**Elaine English (LGPS Executive Officer)**

Telephone: 0207 187 7344

Email: [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)

**Distribution sheet**

Pension managers (internal) of administering authorities

Pension managers (outsourced) and administering authority client managers

Local Government Pensions Committee

Trade unions

CLG

COSLA

SPPA

Regional Directors

Private clients

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Local Government Pensions Committee  
Secretary, Lorraine Bennett

## **LGPC Bulletin 177 – October 2018**

Please contact [Lorraine Bennett](#) with any comments on the contents of this bulletin or with suggestions for other items that might be included in future bulletins.

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## LGPS England & Wales

### SCAPE discount rate – impact on actuarial guidance

#### Transfer calculations

On 31 October, Jayne Wiberg notified administering authorities that, as expected, the Chancellor of the Exchequer confirmed the reduction in the SCAPE discount rate from CPI + 2.8% to CPI + 2.4% in the [2018 Budget](#).

The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes and determine the actuarial factors used across all of the public service pension schemes (see [bulletin 176](#) for further background information). The reduced rate is effective from 29 October for the calculation of actuarial factors in the LGPS – this means that some non-club transfers, some interfund calculations and all CETVs for divorce will need to be put on hold until new transfer factors are issued. We understand that new transfer factors will be issued by the Secretary of State in due course, within approximately 6 weeks (i.e. hopefully in early December 2018).

MHCLG have confirmed the following [transitional arrangements](#) will apply concerning non-club transfers, interfund calculations and CETVs for divorce. Please note it is not necessary to suspend Club transfers.

#### Other actuarial guidance

MHCLG have confirmed that the remainder of the scheme's actuarial factors will be amended for the reduction in the SCAPE discount rate in due course. Their intention is to introduce revised factors from around February/March 2019. MHCLG and GAD have agreed that where any change to the calculation methodology is introduced this will be communicated with the software providers in advance of its introduction, in order that changes can be made to pensions administration systems in time for the implementation of the new factors.

We suggest that administering authorities communicate the impending changes to the actuarial factors to members when providing retirement quotations with an effective date on or after 1 February 2019.

### Section 13 report published

On 27 September 2018, MHCLG published the first [statutory review](#) of the LGPS under section 13 of the Public Service Pensions Act 2013. The department is required to report on the Scheme every three years; this report covers the period up to 2016. The Government Actuary reported that in aggregate, the LGPS is in a strong financial position and funds have made significant progress since the 2013 valuation.

### MHCLG open consultation on technical amendments to benefits

MHCLG opened an eight-week policy consultation called 'LGPS: technical amendments to benefits'. The consultation document is available on the scheme [consultations page](#) of [www.lgpsregs.org](http://www.lgpsregs.org). It looks at three areas:

- Survivor benefits – introducing changes to provide that pensions paid to survivors of civil partnerships or same-sex marriages will be equal to those provided to widows of male members. The changes will be backdated to the date civil

partnerships and same-sex marriages were implemented, this means that LGPS administering authorities will need revisit all awards made under the current rules to civil/same-sex partners and pay any additional sums due.

- Introducing a general power for MHCLG to issue statutory guidance.
- Correcting the unintended error in the LGPS (Amendment) 2018 Regulations to provide that deferred members who left under the 1995 Regulations are able to take payment of their LGPS pension without the need for their former employer's consent from age 55, with the appropriate reduction for early payment.

The consultation closes at 11:45pm on 29 November 2018.

The LGA will respond to the consultation and publish its response on the [consultations page](#) of [www.lgpsregs.org](http://www.lgpsregs.org)

MHCLG are currently undertaking a separate technical consultation on draft amendment regulations to give effect to the changes above. The technical consultation is not a public consultation meaning that only interested parties, including the LGA, are being invited to respond.

### **SF3 data published**

Ministry of Housing, Communities & Local Government (MHCLG) have published "[Local government pension scheme funds for England and Wales: 2017 to 2018](#)" (SF3) statistics. Highlights include:

- Total expenditure was £12.7 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18 there was a like-for-like increase of £0.8 billion or 7.4% on 2016-17.
- Total income was £17.4 billion. Removing the effect of mergers and large transfers in 2016-17 and 2017-18, there was a like-for-like increase of £3.0 billion or 21.4% on 2016-17. This is mainly due to an increase in employer contributions in 2017-18.
- Employer contributions amounted to £9.5 billion, up 27.7% on 2016-17, and employee contributions to the scheme were £2.1 billion. Employer contributions increased due to some large upfront pension contribution payments (deficit contributions) by some employers and higher contribution rates following the triennial valuation.
- The market value of the Scheme at the end of March 2018 was £270.9 billion, an increase of £12.1 billion or 4.7%.
- Membership encompassed 5.8 million people at the end of March 2018 (5.6 million 31 March 2017). Of this number, 2.0 million are employees who are still contributing to the scheme, 1.7 million are pensioners and 2.1 million are former employees who are entitled to a pension at some time in the future.
- The number of people leaving the Scheme due to redundancy reduced by 19.9% from 2016-17 to 10,847. A number of funds reported there were special redundancy exercises or restructuring in 2016-17 and that the large reduction in 2017-18 was a consequence of that.



## AVC member guide

The national communications working group, in conjunction with the LGA, has produced a member's guide to AVCs.

The guide is available under the [guides and sample documents](http://www.lgpsregs.org/guides-and-sample-documents) page of [www.lgpsregs.org](http://www.lgpsregs.org) and is provided in both pdf and word format so that funds can adapt it for their own use e.g. add the fund's and/or their AVC providers' contact details. If printed, the guide is designed to print as a booklet.

## Updates to AVC technical guide

We have updated the Freedom and Choice AVC technical guide to clarify the options available where an orphan AVC is left with a previous administering authority. Clean and tracked versions of the guide (version 3.0) are available under the [guides and sample documents](http://www.lgpsregs.org/guides-and-sample-documents) page of [www.lgpsregs.org](http://www.lgpsregs.org).

## Scheme Advisory Board (SAB) update

A [summary note](http://www.lgpsboard.org/summary-note) of the SAB meeting held on 10 October 2018 is available at [www.lgpsboard.org](http://www.lgpsboard.org). The main action points and agreements from the meeting are in relation to cost management, academy and tier three employer projects, separation project, code of transparency-compliance system project, responsible investment guidance and the Pensions Regulator. Going forward, the SAB will send a summary note to stakeholders and publish it on it on the Board website following each meeting.

## Harvey v Haringey and MHCLG judgment

On 30 October 2018, in the High Court Mr Justice Julian Knowles handed down his judgment on the above case. The case relates to the non-payment of a cohabiting partner's pension where the member left the LGPS before 1 April 2008.

Ms Harvey maintained that the Council's refusal to pay her a pension was discriminatory and in violation of the European Convention on Human Rights. Mr Justice Julian Knowles found in favour of Haringey Council and MHCLG and dismissed the application for judicial review.

In his judgment Mr Justice Julian Knowles states the central and core justification running throughout this case is that spouses in the 1997 Scheme and cohabitees of 2008 Scheme members are entitled to a pension because it was costed into the relevant Schemes and paid for. Where a member left before April 2008 the member did not pay for a cohabitee to receive a benefit, nor was it otherwise costed into the 1997 Scheme.

## LGA website – pension pages revamped

The LGA Pensions team has been collaborating on a [new suite of pages](#) to promote our work across public service schemes, including the LGPS, Teachers' Pension Scheme and the Fire Pension Scheme. We will add information about the Police Pension Scheme later.

Many of the pages are publicly accessible and are re-designed to be as user friendly and engaging as possible. If you have any feedback about the website, or would like



to find out more information about any of the schemes within our remit at the LGA, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) in the first instance.

## HMRC

### Countdown bulletin 37

On 5 October, HMRC published [countdown bulletin 37](#), which includes updates on:

- financial reconciliation
- import amendment to phase 7 rerun plan
- HMRC banking details
- data quality
- contribution adjustment action as a result of scheme reconciliation.

### Countdown bulletin 38

On 2 November, HMRC published [countdown bulletin 38](#), which includes updates on:

- Scheme Reconciliation Service (SRS) - stalemate queries
- phase 7 automated rerun plan
- scheme financial reconciliation
- contribution adjustment action
- requests for SRS data
- scheme cessation.

Of particular interest is the article on stalemate queries. The article sets out three scenarios and confirms that HMRC will accept stalemate queries (based on their three scenarios) up to 31 December 2018. Thereafter, various processes may be followed depending upon the outcome.

### Pension Schemes Newsletter 104

On 31 October, HMRC published [pension schemes newsletter 104](#). It includes updates on:

- Budget 2018
- pension flexibility statistics
- registration statistics
- manage and register pension schemes
- reporting of non-taxable death benefits
- transfers between registered pension schemes
- reporting overseas transfers
- operating PAYE on pension payments.

Of particular interest is that HMRC have updated the Real Time Information (RTI) online service to prevent P6 coding notices being incorrectly issued to beneficiaries in receipt of death benefits that are entirely non-taxable. Pension schemes can now resume reporting non-taxable pension death benefit payments through RTI for 2018 to 2019 – guidance on how to do this is included in the newsletter.

### Contracted out reconciliation

On 1 October 2018, Jayne Wiberg shared [a letter](#) from HMRC to MHCLG with all administering authorities concerning the reconciliation of GMP data. The letter

highlights that the contracted-out reconciliation exercise was approaching conclusion and confirmed that HMT will not be publishing guidance concerning stalemate cases.

Additionally, on 30 and 31 October, Jayne Wiberg forwarded [two emails](#) on behalf of HMRC to administering authorities, confirming that the clerical deadline for submitting national insurance contribution adjustments was 31 October 2018. However, HMRC will allow schemes up to 4 weeks after submission of those cases to complete and submit the necessary accompanying paperwork. If the necessary paperwork is not completed within that timeframe, any outstanding cases will be rejected.

## **TPR and FCA**

### **FCA and TPR launch joint regulatory strategy**

On 18 October 2018, the Financial Conduct Authority and TPR launched a [joint regulatory strategy](#) to strengthen their relationship and take joint action to deliver better outcomes for pension savers and those entering retirement.

### **Governance and administration survey**

TPR will send out the annual governance and administration survey to scheme managers in the week commencing 5 November. The survey is web based (though it can be printed off for discussion) and the closing date is expected to be the end of November.

We understand that some changes have been made to the survey this year; the survey will seek to find out in more detail how well local pension boards are working and ask for more detailed information about employer data. In addition, a new section on cyber-risks is included.

### **FCA publish new rules and guidance on improving quality of pension transfer advice**

The FCA has published new rules and guidance on improving the quality of pension transfer advice. In a [policy statement](#), the FCA confirmed that it would be taking forward most of the proposals laid out in its consultation earlier this year

The changes include raising qualification levels for pension transfer specialists and imposing a requirement for companies to provide a suitability report regardless of the outcome of advice.

## **Other News and Updates**

### **High Court ruling on GMP equalisation**

On 26 October 2018, Mr Justice Morgan handed down [judgment](#) in Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC, HBOS PLC, Angela Sharp, Judith Cain, Susan Dixon, Secretary of State for Work and Pensions and HMT. The High Court has held that schemes must equalise the discriminatory effects of GMPs and that this can be achieved using several methods.

We are aware that concern has been raised as to the impact to Public Service Pension Schemes. HMT have confirmed that this judgement “*does not impact on the current method used to achieve equalisation and indexation in public service pension*”

*schemes*". For more information concerning the current method of equalisation of Public Service Pension Schemes, please consult the outcome to the Government consultation [on indexation and equalisation of GMP in public service pension schemes](#) published on 22 January 2018.

### **PASA launch GMP stalemate guidance**

The Pensions Administration Standards Association (PASA) has launched its next tranche of [GMP guidance](#). The guidance concentrates on cases that cannot be rectified during the reconciliation exercise and, in terms of seeking to resolve them with HMRC, reach 'stalemate' status.

### **Budget 2018**

On 29 October, the Chancellor of the Exchequer, Philip Hammond, presented the [2018 Budget](#) setting out the government's plans for the economy and public finances.

Announcements relating to public service pensions schemes confirmed as expected the reduction of the SCAPE discount rate to 2.4% plus CPI, indicating an increased cost to employers of providing pensions in the long-term. The government further acknowledged that the provisional valuation results of all public service schemes indicate that an improvement to member benefits is needed from 2019-20.

While there were no major announcements in relation to pension tax, it has been confirmed that the Lifetime Allowance for 2019-20 will increase in line with CPI, to £1,055,000.

In relation to pensions cold calling, the Government's [response](#) to its consultation has been published alongside the Budget, and according to the Budget document the Government will "shortly be implementing legislation to make pensions cold calling illegal".

The government pledged support for pension savers by committing £5m extra funding for the Pension Dashboard, which will allow individuals to see all of their pension pots, including State Pension, in one place. The Budget report confirms that DWP will consult on the project later in the year.

### **Pension scam leaflet changed**

In [bulletin 175](#), we reported that TPR, in conjunction with the FCA, have launched a new ScamSmart TV advertising campaign to raise awareness of pension fraud and the most common tactics used by scammers.

As part of the ScamSmart campaign a [new customer leaflet](#) and other communication materials have been introduced. The new leaflet replaces the scorpion leaflet with immediate effect and, as before, should be included with transfer packs and is suitable to accompany annual benefit statements.

### **Tell Us Once - CDC connection testing**

DWP plan to move the hosting environment that facilitates Tell Us Once from UK Cloud to Microsoft Azure in mid-November.

DWP, with the help of volunteer administering authorities, have undertaken testing to ensure that the CDC connection operates as it should in the new environment. CDC is the DWP web platform on which LGPS funds access their death notifications from Tell Us Once. Thank you to the funds that volunteered to assist with the testing.

If you experience any issues with Tell Us Once please email [TELL-US-ONCE.SERVICEDESK@DWP.GSI.GOV.UK](mailto:TELL-US-ONCE.SERVICEDESK@DWP.GSI.GOV.UK)

### **Technical group minutes published**

The [minutes](#) of the meeting held on 28 September are now available on [www.lgpsregs.org](http://www.lgpsregs.org). Items of particular note are:

- process recommendation where payment of refund is reaching the 5 year maximum retention period
- process recommendation in relation to a CEP reclaim upon transfer from the LGPS to another registered pension scheme
- the group's view on the impact of TUPE on pensionable employment
- recommendation for the group to formally write to SAB requesting a change to the regulations in relation to forfeiture.

### **Date of birth verification for interfunds**

At the [technical group meeting](#) held on 8 June 2018, the group recommended that where neither the sending nor receiving administering authority are able to obtain date of birth verification an interfund adjustment should still be paid if both authorities hold the same date of birth.

### **MHCLG contact information**

MHCLG have dropped 'gsi' from all of their email addresses. Whilst emails containing the 'gsi' are still being accepted, they will not be going forward. If you hold any email addresses for MHCLG that include 'gsi' these should be amended now.

The generic email address for MHCLG is [LGPensions@communities.gov.uk](mailto:LGPensions@communities.gov.uk)

### **Training**

[Circular 311](#) advertises our forthcoming Governance Conference, which is taking place on 17/18 January 2019 in Bristol. Bookings are filling up fast, so if you or your pension committee/local pension board members would like to attend, please book your places as soon as possible to avoid disappointment. The [programme](#) and speakers are now confirmed.

### **The wider landscape**

#### **Simpler annual benefit statement launched**

Pensions Minister Guy Opperman recently launched [a simpler annual statement](#) at the Pensions and Lifetime Savings Association (PLSA) Annual Conference in October. The simpler annual pension statement has been produced by former PLSA chair Ruston Smith, in his capacity as an adviser to the Government on its review of automatic enrolment. Input was also received from the pensions industry.

The aim of the statement is to help pension schemes and providers give savers just the key information they need, presented in plain English and with more consistency.

## Civil partnerships to be extended to opposite sex couples

At the Conservative Party Conference, Prime Minister Theresa May announced that heterosexual couples will be able to enter into civil partnerships. The move follows a [decision](#) of the Supreme Court [UKSC 2017/0060] on 27 June 2018 that the existing law around civil partnerships was incompatible with the European Convention on Human Rights as it only permitted civil partnerships between same-sex couples.

## Legislation

### United Kingdom

SI	Reference Title
2018/1103	The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018
2018/1102	The Occupational Pension Schemes (Cross-border Activities) (Amendment) Regulations 2018
2018/1097	The Pensions Act 2004 (Code of Practice) (Authorisation and Supervision of Master Trusts) Appointed Day Order 2018
2018/1029	Financial Guidance and Claims Act 2018 (Commencement No 3 and Transitory Provisions (Modification)) Regulations 2018

## Useful Links

[LGA Pensions page](#)

[LGPS member website](#) (England and Wales)

[LGPS 2015 member website](#) (Scotland)

[LGPS Advisory Board website](#) (England and Wales)

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[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

## LGPS pensions section contact details

*If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension advisers will get back to you.*

Jeff Houston (Head of Pensions)

Telephone: 0207 187 7346  
Email: [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

**Lorraine Bennett (Senior Pensions Adviser – LGPC Secretariat)**

Telephone: 0207 187 7374  
Email: [lorraine.bennett@local.gov.uk](mailto:lorraine.bennett@local.gov.uk)

**Jayne Wiberg (Pensions Adviser – LGPC Secretariat)**

Telephone: 07979 715825  
Email: [jayne.wiberg@local.gov.uk](mailto:jayne.wiberg@local.gov.uk)

**Karl White (Pensions Adviser (Training) – LGPC Secretariat)**

Telephone: 07464 652886  
Email: [karl.white@local.gov.uk](mailto:karl.white@local.gov.uk)

**Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))**

Telephone: 07919 562847  
Email: [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk)

**Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))**

Telephone: 0207 664 3328  
Email: [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

**Elaine English (LGPS Executive Officer)**

Telephone: 0207 187 7344  
Email: [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)

**Distribution sheet**

Pension managers (internal) of administering authorities  
Pension managers (outsourced) and administering authority client managers  
Local Government Pensions Committee  
Trade unions  
CLG  
COSLA  
SPPA  
Regional Directors  
Private clients

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Local Government Pensions Committee  
Secretary, Lorraine Bennett

## **LGPC Bulletin 178 – November 2018**

Please contact [Jayne Wiberg](#) with any comments on the contents of this bulletin or with suggestions for other items that might be included in future bulletins.

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## LGPS England & Wales

### MHCLG consultation on technical amendments to benefits - update

In [bulletin 177](#), we informed that MHCLG had commenced a policy consultation called 'LGPS: technical amendments to benefits' closing on 29 November 2018.

MHCLG also undertook a separate technical consultation on draft amendment regulations to the technical amendments. The technical consultation was not a public consultation meaning that only interested parties, including the LGA, were invited to respond.

The LGA has responded to both the policy and technical consultations, and has published its responses on the [consultations page](#) of [www.lgpsregs.org](http://www.lgpsregs.org)

### Pension fund annual report 2018

Regulation 57 of the LGPS Regulations 2013 requires administering authorities to publish their pension fund annual report, in relation to the scheme year ending on the 31 March, on or before the following 1 December.

On 23 November, Liam Robson emailed all administering authorities requesting that they [email](#) him their annual report (or hyperlink) by Friday 30 November at the latest, for publication on the Scheme Advisory Board's [website](#). For those administering authorities who have not already done so, please can you ensure that you meet these deadlines.

### Pension saving statements (PSS) – request for information

At the pension manager's conference in Torquay (20/21 November) Jeff Houston (Head of Pensions at the LGA) asked that funds inform the LGA how many PSS they have issued this year. This information is requested as part of the work being undertaken with the other public service pension schemes to assess the impact of pensions tax on workforce behaviours.

Jeff's request was followed by an email from Lorraine Bennett on 26 November; the email asked for administering authorities to provide the information below:

- how many pension savings statements did you issue this year?
- how did this compare to last year?
- how much did you pay over to HMRC in respect of scheme pays (annual allowance and lifetime allowance) last year?

Thank you to the administering authorities that have already responded. If your administering authority has yet to respond, we would be grateful if you could do so as soon as possible.

### Planned changes to actuarial factor table formats and formulas

On 27 September, the LGA met with MHCLG, GAD and software suppliers to discuss the implementation of the:

- revised factors following the review of the current actuarial guidance.

- change to the format of tables and calculation formula of some of the factors (as opposed to simply a change of values in the factor table currently in force).

GAD has prepared [a document](#) to enable MHCLG to provide LGPS software suppliers and administrators with advance information on the format and formula changes. The document outlines the layout of affected factors tables and formulas in force immediately prior to the current review and the new layouts that will apply following the review. It does not include any current or revised factor values. Most importantly, none of the changes outlined in the document take effect until they are superseded by the issue of updated factor tables and guidance by the Secretary of State for the Ministry of Housing, Communities and Local Government.

It is intended that all of the Scheme's actuarial factors (excluding additional pension) will move to unisex factors, thereafter, the document explains that GAD are proposing table format and/or formula changes to:

Guidance	Proposed change
Annual Allowance Charges: Calculation of Scheme Pays Offset [elections made from 1 April 2014] - dated 12 April 2016	Offset factors to NPA for active members below NPA (as opposed to factors to age 65 with a relevant conversion).
Application of a Pension Credit to the Former Spouse or Civil Partner of the Member [Transfer day on or after 1 April 2014 and member had been a member of the 2014 scheme] - dated 12 April 2016	Pension credit factors to NPA (as opposed to factors below and above NPA with a relevant adjustment where appropriate).
Purchase of additional pension – elections on or after 1 April 2014 - dated 18 April 2016	Factors to NPA (as opposed to applying an adjustment where member's NPA is over 65, though member is below NPA at the point of election).
Actuarial factors for Individual Cash Equivalent and Club transfers from 1 March 2017 - dated 9 March 2017	Introduction of factors and formula to calculate non-club final salary transfers in respect of those members who meet the conditions in Schedule 7 of the Public Service Pensions Act 2013 (as opposed to sending such cases to MHCLG for onward transmission to GAD as per paragraph 7.5 of the current guidance dated 8 April 2016).
NPA's not an exact age	Within the guidance in this table, some members will have an NPA that is not an exact age. The factors are interpolated where this is the case. The document sets out the interpolation calculations.

### SCAPE discount rate – impact on actuarial guidance - update

Further to the article in [bulletin 177](#) setting out the impact of the reduction to the SCAPE discount rate, Lorraine Bennett emailed administering authorities in November with updated factors covering non-club transfers and pensioner CETVs on divorce.

The factor spreadsheet and covering letter are available on the [actuarial guidance](#) page of [www.lgpsregs.org](http://www.lgpsregs.org). The [transitional guidance document](#) (which sets out the recommended process for administering authorities during the transition to the new factors) has also been updated.

We plan to reformat the [actuarial guidance](#) page of [www.lgpsregs.org](http://www.lgpsregs.org) when all the revised factors are received; however, in the meantime both the factor spreadsheet and the transitional guidance document can be found under each corresponding guidance subject. Currently these are available under:

- Transfers – individual incoming and outgoing (factor spreadsheet and transitional guidance)
- Pensioner – CETVs on divorce (factor spreadsheet only)
- Interfund transfers (transitional guidance only)

In addition, please note:

- the dates on the factor list tab in relation to the ‘related factor guidance’ column have been corrected (this was a copy down error within the original spreadsheet).
- CRA adjustment factors are still sex specific (and unchanged). GAD have proposed an update of the CRA factors at the same time Cabinet Office update the club memorandum; they also expect these to switch to unisex.

## LGPS Scotland

### SCAPE discount rate – impact on actuarial guidance - update

Further to the article in [bulletin 176](#) titled “Draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018” setting out the impact of the reduction to the SCAPE discount rate, Roddy MacLeod (SPPA) emailed administering authorities on 14 November with updated factors covering non-club transfers and pensioner CETVs on divorce.

The factor spreadsheet is available on the [actuarial guidance](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

We plan to reformat the [actuarial guidance](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org) when all the revised factors are received; however, in the meantime the factor spreadsheet can be found under each corresponding guidance subject. Currently these are available under:

- Transfers – individual incoming and outgoing
- Pensioner – CETVs on divorce

## HMRC

### Countdown bulletin 39

On 26 November, HMRC published [countdown bulletin 39](#) that includes articles on:

- scheme financial reconciliation
- scheme cessation
- scheme reconciliation service

- CEPs notified by automated responses

Of particular interest is the articles on:

- scheme financial reconciliation. HMRC are now offering administering authorities the opportunity to request their financial position as at 7 October 2018. This will give an indication as to whether the administering authority will be in surplus or deficit when bills or refunds are issued in April 2019.
- scheme reconciliation service (SRS). HMRC have confirmed that due to the higher than forecast increase in SRS queries leading up to 31 October 2018, they will be unable to sustain their 3-month turnaround time to respond. However, they remain committed to respond to all queries by 31 March 2019.

### **Pension Schemes Newsletter 105**

On 23 November, HMRC published [pension scheme newsletter 105](#) that includes a joint article from HMRC and The Pensions Regulator (TPR) and articles on:

- double taxation – bulk requests for certificates of residence
- overseas transfer charge - draft regulations
- Manage and Register Pension Schemes service newsletter
- reporting overseas transfers
- operating PAYE on pension payments.

The joint article from HMRC and TPR relates to pensions tax relief. It appears that there are issues with giving tax relief to scheme members on their pension contributions. As a result, some scheme members are receiving tax relief twice and others are not getting the tax relief they are due. The article explains a number of instances where errors can be made, where employers can find guidance in this area and the fact that employers should already have safeguards in place to prevent such errors occurring in line with TPR [Codes of Practice 5 and 6](#).

## **TPR**

### **2018 governance and administration survey**

Further to the article in [bulletin 177](#), TPR issued the survey link to scheme managers and scheme contacts on 5 November. We encourage all administering authorities to complete the survey by the closing date of 30 November. Should you encounter any questions or problems in completing the survey please contact [Nick Gannon](#) (TPR Policy Lead) who is happy to act as a post box for the research agency.

### **New TPR website**

On 12 November, TPR launched a [new website](#) to give more than three million yearly visitors a clearer and simpler experience. The new site is a key part of TPR's redesigned branding which highlights how the organisation is changing its approach to become clearer, quicker and tougher.

Administering authorities may wish to check their communications to make sure that any links to the old TPR website still work, or update where necessary.

## Updated guidance on Annual Benefit Statements (ABS)

In November, TPR published [updated guidance](#) for scheme managers, and others involved in administering public sector pension schemes, issuing ABS in the public sector. Updates include a number of case studies and the outcomes of TPR engagement during the 2017 ABS Project.

## Other News and Updates

### Launch of the cost transparency initiative (CTI)

The [Cost Transparency Initiative](#) (CTI) was launched on 7 November. The CTI is a new independent group (operating with the FCA operating as an observer) working to improve cost transparency for institutional investors with the responsibility for progressing the work already undertaken by the Institutional Disclosure Working Group (IDWG).

The CTI is supported by the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the Local Government Pension Scheme Advisory Board England & Wales (LGPS SAB).

### Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018

Further to the article in [bulletin 176](#), on 23 November, HMT have now [published](#) amending Directions to ensure that the 2016 valuations of the public service pension schemes can be completed using the latest assumptions. The Treasury has a statutory duty to consult the Government Actuary before making the Directions. The Treasury completed this statutory consultation during November.

## Training

### Governance Conference 17/18 January 2019

[Circular 311](#) advertises our forthcoming [Governance Conference](#), which is taking place on 17/18 January 2019 in Bristol. Bookings are filling up fast, so if pension committee/local pension board members would like to attend, please book your places as soon as possible to avoid disappointment. The [programme](#) and speakers are now confirmed.

## Wider Landscape

### New Secretary of State for Work and Pensions

Amber Rudd became Work and Pensions Secretary on 16 November, replacing Esther McVey who resigned earlier this month.

## Legislation

### United Kingdom

SI	Reference Title
<a href="#">2018/1219</a>	The State Pension Debits and Credits (Revaluation) Order 2018
<a href="#">2018/1218</a>	The Occupational Pensions (Revaluation) Order 2018
<a href="#">2018/1217</a>	The State Pension Revaluation for Transitional Pensions Order 2018

[2018/1111](#)

The Armed Forces Pension Schemes and Early Departure Payments Schemes (Amendments Relating to Flexible Working and Miscellaneous Amendments) Regulations 2018

## Useful Links

[LGA Pensions page](#)

[LGPS member website](#) (England and Wales)

[LGPS 2015 member website](#) (Scotland)

[LGPS Advisory Board website](#) (England and Wales)

[LGPS Advisory Board website](#) (Scotland)

[LGPS Regulations and Guidance website](#) (England and Wales)

[LGPS Regulations and Guidance website](#) (Scotland)

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

## LGPS pensions section contact details

*If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension advisers will get back to you.*

**Jeff Houston (Head of Pensions)**

Telephone: 0207 187 7346

Email: [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

**Lorraine Bennett (Senior Pensions Adviser – LGPC Secretariat)**

Telephone: 0207 187 7374

Email: [lorraine.bennett@local.gov.uk](mailto:lorraine.bennett@local.gov.uk)

**Jayne Wiberg (Pensions Adviser – LGPC Secretariat)**

Telephone: 07979 715825

Email: [jayne.wiberg@local.gov.uk](mailto:jayne.wiberg@local.gov.uk)

**Karl White (Pensions Adviser (Training) – LGPC Secretariat)**

Telephone: 07464 652886

Email: [karl.white@local.gov.uk](mailto:karl.white@local.gov.uk)

**Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))**

Telephone: 07919 562847

Email: [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk)



**Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))**

Telephone: 0207 664 3328

Email: [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

**Elaine English (LGPS Executive Officer)**

Telephone: 0207 187 7344

Email: [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk)

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	<b>Pensions Fund Sub-Committee</b> 6 November 2018
	<b>Report from the Chief Finance Officer</b>
<b>Proposed adoption of the new Investment Strategy</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
<b>No. of Appendices:</b>	
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

## 1.0 Purpose of the Report

- 1.1 This report updates the committee on the further work undertaken since the presentation of the investment review in June 2018 and the decisions now proposed to implement the strategy over the short to medium term.

## 2.0 Recommendation(s)

- 2.1 Approves the Investment Beliefs as set out in Appendix A.
- 2.2 Approves the proposed target and interim asset allocation as set out in Appendix B.
- 2.3 Delegates authority to the Chief Finance Officer to sell holdings that are not consistent with the new strategy and to acquire new holdings. This includes the following:
- 2.3.1 To sell the Janus Henderson Total Return Bond and buy passive longer dated gilts with BlackRock and the London CIV Multi Asset Credit Fund, utilising some of the available cash held for investment (as set out in section five);

- 2.3.2 To sell Janus Henderson Small caps UK equities mandate (as set out in section seven);
- 2.3.3 To hold a more regionally diversified approach to global equities, by reducing the Fund's UK equity exposure and introducing an allocation to emerging markets (as set out in section four); and
- 2.3.4 To utilise part of the current cash balance available for investment in the interim while suitable investments become available to achieve the proposed Investment Strategy (as set out in section seven).

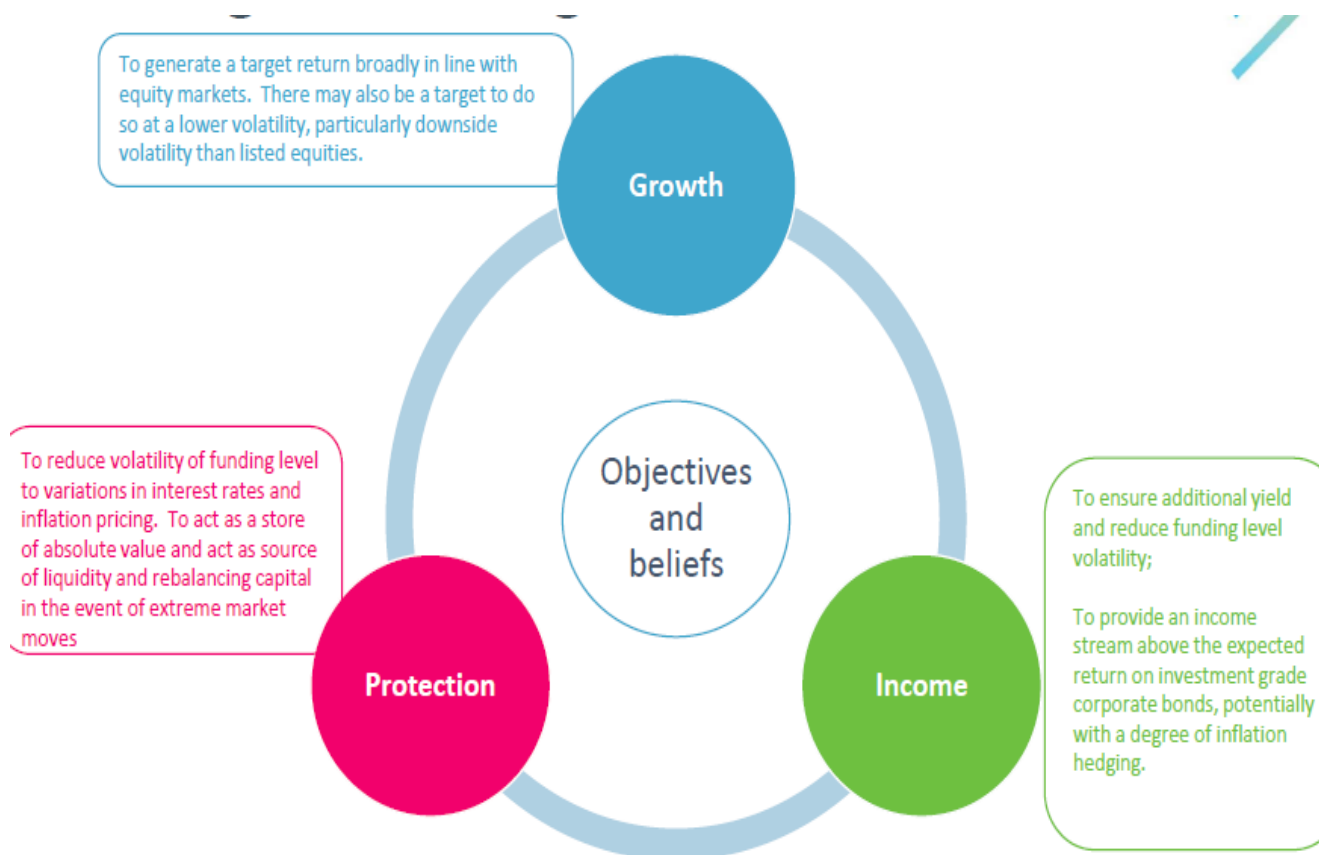
### **3.0 Background**

- 3.1 The primary role of the Pensions Sub Committee is the strategic management of the assets of the Fund to ensure it is in a position to meet benefit payments as they fall due and to reach a position of full funding.
- 3.2 As at the last valuation in 2016, the funding position of the Fund was low, at 55%, with assets of £676m and liabilities of £1.238m. In order to ensure that the deficit does not increase, the assets of the Fund need to increase faster than the increase in liabilities. The objective to reach a position of full funding therefore has a significant effect on the investment strategy, where a large proportion of the asset allocation is weighted towards relatively higher risk and higher growth assets, in order to generate superior returns and growth in the long term, above other protection and liability matching assets, such as government bonds.
- 3.3 In light of the above, and other key regulatory changes within the LGPS such as asset pooling, the committee agreed in November 2017 to commission a project to review its investment strategy with the following objectives:
  - To establish a set of Investment Beliefs that will support the long term strategic approach of the Pension Fund's Sub-Committee.
  - To gain a broader understanding of the risk/return dynamics of the Fund's investment strategy and to ensure that the strategy remains fit for purpose in supporting the Fund's long term objectives.
  - To set a medium term agenda and timetable on how the Fund might comply with the requirement to pool its assets, and to consider a process for mapping the existing portfolio across to the London CIV pool.
- 3.4 In June 2018, members were presented with the outcome of the strategy review, alongside a set of investment beliefs shaped by the committee. Well run pension funds tend to have a set of clearly defined investment beliefs that helps to clarify how they have translated their objectives into their underlying investment strategy. The investment beliefs are attached at Appendix A and it is intended that these beliefs are published alongside the investment strategy statement.

3.5 The strategy review included carrying out asset liability modelling to test the probability (and associated risks) of the Fund's current investment strategy achieving the long-term objectives. The current strategy's results were also compared with other investment strategies. The next stage of the review focused on the underlying components of the **Growth, Income and Protection** elements of the strategy, in particular testing these against the Fund's implicit investment beliefs. The results of the review highlighted that:

- a more diversified investment strategy maybe be more appropriate from an expected risk and return perspective;
- the move from the current strategy to the more diversified strategy should take place over time, taking into account the availability of suitable investment opportunities from the London CIV, the scope to access private markets, transition costs and the current market environment; and
- Appendix B provides a mapping table to show the previous asset allocation and how, over time, the proposed asset allocation will be achieved.

3.6 The graphic below sets out the strategic building blocks of the proposed asset allocation:



3.7 In defining the building blocks described above the proposed asset allocation is shown below compared to the current asset allocation.

	Current strategic allocation	Potential alternative (over medium-term)
Growth (Equities/DGF)	76%	60%
Income (Yield)	8%	25%
Protection (Hedging)	16%	15%

#### 4.0 Growth assets

***“To ensure additional yield and reduce funding level volatility. To provide an income stream above the expected return on investment grade corporate bonds, potentially with a degree of inflation hedging”***

- 4.1 In the recent strategy review it was recommended that the Fund adopts a 45% target allocation to listed equities. It was also recommended that the geographical allocation of this equity allocation is considered.
- 4.2 The Fund’s growth assets are dominated by listed Equities and Diversified Growth funds. The Fund also includes allocations to Small Caps and Private Equity. This is contrary to the Investment Beliefs set out in this report, in terms of governance and passive management. Therefore it is recommended that these allocations are removed from the Fund’s Investment Strategy (for Private Equity this will take time as the existing investments run-off).
- 4.3 The Fund’s regional listed equity allocation currently has a notable bias toward UK equities and no exposure to emerging markets. As at June 2018, UK equities accounted for around 6% of the overall global equity market whereas emerging markets accounted for around 10%. In order to gain exposure to returns generated in emerging markets, as well as considering diversification as one of the key investment beliefs of the Fund, it is recommended that a more regionally diversified approach is taken to equities by (in the first instance) reducing the UK equity exposure by removing the existing Henderson UK small cap equity mandate and investing the proceeds in emerging markets.
- 4.4 The current listed Equity split is one third UK and two thirds developed market equities. The recommended split (as discussed in 4.2 above) would change this to broadly 25% UK, 66% Developed and 9% Emerging Market Equities and be in line with the Investment Belief on the need for diversification. The impact of this change would be a c.0.67% p.a. saving on the annual investment management fee (c£220k p.a. based on the current mandate size and assuming emerging markets are managed passively). Based on the information provided by the managers, a one-off cost of change of c£160k is expected.
- 4.5 In terms of Active vs Passive for Equities, given the desire to minimise governance, it is recommended to continue with the current strategy of passive

management for Listed Equities as this is most aligned to the Fund's beliefs. However, with regards to emerging markets, these markets are typically less regulated and can be volatile and unpredictable.

- 4.6 Emerging markets include Chinese listed state owned enterprises with complicated ownership structures that offer foreign minority shareholders little or no legal protection. This state control can sometimes lead to poor outcomes for shareholders. One way of limiting exposure to state owned enterprises is to invest in an actively managed fund that avoids mimicking the index and invests selectively. However these funds are typically more expensive than passive trackers.
- 4.7 If there is a strong view of adding active management to the portfolio, then Emerging Market Equities is an area to consider this, given the reduced transparency and perceived lower efficiency in this part of the market. If the Committee agree to invest passively in Emerging Market Equities, Blackrock could be used in order to diversify away from LGIM. Otherwise, an active option with the LCIV is available for consideration, which is managed by Janus Henderson.
- 4.8 It is anticipated the regional diversification within the listed Equity portfolio will be discussed further during 2019, alongside potential other aspects relating to the Equity mandate, for example, environmental, social and governance ("ESG") benchmarked funds. Considering this move to more global diversified and ESG benchmarks in tandem will reduce potential transition costs.

## 5.0 Protection assets

***"To reduce volatility of funding level to variations in interest rates and inflation pricing. To act as a store of absolute value and act as source of liquidity and rebalancing capital in the event of extreme market moves"***

- 5.1 At present the only fixed income mandate within the Fund is with Janus Henderson's Total Return Bond (TRB). Brent purchased the TRB in 2012 and as at September 2018 it has achieved returns of 3.01% gross of fees since inception. The three year rolling return is 2.68% and five year return is 2.37%. The objective of the fund is to achieve a return within a range of 3-5% p.a., gross of fees. As reported to the committee in June 2018, following a procurement process of fixed income providers, Janus Henderson have not been put forward to be on the London CIV platform and therefore the TRB will not be transitioning to the London CIV. As a result of this, together with performance not meeting the Fund's expectations, the committee is asked to consider selling the TRB.
- 5.2 The investment review has recommended that the current target allocation of 15% to Fixed Income assets is retained, with 10% managed passively in government bonds and the remaining 5% managed in a Multi Asset Credit fund. The former is aligned to the Fund's beliefs in respect of risk and return being considered relative to liabilities, it is also low cost and provides a source of capital preservation and liquidity. With regards to Multi Asset Credit, these

funds typically invest across a range of credit opportunities including high yield bonds, corporate bonds and asset backed bonds to deliver risk adjusted returns in a diversified way. It is considered a defensive investment choice particularly in times of rising interest rates.

- 5.3 With regards to the passive bond fund mandate, the London CIV have LGIM and BlackRock products under their oversight on a reduced fee basis. Whilst products will be reviewed with both fund managers as part of our due diligence, there is a preference for this mandate to be managed by BlackRock given the significant amount of mandates already being managed by LGIM for Brent (c.40% of passive UK and global equities). Investing with BlackRock therefore should provide some diversification by manager, and avoid greater concentration of fund assets with LGIM.
- 5.4 There is a preference towards longer dated UK government bonds for the passive bond mandate. The recommendation is to invest in BlackRock's Over 15 year gilt fund. An investment of this nature can be thought of a portfolio insurance for the Fund for the following reasons:
- Nominal gilts tends to act a strong hedge for periods of slower economic growth;
  - They should perform strongly in an environment when the valuation of liabilities is increasing due to low yields; and
  - These assets are highly liquid and low cost which provides flexibility, most notably, at time of market stress.
- 5.5 London CIV launched a Multi Asset Credit fund (MAC) earlier this year and so far has secured the investment of £600m from seven London Local Authorities (LLAs). The fund will initially invest with the CQS Credit Multi Asset fund. The aim of this fund is to utilise a range of long term strategies across a range of Fixed Income strategies to generate returns during different market cycles. The fund generates returns in conditions where interest rates are rising through holdings in loans and asset backed securities. In terms of both the number of boroughs invested and the assets raised for the fund, this is one of LCIV's most successful fund launches to date.
- 5.6 MAC mandates are now commonly used by institutional investors and give exposure to debt such as Loans, Convertible bonds, Asset-backed securities, and Higher Yielding and Investment Grade Corporate bonds. These asset classes tend to offer a greater yield and better risk-adjusted returns to investors than government bonds when held in a diversified portfolio. A MAC investment, when held alongside the passive government bond mandate, should therefore help increase expected return and diversify overall returns generated by the fixed income allocation.
- 5.7 The fees on the existing Janus Henderson TRB mandate amount to c0.35% pa and it is proposed to replace this with the passive government bond mandate and the MAC fund which will have a weighted average fee of c0.18% pa. Based on the information provided by the manager, there may be a one off fee of c£130,000 in making this transaction.

- 5.8 The other available bond options via the London CIV that could be considered are limited at present. The London CIV is currently seeking commitments for a Global Bonds and Global Liquid Loans sub-fund but as we understand, have no investors as yet. As the MAC fund via the London CIV already has seven LLAs invested and offers a broader range of asset class exposure, it is reasonable to invest in the MAC fund, rather than wait for further options to be made available by the London CIV.

## **6.0 Income assets**

***“To ensure additional yield and reduce funding level volatility. To provide an income stream above the expected return on investment grade corporate bonds, potentially with a degree of inflation hedging”***

- 6.1 The investment review recommended that the strategic direction of travel is to increase allocation to income assets and that the Fund add to build up its existing infrastructure exposure, but also consider other yielding assets such as property. In testing this strategy against the Fund's investment beliefs, there are clear links with regards to diversification (infrastructure provides this) and achieving risk and return relative to liabilities in terms of holding long-term real assets.
- 6.2 The target allocation has been recommended to increase from 8% to 15% and the current actual allocation is 4% (3% Alinda and 1% Capital Dynamics). There is currently £16.5m of undrawn capital commitments with regards to these mandates, however, all other things being equal, if all of this was immediately called upon the actual allocation would increase to 5%.
- 6.3 The London CIV is expected to have an infrastructure funds available for investment by the end of 2018 and will be holding an Infrastructure Forum in November 2018 where further information will be provided. It is envisaged that decisions on investment in infrastructure will be made at the next committee meeting in February 2019 in order to plan towards achieving the 15% over time.
- 6.4 The investment review also recommended a 10% allocation to property, from having no allocation previously. The fund had legacy investments with AVIVA which have almost entirely been sold.
- 6.5 The London CIV will have two property funds available for investment in early 2019. There will be a UK property fund (both residential and commercial) and a global property fund. It is envisaged that decisions in such yielding assets, i.e. property, will take place over the course of 2019 and as the CIV's fund offering evolves.

## **7.0 Cash Holdings**

- 7.1 There is a current cash balance of £108.5m which has been mainly generated from distributions from mature funds (Capital Dynamics, Alinda II and AVIVA)

which are approaching the end of their terms and are therefore returning cash which has been previously invested. Although part of this cash balance is being held for outstanding capital commitments and the circa £31m being held for the asset transfer in relation to the College of North West London, there remains a large balance which is becoming a drag on performance.

- 7.2 Officers have carried out a cash flow analysis in respect of commitments due over the next year (e.g. member benefits) and income (e.g. employer and employee contributions and distributions) in order to estimate the proportion of the cash that can be used for investment. This is currently estimated at £60m.
- 7.3 Therefore, the following options (or combination of options) are proposed in order to utilise part of the cash which is not immediately required for existing commitments (fees, cost and impact on expected returns and risks will be considered with each option).
- 7.4 **Option 1:** As noted in more detail in section five above, there is a proposal to sell the Janus Henderson Total Return Bond (£92m as at 30 September 2018) and purchase BlackRock Passive Gilts and LCIV MAC.

At 30 June 2018, the Janus Henderson Fund was c10.6% of total assets. Option 1 would be to take the Fund closer to its target allocation of 15% of total assets. This would involve, in total, £77m (9% of the current size of the Fund) being invested in BlackRock Passive gilts and £35m (4% of the current size of the Fund) in LCIV MAC. This option would utilise a significant proportion (£20m) of the cash available for investment.

- 7.5 **Option 2:** There is a long-term objective to reduce the Fund's target exposure to DGFs to 15% of total assets and build up the Fund's exposure to income assets. However, it will take considerable time (years) to build up allocations to income assets, in the interim it is expected that the Fund will have a higher than target allocation to DGFs which will be reduced gradually as the income allocation increases. Investing a proportion of the cash (c£40m) in the DGFs, will provide the Fund with a balanced exposure to return-seeking assets while the London CIV's investments in Income assets (Infrastructure and Property) become available in early 2019. This option will be the most expensive (potentially one off cost of 0.3% on investment, and annual management fee of c0.47%-0.725% depending on the manager), but offer the greatest expected returns.
- 7.6 As at 30 June 2018, the Baillie Gifford DGF mandate has achieved returns of 7.6% since inception (15/02/2016) and the one year performance is 1.9%. Likewise, the Ruffer DGF has achieved returns of 6.1% since inception (21/06/2016) and the one year performance is 1.6%. Clearly, the Baillie Gifford fund has achieved superior returns (net of fees).
- 7.7 **Option 3:** As in option 1, allocate further cash into Protection assets (Fixed Income). This option will increase the asset allocation to 17% (2% above the target) however as this is a liquid asset with low fees, part of the asset can be



sold off when Income assets (Infrastructure and Property) become available for investment through the LCIV (described in section 6 above).

- 7.8 The recommendations by way of this report are options 1 and 2. In summary this is to invest £40m into Growth assets via the existing DGF manager, Baillie Gifford, and £20m into Protection assets via the London CIV. This will achieve the goal of getting closer to the target allocation in respect of Protection assets as well as utilising a large proportion of the cash currently available for investment into DGF's to provide the Fund with a balanced exposure to return-seeking assets while investments within Income assets become available.
- 7.9 As noted in section 4.2, it is proposed to sell the Janus Henderson Small caps UK equities fund as it does not align to the Fund's investment beliefs. However, selling this holding in the short term will only add to the large cash balance noted above in the short term.
- 7.10 That said, officers have recently been notified of a planned change in management structure by the fund manager, effective from 1 November 2018. The plan is to bring the management of the Janus Henderson UK and Irish Smaller Companies fund in house. This may lead to significant transition costs as assets are liquidated and new ones acquired. Therefore, in order to avoid incurring these transition costs it is recommended to sell as soon as possible.
- 7.11 In line with the options described above, the proceeds from this sale could be used to invest in protection assets (as described in option 3, above) or growth assets (as described in option 2, above). Alternatively, the proceeds could be used to fund the proposed allocation to Emerging Markets, as described in section 4.7. If the recommendation to sell the mandate is agreed, it is expected that cash will be returned in early 2019 where decisions on utilising the cash can be discussed at the next committee meeting in February 2019.

## **8.0 Financial Implications**

- 8.1 These are set out throughout the report

## **9.0 Legal Implications**

- 9.1 Not applicable.

## **10.0 Equality Implications**

- 10.1 Not applicable.

## **11.0 Consultation with Ward Members and Stakeholders**

- 11.1 Not applicable.

## **12.0 Human Resources**

- 12.1 Not applicable.

**Report sign off:**

**Conrad Hall**

Chief Finance Officer

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## Investment beliefs

**Clear and well defined objectives are essential to achieve future success** - the Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

**Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection** - the Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters. The Committee is aware that there is need to take investment risk in order to generate a sufficient level of return.

**Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy** – the Committee believes that as the funding position of the Fund improves, the level of risk taken by the Fund should reduce as appropriate i.e. only take as much risk as necessary. The Committee believes that there exists a relationship between the level of investment risk taken and the rate of expected investment return. In reducing risk, the Fund's expected return would typically also reduce.

**Long term investing provides opportunities for enhancing returns** - As a long-term investor it is important that the Fund acts as an asset owner. As a long term investor, the Fund may ~~so~~ choose to gain additional compensation by investing in assets that are illiquid or may be subject to higher levels of volatility (a premium return is required for any such investments).

**Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments** - the Committee recognises that ESG issues can impact the Fund's returns. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations and ESG is integrated into strategic considerations.

**Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes** - the Committee recognises that environmental issues can impact the Fund's returns. ~~T and the~~ Committee aims to be aware of, and monitor, financially material environmental-related risks and issues through the Fund's investment managers and advisors.

**Equities are expected to generate superior long term returns** - the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. However the Committee also recognise that equities can be highly volatile over the short-term.-

**Diversification reduces the overall volatility of the Fund's asset returns** - the Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. However, the Committee also recognise that there is scope to over diversify and that any desire to diversify needs to be aligned to the Fund's governance arrangements.

**Passive management has a role to play in the Fund's structure** - the Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance. There is a belief that passive management is most suitable for markets that are deemed as being more efficient such as developed market equities.

**Active management can add value but is not guaranteed** - the Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. There is a belief that active management is most suitable for markets that are deemed as being less efficient e.g. emerging market equities, specialist markets e.g. infrastructure or where views on the relative value of different asset classes are a targeted source of value e.g. DGF mandates.

**Private markets can offer opportunities** - Private markets can offer opportunities and give higher return due to higher illiquidity premia. However it is recognised that private markets can be more expensive, less transparent (e.g. fees and drivers of return), increase the Fund's governance burden and require ongoing maintenance to achieve target exposure. Such factors must be taken into account when considering such an allocation.

**Choice of benchmark index matters** - the Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

**Rebalancing policies are important** – the Committee recognises that rebalancing the Fund's assets towards the strategic asset allocation is important in achieving the Fund's longer term objectives, in particular following a period of strong or weak market performance.

**Fees and transaction costs matter** - The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. It also does not seek ~~to seek~~ to move in and out of investments regularly due to the cost drag. The Committee also seek to have transparency on the fees that it is paying to its providers.

**Governance "budget" matters** – The Committee recognises that the resources (and time) involved in deciding upon (and implementing) an investment strategy and structure play a part in any investment decisions made. A low governance approach to accessing markets is likely to be preferred if it can offer similar risk adjusted returns to alternative approaches.

**The London CIV is the Fund's preferred approach to implementation** – the Committee recognises the potential benefits of LGPS pooling. There preferred route is to implement their investment strategy via the London CIV, subject to carrying out suitable due diligence on the CIV's investment offering.

## Investment project – mapping

This table is addressed to the Pension Fund Sub Committee (“the Committee” of the Brent Pension Fund. It supports the presentations we give to the Committee on 26 June.

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Proposed Target Asset Allocation (%)	Comment
Private Equity	Fund of Funds	Capital Dynamics	64.5	7.8	10.0	5.0	0.0	Allocation gradually being unwound. No further commitments to be made. Further work to get indication of timescale for run-off. Continue to include exposure in total equity allocation.
	Fund of Funds	Yorkshire	0.5	0.1				
Equities	UK Passive	LGIM (CIV)	108.4	13.1	45.0	45.0	45.0	Adjust the benchmark to have lower UK allocation and add a proportion of emerging markets. Redeem small cap equities and proceeds invested into passive mandate
	Overseas Passive	LGIM (CIV)	274.3	33.0				
	Small-Cap	Henderson	31.6	3.8				
Diversified Growth	Multi-asset	Baillie Gifford (CIV)	75.5	9.1	21.0	18.0	15.0	Although DGFs are part of Fund's growth exposure they also provide a degree of exposure to income and protection assets. They can act as “balancing” item for strategic allocation during the period as the income exposure is being built up.
	Multi-asset	Ruffer (CIV)	48.8	5.9				
Total growth	-	-	603.6	72.8	76.0	68.0	60.0	

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Final Proposed Target Asset Allocation (%)	Comment
Infrastructure	Direct	Alinda	24.9	3.0	8.0	12.0	15.0	Priority is to work towards current target. Investigate scope to commit additional monies e.g. working with existing managers and CIV. Also potential use of secondary market.
	Funds+ Direct	Capital Dynamics	8.4	1.0				
Property	Europe fund-of- funds	Aviva	2.1	0.2	0.0	0.0	0.0	Being wound down. No further commitments
New income mandate	One or more	TBC	0.0	0.0	0.0	5.0	10.0	Potential to add core UK property or other additional income fund via secondary market as initial step
Total income	-	-	35.4	4.2	8.0	17.0	25.0	
Fixed Income	Active	Henderson – Total Return	94.1	11.3	15.0	0.0	0.0	Redeem Henderson Fund, not going to be part of CIV.
Fixed Income	Active/ Passive	Recommend LGIM/CIV	-	-	-	15.0	15.0	Recommendation is for proportion c.10% in passive longer duration bonds plus c 5% allocation to multi-asset credit
Cash	Short-dated	In-house	97.0	11.7	1.0	-	-	Remove 1% strategic allocation to cash
Protection	-	-	191.1	23.0	16.0	15.0	15.0	-
TOTAL	-	-	830.2	100.0	100.0	100.0	100.0	-

Prepared by:-

William Marshall

Partner

17 October 2018


For and on behalf of Hymans Robertson LLP

**General Risk Warning**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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	<b>Pensions Fund Sub-Committee</b> 6 November 2018
	<b>Report from the Chief Finance Officer</b>
<b>Responsible Investment Policy</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One: <ul style="list-style-type: none"> <li>London CIV – Responsible Investment Policy</li> </ul>
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer <a href="mailto:Conrad.Hall@brent.gov.uk">Conrad.Hall@brent.gov.uk</a> Tel. 0208 937 6528  Ravinder Jassar, Head of Finance <a href="mailto:Ravinder.Jassar@brent.gov.uk">Ravinder.Jassar@brent.gov.uk</a> Tel. 0208 937 1487

## 1.0 Purpose of the Report

- 1.1 This report presents the Responsible Investment Policy of the London CIV. The purpose of the policy is to detail the approach that the London CIV aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to note and support the Responsible Investment Policy.

## 3.0 Overview

- 3.1 This framework defines the commitment of the London CIV to responsible investment. It recognises its clients have a fiduciary duty to act in the best long-

term interests of their members. To do so properly requires the London CIV to recognise that environmental, social and governance issues can positively and negatively impact on the Fund Solutions provided by the Pool which should be considered in investment strategies and decision-making processes.

- 3.2 The London CIV has considered the guidance provided in the Ministry of Housing Communities and Local Government ('MHCLG') paper 'Local Government Pension Scheme: Investment Reform and Criteria and Guidance' in the establishing this policy
- 3.2 In summary the Responsible Investment policy focuses on engagement and accountability. The core of the policy is to be an engaged investor, exercising the rights of ownership and holding to account those who manage our investments. The policy stops short of blanket exclusion and divestment as tools of responsible investment. It provides a framework for developing policies for engaging on specific topics.
- 3.3 The policy is considered to be a "best practice" policy, providing an effective influencing and engagement framework. In particular it provides a framework for oversight of investment managers.

#### **4.0 Key Beliefs**

- 4.1 The key beliefs of the London CIV as set out in the Policy are as follows:
  - We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
  - We believe that communication and engagement are integral to responsible investment.
  - We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
  - We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
  - Sometimes assets will be sold over ESG issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
  - We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
  - We believe our voice for responsible ownership is loudest when we own an asset.

#### **5.0 Guiding Principles**

- 5.1 The Guiding Principles of the London CIV as set out in the Policy are:
  - We should set out principles to which we aspire on subjects that all shareholders can agree:

- Human Rights
  - Human Slavery
  - Rule of law
  - Environmental transparency
  - Equality
  - Corporate Governance
- We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
  - We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
  - We will ensure that all investment managers operate their RI policies effectively and hold them to account.
  - An Investment Managers inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
  - We will produce an Annual RI report for the London CIV.

## **6.0 Financial Implications**

6.1 Not applicable.

## **7.0 Legal Implications**

7.1 Not applicable.

## **8.0 Equality Implications**

8.1 Not applicable.

## **9.0 Consultation with Ward Members and Stakeholders**

9.1 Not applicable.

## **10.0 Human Resources**

10.1 Not applicable.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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# RESPONSIBLE INVESTMENT POLICY



# RESPONSIBLE INVESTMENT POLICY

## 1) INTRODUCTION

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This framework defines the commitment of London LGPS CIV Limited ("London CIV" or 'the Pool') to responsible investment ('RI'). Its purpose is to detail the approach that the Pool aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

We recognise that our clients have a fiduciary duty to act in the best long-term interests of their members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund Solutions provided by the Pool which should be considered in our investment strategies and decision-making processes.

London CIV has considered the guidance provided in the Ministry of Housing Communities and Local Government ('MHCLG') paper 'Local Government Pension Scheme: Investment Reform and Criteria and Guidance' in the establishing of this policy.

### 1.1 BELIEFS AND GUIDING PRINCIPLES

The Pool's RI beliefs and guiding principles underpin its RI approach and are described below.

#### 1.1.1 Beliefs

- a) We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
- b) We believe that communication and engagement are integral to responsible investment.
- c) We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
- d) We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
- e) Sometimes assets will be sold over ESG issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
- f) We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
- g) We believe our voice for responsible ownership is loudest when we own an asset.

#### 1.1.2 Guiding Principles

- a) We should set out principles to which we aspire on subjects that all shareholders can agree, for example:
  - Human rights
  - Human slavery
  - Cluster munitions
  - Rule of law
  - Equality
  - Corporate governance
  - Sustainability
  - Climate change
  - Fossil fuel risk
- b) We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
- c) We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
- d) We will ensure that all investment managers operate their RI policies effectively and hold them to account.
- e) An Investment Manager's inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
- f) We will produce an Annual RI report for the London CIV.

- g) The Pool also requires investment managers to vote in accordance with the Local Authority Pension Fund Forum (“LAPFF”), other than in exceptional cases, in which case they should explain their reasons for not doing so, preferably in advance of the meeting. This is monitored on a regular basis.

### **1.1.3 ESG Integration**

The Pool believes that

- i) Investing responsibly and engaging as sustainable long term investors reduces risk over time and may positively impact the returns. The London CIV must encourage the underlying funds and companies to consider the long-term impacts of their actions.
- ii) A long time horizon requires that the team consider the impacts of its actions on future generations.
- iii) Effective management of financially material ESG risks should support the Pool’s requirement to protect returns over the long term.

The Pool considers RI to be relevant to investment performance across asset classes.

The Pool recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

It is supportive of the UK Stewardship Code and is a Tier 1 signatory to the Code. The Pool encourages investment managers to sign up to the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) where appropriate.

### **1.1.4 Engagement versus Exclusion**

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.

There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Pool has a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance stakeholder value, influence that would be lost through a divestment approach. The Pool extends this principle of ‘engagement for positive change’ to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing their RI approach.

The Pool believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. This extends to other LGPS pools and other public and private investors.

### **1.1.5 Fees and Incentives**

Managing fees and costs matter in low return environments. Fee arrangements with external fund managers – as well as the remuneration policies of investee companies – should be aligned with the participating funds’ long-term interests.

The Pool recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment.

### **1.1.6 An Evolving and Flexible Approach**

The Pool recognises that RI in the market is changing. This framework will remain flexible and will evolve

over time to reflect evolving market developments.

## **1.2 OVERSIGHT AND APPLICATION**

This policy will be reviewed at a minimum annually, or whenever they or the Pool proposes revised RI policies and procedure. The Chief Investment Officer is responsible for policy implementation.

## **1.3 CONTENT**

The RI framework is divided into sections:

- How ESG is interpreted by Asset Class
- What the Pool expects of itself, companies and investment managers with respect to RI.
- How the RI beliefs and guiding principles are implemented in practice.

Definitions are provided in Section 5.

## **2) ESG BY ASSET TYPE**

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### **2.1 LISTED EQUITIES**

Responsible investment allows listed equity investors to make better informed investment decisions by integrating all material factors, including material ESG factors, into investment analysis, valuations and decisions. Investment Managers should be voting all proxies and using their influence as owners of companies to ensure shareholder valuation is maximised through considering the impact of ESG factors (both positive and negative) on the value of the organisation.

### **2.2 FIXED INCOME**

ESG analysis provides fixed income investors with additional insight into issuer creditworthiness. Whilst governance influence over fixed income issuers can be less than in equity ownership, investment managers taking sizable positions in capital structures can influence behaviours including ESG factors.

### **2.3 PRIVATE EQUITY**

Responsible investment is naturally aligned to private equity through its long-term investment horizon and stewardship-based style. The Pool will incorporate ESG practices for the selecting, appointing and monitoring of investment managers and direct/co-invest portfolio companies.

### **2.4 PROPERTY**

Property is a long term asset class where ESG is centred on delivering sustainable, long term performance by considering ESG factors within investment decision-making and ownership practices, providing greater insight into potential risks and opportunities that will impact the value, performance and reputation of the investment.

### **2.5 INFRASTRUCTURE**

Long-term infrastructure investors should consider a broad range of possible ESG issues that infrastructure investments might face over the course of the assets' life, in the analysis and assessment of opportunities, and in the ongoing management of investments.



## 2.6 COMMODITIES

Responsible investment in commodities allows investors to address risks such as: labour rights, human rights, land/resource rights, waste, water scarcity and pollution levels in assets, such as forests and agricultural land, and companies throughout the supply chain. Applying responsible investment to investments in commodity derivatives can address systemic issues such as volatile prices and unstable markets.

## 2.7 OTHER ALTERNATIVES

The pool will working with investors, investment managers, industry associations and service providers to incorporate ESG factors into the investment decision-making process of all other alternative investments.

## 2.8 ENVIRONMENTAL & SOCIAL THEMED INVESTING

Themed investing allows investors to address ESG issues by investing in specific solutions to them, such as renewable energy, waste and water management, sustainable forestry and agriculture, health products and inclusive finance.

## 3) RI EXPECTATIONS

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### 3.1 POOL

#### 3.1.1 General

The Pool aims to:

- 1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Pool will monitor:
  - ESG issues in relation to internally managed investments;
  - The extent to which the external managers incorporate ESG issues into their investment processes; and
  - Hold external managers to account for improvement in their ESG performance over a reasonable timeframe.
- 2) Seek to use pooling to facilitate implementation of the environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area. It will make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
  - Hold constructive dialogue with listed companies;
  - Encourage the disclosure by companies of ESG issues; and
  - Participate in the development of public policy on ESG issues.
- 3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of participating funds' beneficiaries first.
- 4) Keep our stakeholders aware of our RI activities through:
  - making its RI policy documents public, e.g., voting policies, RI policy;
  - providing a summary of the Pool's RI activities for publication in participating funds' annual reports;

- publishing aggregate voting and company engagement statistics on a quarterly basis

### **3.1.2 Fiduciary Responsibility**

The London CIV acknowledges a need to set out the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. This extends to the need to monitor environmental, social and corporate governance policies to provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

However the London CIV also appreciates, as the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, that the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise. The report went on to state that although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

As indicated in the DCLG document, the Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy. This guidance has since been challenged on legal grounds and is currently under review. The London CIV policy will reflect the Government guidelines when this has been finalised.

London CIV acknowledges this fiduciary responsibility of its members and will reflect this obligation in the investment selection process.

### **3.1.3 Carbon Footprint & Climate Change**

The Pool aims to, either directly or through specialist service providers:

- Encourage improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives;
- Review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- Contribute to public policy with regard to climate change as it relates to investment considerations;
- Increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and
- Keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes

## **3.2 COMPANIES**

### **3.2.1 Governance Codes**

The Pool expects UK companies to adhere to the UK Corporate Governance Code on a comply-or-explain basis. Further, the Pool has bespoke UK corporate governance guidelines which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Pool expects companies outside the UK to adhere to international voting principles, recognising local

application and development.

### **3.2.1 Environmental and Social Risks**

The Pool expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company.

There are aspects of environmental and social reporting on which the Pool places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies. This is narrative reporting which:

- Sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- Contains a forward looking perspective; and
- Describes the actions of the board in mitigating these risks.

In terms of the specific environmental and social issues to focus upon, the Pool takes a case-by-case sector based approach.

## **3.3 INVESTMENT MANAGERS**

The Pool expects company directors and asset managers to adopt measures to promote both stewardship and long-term decision making. In particular asset managers can contribute more to the performance of business through greater involvement in the companies in which they invest. Adopting such responsible investment practices will prove beneficial for investors and markets alike.

### **3.3.1 Due Diligence**

For each appropriate asset class, the Pool will ensure that managers selected for appointment have:

- An ESG Policy, appropriate policy addressing ESG issues.
- Where relevant managers should be demonstrating active ownership policies or equivalent, articulating how ESG factors are integrated into their investment process. This may include research, active ownership activities or other sources.
- Case studies or examples of where ESG issues have influenced an investment decision
- Where appropriate, information on the process for integrating any third party ESG data into their company financial models, investment strategies and portfolio construction
- RI reporting format
- Whether they are a signatory of the UN backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

### **3.3.2 Appointment**

The Pool assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Pool takes a balanced consideration of all relevant factors including ESG. However, the Pool will pay particular attention to adherence to relevant soft regulatory codes, notably the UK Stewardship Code, depending on the market in which it invests.

In practice, this means the Pool would be willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their

approach over time. In alignment with our guiding principles on ‘engagement versus exclusion’, the Pool believes that there is added value in working with them to improve their approach.

### 3.3.3 Monitoring and Reporting

Each external fund manager is expected to review their ESG policy on an annual basis.

Managers should report at agreed intervals to the Pool on how their RI activities are contributing to improved long-term risk adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership function are combined to protect and/or enhance shareholder value in the case of equities including
  - How the manager exercised the Pool's voting rights.
  - Any outcomes arising from the manager's engagement with companies and their effectiveness.

## 4) RI IMPLEMENTATION

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The Pool's active ownership approach can be divided into three distinct areas: **voting globally, engagement through partnerships** and **shareholder litigation**. This section briefly outlines the Pool's processes for each.

### 4.1 VOTING GLOBALLY

Where practical, the Pool requires managers to vote in every single market in which it invests. The Pool will monitor IMs voting records and will expect that an appropriately critical approach is taken to company proposals.

Reference to the Pool's voting policies is provided in Section 2.2 under ‘Company Expectations’.

#### 4.1.1 Securities Lending Programme

The Pool does not currently engage in direct securities lending.

### 4.2 ENGAGEMENT THROUGH PARTNERSHIPS

The Pool uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. Where it is possible and practical to do so, the Pool will engage with the other Pools to maximise the effectiveness and the influence of the LGPS assets as a whole. The Pool's primary engagement partnerships are highlighted below.

#### 4.2.1 Local Authority Pension Fund Forum

The Pool is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing local authority pension funds from across the country. The Pool and its constituent funds are active participants in LAPFF's engagement programs. Membership of LAPFF provides the Pool with:

- 1) independent research and advice on the ESG risks of companies to inform further stakeholder engagement;

- 2) advice on the governance practices of companies;
- 3) A forum to engage with companies to improve governance practices; and
- 4) Proxy voting advice on high-priority issues for annual general meetings.

#### **4.2.2 Industry Engagement**

In collaboration with other like-minded investors, notably other LGPS investment pools, the Pool may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth. The London CIV is a signatory of the UNPRI. The Pool considers these initiatives on a case-by-case basis.

### **4.3 SHAREHOLDER LITIGATION**

The Pool may hold securities that are the subject of individual and class action securities litigation. There are a number of litigation options available when a company has violated securities laws that result in losses to participating funds.

For US based claims, the options would be to:

- remain in the class action and file proof of claim;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Pool takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Pool becoming actively involved;
- relative size of the Pool's potential losses compared to other organisations;
- likelihood of success; and
- whether the Pool is fully indemnified against costs, expenses, counterclaims and any other losses.

Where external service providers are used for voting, engagement and shareholder litigation, the Head of Equities will be responsible for ensuring that the quality of service provision is kept under regular review, reporting concerns internally and following up with the supplier. This includes verifying that engagement and voting are undertaken in line with London CIV's agreed RI Framework.

## **5) DEFINITIONS**

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### **5.1 RESPONSIBLE INVESTMENT**

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. The Pool also supports the PRI's definition of responsible investment which can be found here:

<https://www.unpri.org/about/the-six-principles>

### **5.2 ESG**


Environmental, social and governance factors which may impact on company performance and therefore investment returns. ESG factors encompass a broad range of issues to potentially consider alongside traditional financial factors when assessing investments. No definitive list of ESG issues exists however some examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.

### **5.3 GOVERNANCE**

The process and principles by which a company or organisation undertakes its business. For the Pool, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

### **5.4 ACTIVE OWNERSHIP**

Refers to the responsibility of the Pool to participate, where appropriate, in the governance decision making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long term sustainable growth.

	<b>Pensions Fund Sub-Committee</b> 6 November 2018
	<b>Report from the Chief Finance Officer</b>
<b>Quarterly monitoring report on fund activity: Quarter to June 2018</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>• Legal &amp; General – June 2018 quarterly report</li> <li>• Northern Trust Performance Report – June 2018</li> <li>• Websites: <a href="https://www.ons.gov.uk">https://www.ons.gov.uk</a></li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer <a href="mailto:Conrad.Hall@brent.gov.uk">Conrad.Hall@brent.gov.uk</a> Tel. 0208 937 6587  Folake Olufeko, Senior Finance Analyst <a href="mailto:Folake.Olufeko@brent.gov.uk">Folake.Olufeko@brent.gov.uk</a> Tel. 0208 937 2491

## 1. Summary

- 1.1. This report provides a summary of the Fund's activity during the quarter ended 30 June 2018. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

The main points arising are:

- During the quarter ending 30 June 2018, the Fund increased in value by 5.4% (£44.6m) from £831.1m to £875.8m; an improvement from the reduction in value of the fund of £23.9m in the last quarter.
- The increase in the value of funds is mainly attributable to the increase in the value of UK and Global Equities; primarily Global Equities with an increase in value of £21.4m.
- The value of cash being held has also increased by £14m since the last quarter.

- 1.2. Further analysis on the performance of each fund and the cash position is provided in the main body of this report.

## 2. Recommendations

- 2.1. Members are asked to note the contents of this report and Independent Financial Adviser's investment report to follow.

## 3. Quarter ending 30 June 2018 Performance

- 3.1 Table 1 summarises the change in the Council's asset allocation in the quarter ending June 2018.

**Table 1: Asset allocation as at 30 June 2018 compared to the target allocation**

ASSET CLASS	31/03/2018 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/06/2018 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
<b>Fixed Income</b>							
Henderson-Total Return Bond Fund	<b>94.1</b>		-1.7	<b>92.4</b>	<b>10.6</b>	<b>15.0</b>	<b>-4.4</b>
<b>Equities</b>							
UK - L&G	108.4		9.9	118.3	13.5		
UK Smaller Cos - Henderson	31.6	0.1	2.4	34.1	3.9		
Overseas Developed - L&G	274.3		21.4	295.7	33.8		
<b>Equities - Total</b>	<b>414.3</b>	<b>0.1</b>	<b>33.8</b>	<b>448.1</b>	<b>51.2</b>	<b>45.0</b>	<b>6.2</b>
<b>Diversified Growth Fund</b>							
LCIV Baillie Gifford	79.5		-0.9	78.6	9.0		
LCIV Ruffer	48.8		1.1	49.9	5.7		
<b>Total London CIV</b>	<b>128.3</b>	<b>0.0</b>	<b>0.2</b>	<b>128.5</b>	<b>14.7</b>	<b>21.0</b>	<b>-6.3</b>
<b>Property</b>							
UK - AVIVA	0.0		0.0	0.0	0.0		
Europe - AVIVA	2.1		-1.4	0.7	0.1		
<b>Property - Total</b>	<b>2.1</b>	<b>0.0</b>	<b>-1.4</b>	<b>0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>
<b>Private Equity</b>							
Capital Dynamics	64.5	-4.2	5.1	65.4	7.5		
Yorkshire	0.5	-1.9	1.4	0.1	0.0		
<b>Private Equity Total</b>	<b>65.1</b>	<b>-6.1</b>	<b>6.5</b>	<b>65.5</b>	<b>7.5</b>	<b>10.0</b>	<b>-2.5</b>
<b>Infrastructure</b>							
Alinda	24.9	-3.2	-0.3	21.4	2.4		



Capital Dynamics	8.4	0.0	2.1	10.5	1.2		
<b>Infrastructure Total</b>	<b>33.3</b>	<b>-3.2</b>	<b>1.9</b>	<b>31.9</b>	<b>3.6</b>	<b>8.0</b>	<b>-4.4</b>
<b>Cash Deposits</b>							
Other/Northern Trust	93.9	14.4	0.2	108.5	12.4	1.0	11.4
<b>Grand Total</b>	<b>831.1</b>	<b>5.2</b>	<b>39.5</b>	<b>875.8</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

- 3.2 The total Fund value (including contributions) increased by £44.6m in this quarter, compared to a £23.9m decrease in the previous quarter. The main contributory factor to the increase was the significant improvement in the value of Equities which saw a reduction in value of £22.8m in Q1 with a contrasting increase in value of £33.9m this quarter.
- 3.3 There is a balance of £108.5m in cash deposits which is currently being invested in Money Market Funds and short term loans to other Local Authorities to generate as much interest as possible. Cash is being held for capital commitments in relation to Alinda and Capital Dynamics. Nonetheless, the level of cash balances continue to increase as Capital Dynamics, Alinda II and Avivia distribute investment returns back to the fund. It is expected that as part of the implementation of the new investment strategy, a significant proportion of cash balances will be utilised by the first quarter of 2019. Further explanation on cash balances can be found in section 3.14 below.
- 3.4 The independent custodian, Northern Trust, measures the returns on the Brent Pension Fund as illustrated in the two tables below.
- 3.5 Table 2 sets out returns for the periods to 30 June 2018 compared to the previous quarter.

**Table 2: Q2 Investment returns in individual markets compared to benchmark**

Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 31/03/18			Qtr Ending 30/06/18			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
<b>Fixed Income</b>							
Henderson Total Return Bond Fund	0.1	1.0	-0.9	-1.8	1.0	-2.8	Absolute Return 4% pa
<b>Equities</b>							
UK - Legal & General	-6.9	-6.9	0.0	9.2	9.2	0.0	FTSE All Share
UK - Small Companies Henderson	-6.2	-6.5	0.3	7.7	7.1	0.7	FTSE Small Cap
O'seas Developed - Legal & General	-4.5	-4.5	0.0	7.8	7.8	0.0	FTSE Dev World ex UK
<b>European Property</b>							
Aviva Investors	-21.7	1.9	-23.6	-64.6	2.0	-66.6	IPD All Properties Index
<b>Private Equity</b>							
Capital Dynamics	0.54	1.9	-1.4	8.23	1.9	6.3	Absolute Return 8% pa
Yorkshire Fund Managers	0	1.94	-1.9	0	0	0.0	Absolute Return 8% pa
<b>Infrastructure</b>							
Alinda Capital Partners	-12.4	1.9	-14.3	-0.8	1.9	-2.7	Absolute Return 8% pa
Capital Dvnamics	-2.65	1.94	-4.6	25.04	1.9	23.1	

<b>Pooled Multi Asset</b>							
Baillie Gifford	0.5	1.0	0.5	-1.3	1.0	-2.3	Base Rate + 3.5% pa
Ruffer	-2.6	1.0	-3.6	2.3	1.0	1.3	
<b>Cash</b>	0.1	0	0	0.2	0.12	0.05	Base Rate
<b>Average Total</b>	<b>-3.7</b>	<b>-1.9</b>	<b>-1.8</b>	<b>5.3</b>	<b>4.0</b>	<b>1.2</b>	

3.6 Table 3 shows returns over 3 months, 1 year and 3 years for listed investments compared with their benchmarks. Unlisted investments such as Infrastructure and Private Equity are not included as it is difficult to compare alternative investments in this manner.

**Table 3: Long Term Returns from Listed Investments**

Periods to 30.06.18		3 mnths - Jun18 (%)	1 year (%)	3 years (% p.a.)
<b>Fixed Income</b>	JH Total Return Bond	-1.84	-0.31	2.35
(4% p.a.)	Benchmark	0.99	4.00	4.00
	<b>Relative Return</b>	<b>-2.83</b>	<b>-4.31</b>	<b>-1.65</b>
<b>Equities-UK</b>	LGIM UK	9.21	9.09	9.77
(FTSE All-Share)	Benchmark	9.20	9.02	9.59
	<b>Relative Return</b>	<b>0.01</b>	<b>0.07</b>	<b>0.18</b>
	JH UK Small-Cos	7.73	7.28	6.89
(FTSE Small Cap)	Benchmark	7.05	6.36	9.58
	<b>Relative Return</b>	<b>0.68</b>	<b>0.92</b>	<b>-2.69</b>
<b>Equities-Overseas</b>	LGIM Global ex-UK	7.81	9.93	16.27
(FTSE Dev World ex-UK)	Benchmark	7.84	9.92	16.29
	<b>Relative Return</b>	<b>-0.03</b>	<b>0.01</b>	<b>-0.02</b>
<b>Multi-Asset</b>	Baillie Gifford	-1.3	1.79	4.45
(Base + 3.5%p.a.)	Benchmark	0.99	3.92	3.90
	<b>Relative Return</b>	<b>-2.29</b>	<b>-2.13</b>	<b>0.55</b>
	Ruffer	2.30	1.61	0.00
(Base + 3.5%p.a.)	Benchmark	0.99	3.92	0.00
	<b>Relative Return</b>	<b>1.31</b>	<b>-2.31</b>	<b>0.00</b>

### 3.7 Fixed Income

The Henderson Bond Fund depreciated by £1.7m in Q2. The main reason for the poor performance has been attributed to exposure to emerging market credit.

Emerging market bonds suffered in an environment of a rising US Dollar, concerns about higher US interest rates and increased global trade tensions between US and China.

The table below shows the value of this asset as at the end of the last 5 quarters.

**Table 4: Fixed income performance since Q2 2017**

ASSET CLASS	31/06/2017 Value (£m)	30/09/2017 Value (£m)	31/12/2017 Value (£m)	31/03/2018 Value (£m)	31/06/2018 Value (£m)
Fixed Income					
Henderson- Total Return Bond Fund	92.7	93.3	94.1	94.1	92.4

This fund has been experiencing a generally weak performance due to high volatility in the developed market government bond yields which saw a rise in January and a fall in the second quarter of the year as volatility returned to markets.

There remain concerns of low yields and a return of market volatility over the next quarterly cycles. The fund's strategy is to approach the credit markets more cautiously as credit market valuations remain elevated compared to past quarters.

### 3.8 Equities

Performance has since turned around for the UK and Overseas Legal & General funds with an increase in asset value of £31.3m in Q2 compared to the last quarter which saw a decrease in value of £20.8m and represented the worst performance since March 2016.

These are passive funds which track the overall market, so that the increase in value reflects the positive performance in the equity market indices during the quarter.

Henderson Small Cap also saw an appreciation of £2.4m during the quarter.

Over the three year benchmark which is a normal minimum period over which to consider performance for a long-term investor, equities have performed broadly in line with the benchmark. The exception is the Henderson Small Cap fund, which despite good returns over the last year has performed poorly over the three year benchmark.

Members are advised to note a planned change in management structure by the fund manager, effective from 1 November 2018. The plan is to bring the management of the Janus Henderson UK and Irish Smaller Companies fund in house. This may lead to significant transition costs as assets are liquidated and new ones acquired. Although officers have been advised that this process will be

treated sensitively and the cost of the restructure will be minimised, a proposal to sell the Janus Henderson Small caps UK equities is outlined in the Investment Strategy report to be presented to the Committee along with this report.

### 3.9 **Property**

The Fund's only remaining Property investment is its holding in AVIVA Europe Real Estate Fund of Funds, which is being liquidated by the managers, with the proceeds being returned to investors. The current asset value is £0.7m and the liquidation process is expected to be completed by the end of 2018.

Accurate measurement of the performance of this fund is complicated by the 3-month delay in updating the official price of its units, which produces an apparent depreciation in value in a quarter when there has been a distribution of capital to investors. As this investment represents less than 1% of the overall Fund at June 2018, the consequent distortion to overall Fund performance is negligible.

### 3.10 **Private Equity**

Performance of Capital Dynamics investments are not analysed in this manner because they are private equity, as measuring performance against public market indices can be misleading.

It is worth noting that the Fund's holdings in these investments are very mature and approaching the end of the investment period; therefore, more cash is being distributed to investors as assets are sold. This explains the £4.2m distribution in the quarter.

This fund expects further appreciation, as seen with the appreciation of £5.1m this quarter, as underlying portfolio companies exit the fund and managers take advantage of a benign exit environment.

### 3.11 **Infrastructure**

There are two investments managed by Alinda, namely Alinda II and Alinda III.

There was a distribution of £3.2m in the quarter, mainly from the Alinda II fund which is entering a mature stage in its life and distributing large amounts of cash. This has contributed to the increased amount of cash being held by the Fund.

As a result of the cash distribution, this the asset value has reduced from £24.9m to £21.4m with a slight appreciation of £0.3m from the Alinda III fund.

This quarter has seen an appreciation of £2.1m from investments in Capital Dynamics; compared to the drop in value in the last two quarters.

Members are advised to note that it is normal to expect good and bad investments in this portfolio as it is an unlisted fund. In addition to this Infrastructure investments are by their nature volatile in the short term and it is expected that over the long term the investment will perform better against the benchmark.

### 3.12 Diversified Growth Fund

Whilst the Baillie Gifford fund realised growth over the past year; primarily due to continued positive performance in investment markets, the fund saw a drop in value of £0.9m in Q2 this quarter.

During the three months to the end of June 2018, the fund delivered a negative return of -1.3%. The fund's performance and volatility are measured over a 5 year period and in the last five years, the fund returned 4.7% per annum (net of fees) and 4.45% in the last three years as can be seen in Table 3 above.

The manager has taken on a strategy to de-risk the fund by reducing equity and credit allocations and increasing hedging positions.

Ruffer joined the Fund in March 2017 and depreciated in value in every quarter except the last quarter of 2017. The fund saw an increase of £1.1m in Q2 and a relative return of 1.31% above benchmark. The main reason for the poor performance of this fund has been linked to higher investments in equities which did not perform as predicted and poor bond yields. As the strategy for this fund remains unchanged, officers remain cautious of the volatility in recent quarters and will continue to liaise with the London CIV to challenge the performance of this particular fund.

- 3.13 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The Fund has agreed a number of its own restrictions as part of the Investment Strategy Statement and are set out in the table below.

**Table 5: Compliance with Investment limits**

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 31 Mar 2018	Compliant Yes / No
Contributions invested in any single partnership	5%	2%	Yes
Contributions invested in partnerships	30%	11%	Yes
Cash deposits	10%	12%	No
Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%	11%	Yes
Total investment in illiquid assets	30%	11%	Yes

3.14 Cash deposits have breached the restriction limit. £108.5m of cash is principally being held for the following reasons:

3.14.1 Approximately £31m of this cash is required to fund transfer values in relation to the College of North West London, as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This transfer was originally planned for January 2018 however this has been delayed by the LPFA and is expected to be paid by the end of 2018.

3.14.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure (See table 5 in section 3.15) and to re-allocate to other future investments following decisions made at the November Sub-Committee meeting on the Investment Strategy.

3.15 The table below illustrates the Fund's outstanding contractual commitments in Private Equity and Infrastructure investments. These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

**Table 6: Outstanding contractual commitments on existing investments**

<b>Asset</b>	<b>31 Mar 2018</b>	<b>30 Jun 2018</b>
	<b>£m</b>	<b>£m</b>
Capital Dynamics	13.0	13.8
Alinda	16.5	17.4
<b>Total</b>	<b>29.5</b>	<b>31.2</b>

3.16 Given the sizable amount of cash being held and the need to reduce this to a level which generates more returns to the fund than the current 0.3% interest being generated through investments in Money Market Funds, proposals to utilise some of this cash are set out in the Investment Strategy report which will be presented to the Committee along with this report.

#### **4.0 Financial Implications**

4.1 These are no direct financial implications of this report.

#### **5.0 Diversity Implications**

5.1 None

#### **6.0 Staffing Implications**

6.1 None

#### **7.0 Legal Implications**

7.1 None

**Report sign off:**

**CONRAD HALL**

Chief Finance Officer

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Brent Council Pension Fund  
Quarterly Review Q2 2018

Peter Davies – independent financial adviser

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## **BRENT COUNCIL PENSION FUND**

### **Quarterly Review, April – June 2018**

### **Report by the Independent Financial Adviser**

#### **Economy**

1. Growth forecasts for 2018 have been moderated since April, and the consensus forecasts for 2019 have also been lowered slightly. Levels of inflation in Western economies have eased since April.

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

<b>Consensus real growth (%)</b>						<b>Consumer prices latest (%)</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	
<b>UK</b>	+2.3	+2.0	+1.6	+1.3 (+1.5)	+1.4	+2.4(CPI)
<b>USA</b>	+2.4	+1.6	+2.3	+2.8 (+2.8)	+2.4	+ 2.8
<b>Eurozone</b>	+1.5	+1.6	+2.3	+2.2 (+2.4)	+1.9	+ 2.0
<b>Japan</b>	+0.6	+0.9	+1.7	+1.1 (+1.5)	+1.1	+ 0.6
<b>China</b>	+6.9	+6.7	+6.8	+6.6 (+6.6)	+6.3	+ 1.8

[Source of estimates: The Economist, July 7<sup>th</sup>, 2018]

2. In June the Federal Reserve raised US interest rates by 0.25%, to the 1.75 – 2% range, and signalled that two further rises were likely this year, as a response to the strong US economy and tightening labour market. The European Central Bank announced that its programme of bond purchases would halve to €15bn /month from October, and then cease at the end of 2018. It also indicated that no rise in interest rates was planned before mid-2019.

May the Bank of England deferred a rate rise in the light of the slowing UK economy, but on August 2<sup>nd</sup> it increased the interest rate from 0.5% to 0.75% - the highest level since 2009.

3. The round of import tariffs instigated by President Trump escalated as China retaliated against the 25% levy on certain Chinese imports by targeting US exports from politically sensitive US regions. A further round of US tariffs is threatened, even as the EU responds to the US tariffs on steel and aluminium which came into effect on June 1<sup>st</sup>. President Trump has been in the headlines constantly. His historic meeting with the North Korean President took place in June, after a fractious summit with G7 heads of state in Toronto. A later confrontation with NATO leaders was followed by a more harmonious meeting with President Putin in Helsinki. His visit to Britain was carefully planned to avoid the mass demonstrations in the centre of London and other cities.
4. In Britain the divisions within the Conservative party over Brexit deepened. A Cabinet meeting at Chequers on July 6<sup>th</sup> appeared to have settled government policy on the issue, but within two days David Davis (Brexit Secretary) and Boris Johnson (Foreign Secretary) had resigned from the Cabinet.
5. The European political scene underwent several significant changes. In Italy the 5 Star movement and La Liga formed an improbable coalition, and installed Giuseppe Conte as Prime Minister, while the Spanish PM Mariano Rajoy was ousted after a parliamentary vote, and replaced by the Socialist leader Pedro Sanchez. In Germany the CDU/CSU majority party survived an internal row over immigration policy.

## Markets

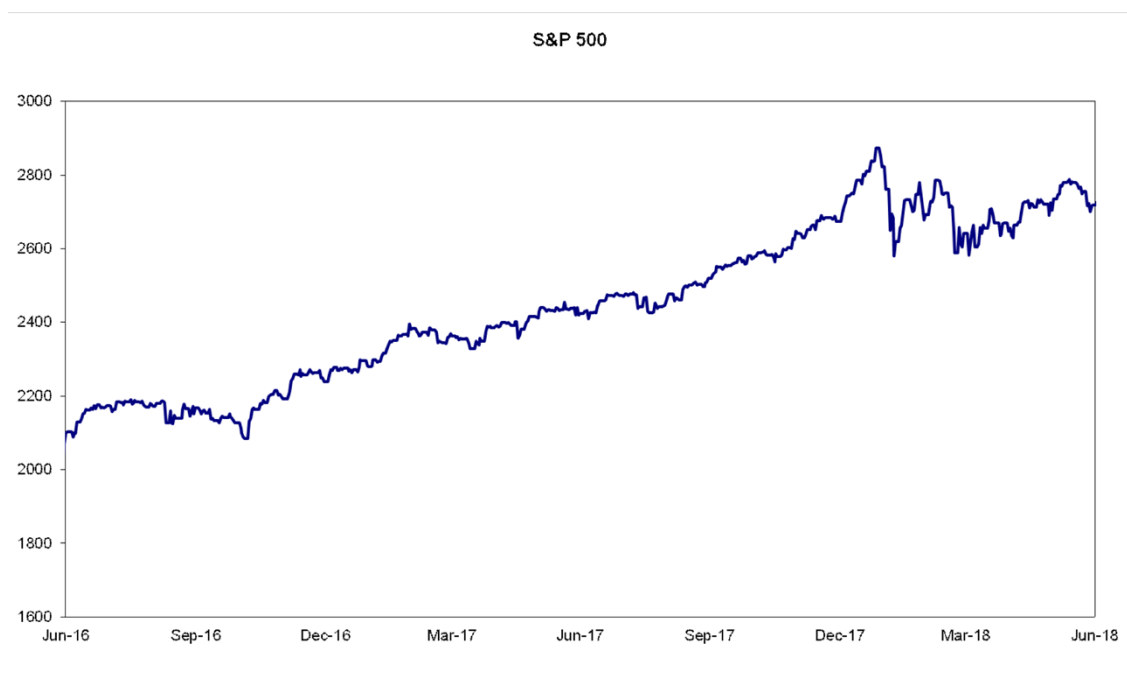
### Equities

6. After the falls experienced in the first quarter of the year, equity markets rebounded strongly although at the end of June North America was the only region showing a positive return for the calendar year to date. The scale of the rally in US equities (see graph below) was magnified in £ terms by the weakness of the pound relative to the dollar, which also contributed to the relative strength of the UK equity market.

	<b>Capital return (in £, %) to 30.6.18</b>		
<b>Weight %</b>	<b>Region</b>	<b>3 months</b>	<b>12 months</b>
<b>100.0</b>	FTSE All-World Index	<b>+6.0</b>	<b>+6.8</b>
55.4	FTSE All-World North America	+9.5	+10.3

8.4	FTSE All-World Japan	+3.0	+7.1
12.6	FTSE All-World Asia Pacific ex Japan	+1.3	+3.9
15.1	FTSE All-World Europe (ex-UK)	+1.2	-0.2
6.0	FTSE All-World UK	+8.2	+4.2
9.9	FTSE All-World Emerging Markets	-3.3	+3.0

[Source: FTSE All-World Review, June 2018]



7. The surge in the oil price during the quarter buoyed up the Oil & Gas sector, while Technology continued its recent strong run

	Capital return (in £, %) to 30.6.18		
Weight %	Industry Group	3 months	12 months
14.8	Technology	+10.4	+23.1
6.7	Oil & Gas	+16.3	+18.7
11.3	Consumer Services	+10.4	+12.2
4.7	Basic Materials	+5.9	+11.2
<b>100.0</b>	<b>FTSE All-World</b>	<b>+6.0</b>	<b>+6.8</b>
12.7	Industrials	+3.6	+4.9

10.5	Health Care	+8.9	+3.1
21.6	Financials	+1.0	+2.1
12.0	Consumer Goods	+2.6	-1.4
3.0	Utilities	+5.7	-1.6
2.7	Telecommunications	+0.7	-9.4

[Source: FTSE All-World Review, June 2018]

8. UK shares recovered strongly during April and May, before losing some ground in June. The Bank of England's decision not to raise interest rates in May caused a weakening of the pound which implies higher profits for UK companies with foreign-currency earnings.

(Capital only%, to 30.6.18)	3 months	12 months
<b>FTSE 100</b>	<b>+8.2</b>	<b>+4.4</b>
<b>FTSE 250</b>	<b>+7.0</b>	<b>+7.7</b>
<b>FTSE Small Cap</b>	<b>+5.1</b>	<b>+5.2</b>
<b>FTSE All-Share</b>	<b>+7.9</b>	<b>+5.0</b>

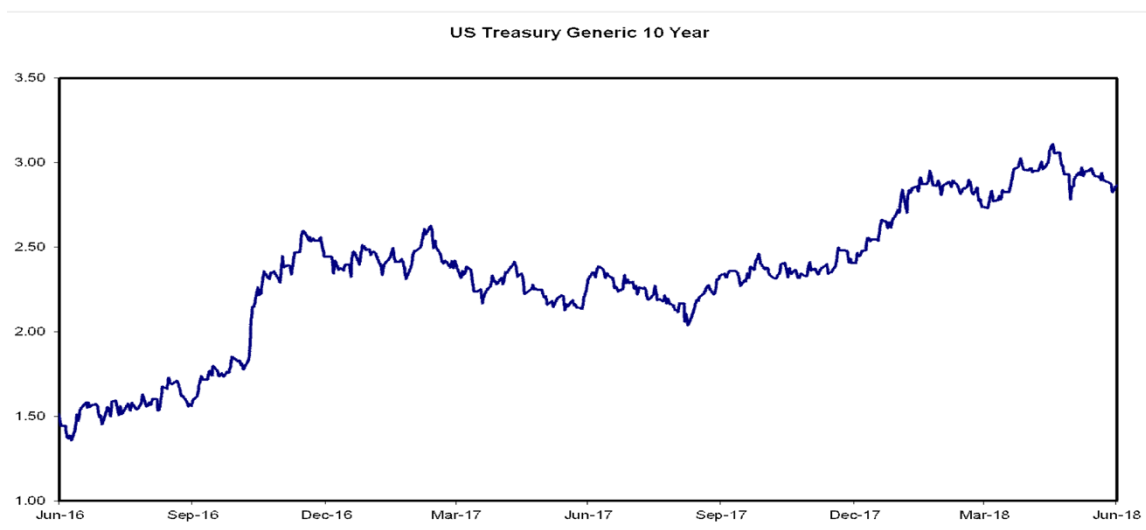
[Source: Financial Times]

#### Bonds

9. Despite the rise in short-term interest rates, longer-term US bond yields were little changed over the quarter, even though the 10-year yield briefly exceeded 3% (as shown in the graph below).

10-year government bond yields (%)					
	<b>Dec 2015</b>	<b>Dec 2016</b>	<b>Dec 2017</b>	<b>Mar 2018</b>	<b>June 2018</b>
<b>US</b>	2.27	2.46	2.43	2.75	2.84
<b>UK</b>	1.96	1.24	1.23	1.35	1.28
<b>Germany</b>	0.63	0.11	0.43	0.50	0.30
<b>Japan</b>	0.27	0.04	0.05	0.04	0.03

[Source: Financial Times]



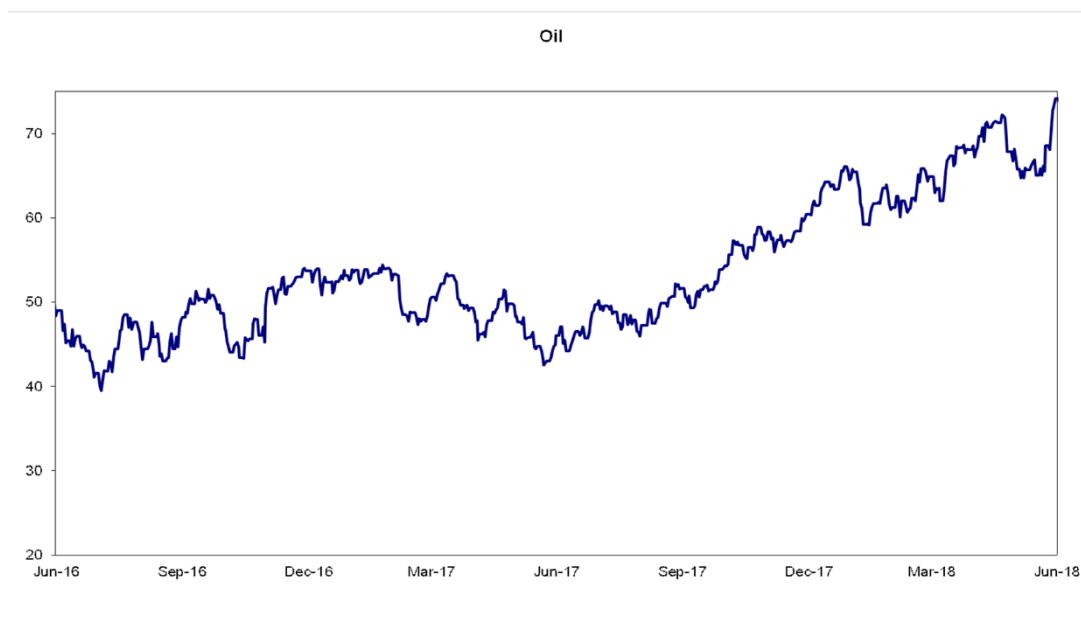
## Currencies

10. The dollar was strong relative to the other major currencies, gaining almost 5% on a trade-weighted index basis. Sterling weakened after interest rates were held in May, but viewed over a 12-month period the currency cross-rates are almost unchanged.

				£ move (%)	
	30.6.17	31.3.18	30.6.18	3m	12m
\$ per £	1.299	1.403	1.320	-5.9	+0.2
€ per £	1.139	1.141	1.131	-0.9	-0.7
Y per £	146.0	149.2	146.2	-2.0	+0.1

## Commodities

11. The **oil** price continued to rise, partly on fears that the US withdrawal from the Iran nuclear deal would result in an embargo on exports of oil from Iran. The end-June Brent crude price of \$79/barrel represented a rise of 14% in the quarter and almost 60% over the past year. **Copper** had reached its highest price for four years in early June, but then fell back sharply on concerns about a slowdown in China's economy, as well as the possible impact of US tariffs being imposed on Chinese imports.



## Property

12. The recent pattern has continued, with the Industrial sector by far the most buoyant, while the Office and – especially – Retail sectors lagged well behind, albeit still delivering positive returns for the quarter and the year.

	3-month (%)	12-month
<b>All Property</b>	<b>+ 2.2</b>	<b>+10.9</b>
<b>Retail</b>	<b>+ 0.5</b>	<b>+ 5.7</b>
<b>Office</b>	<b>+ 1.6</b>	<b>+ 8.3</b>
<b>Industrial</b>	<b>+ 5.1</b>	<b>+22.2</b>

**[Source: MSCI UK Monthly Index of total returns, June 2018]**

## Outlook

13. Equity markets appear to have recovered their equilibrium after the volatility in January/February, but looking at the returns more closely it becomes apparent that only the US equity market has made any gains this year, and this may be largely a result of the boost to corporate profits from the cuts in Corporation Tax. The escalating trade war between the US and China could have widespread impacts on companies' input costs. Meanwhile the uncertainty

over the form that Brexit will take is a cloud hanging over UK and European companies.

14 The steady rise in US interest rates, together with the actions of other Central Banks, shows that the era of artificially cheap money is coming to an end, which limits the potential for further rises in equity or bond markets.

**Peter Davies**

**Senior Adviser – MJ Hudson Investment Advisers**

**August 6<sup>th</sup>, 2018**


**[Graphs supplied by Legal & General Investment Management]**

8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | [London@MJHudson.com](mailto:London@MJHudson.com) | [mjhudson.com](http://mjhudson.com) | [mjhudson-allenbridge.com](http://mjhudson-allenbridge.com)

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	<b>Pensions Fund Sub-Committee</b> 6 November 2018
	<b>Report from the Chief Finance Officer</b>
<b>Brent Pension Fund: Annual Report and Accounts 2017/18</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One: <ul style="list-style-type: none"> <li>Brent Pension Fund Annual Report and Accounts 2017/18</li> </ul>
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer <a href="mailto:Conrad.Hall@brent.gov.uk">Conrad.Hall@brent.gov.uk</a> Tel. 0208 937 6587  Ravinder Jassar, Head of Finance <a href="mailto:Ravinder.Jassar@brent.gov.uk">Ravinder.Jassar@brent.gov.uk</a> Tel. 0208 937 1487

## 1.0 Purpose of the Report

- 1.1 This report presents the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018.

## 2.0 Recommendation

- 2.1 The Committee is recommended to note this report.

## 3.0 Detail

- 3.1 The accounts (Appendix A) have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) governing the preparation of the 2017/18 financial statements for Local Government Pension Scheme funds. The audited accounts aim to give a true and fair view of the financial transactions of the

Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018.

3.2 The main items to note are as follows:

- Against a backdrop of continued uncertainty in the global economy and increased volatility in the financial markets, the value of the Fund's investments increased from £802.6m to £831.3m.
- Total contributions received from employers and employees totalled £49.8m for the year, an increase on the previous year's £48.6m.
- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.9m, a decrease on the previous year's £40.2m.
- As in 2016/17, the Fund is in a positive cash-flow position because its contributions exceed its outgoings to members.
- During the year, College of North West London exited the Fund and BHP was brought back within the direct control of Brent Council, thus also ceasing to be an employer within the Fund. It is important to note that the net impact of these transactions on the funding position of the Pension Fund is nil. College of North West London will receive its share of both the net assets and the net liabilities of the Fund. BHP effectively remains within the Fund as a part of Brent Council. The impact of the BHP transfer on Brent Council can be seen in Notes 32-37 of the main accounts.

**4.0 Financial Implications**

4.1 Not applicable.

**5.0 Legal Implications**

5.1 Not applicable.

**6.0 Equality Implications**

6.1 Not applicable.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable.

**8.0 Human Resources**

8.1 Not applicable.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer



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## **Brent Pension Fund**

# **Annual Report and Accounts 2017/18**

Pensions Regulator Scheme Number: 10272080

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## **Chairman's Foreword**

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2017/18.

The Fund has 6,247 contributors, 6,302 pensioners and 7,913 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.

During 2017/18, the value of the Pension Fund's investments has increased to £831.3m (2016/17 £802.6m). This is despite the weak performance of the equity markets in comparison to the previous year. Total contributions received from employers and employees were £49.9m for the year, an increase on the previous year's £48.6m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £38.9m, a decrease on the previous year's £40.2m. As in 2016/17, the Pension Fund is in a positive cash-flow position because its contributions exceed its outgoings to members. This means that the Pension Fund is able to invest some of the contributions from members in order to further increase the assets available to pay future benefits. This is in contrast to some Local Government Pension Scheme funds, who have to use some of their investments each year, reducing the assets on which they can make returns.

The Pension Fund had its most recent Triennial Review in 2016, which set the rates for 2017/18 through 2019/20. Inevitably, the Pension Fund Sub-Committee will review the investment managers' performance and its investment strategy in the light of this valuation, making changes as it deems appropriate. The next triennial valuation is scheduled for 2019.

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:	Ravinder Jassar, Head of Finance
<b>Legal Advisers:</b>	In-house
<b>Custodian:</b>	Northern Trust - 1st July 2015
<b>Actuary:</b>	Hymans Robertson
<b>Independent Adviser:</b>	Peter Davies, MJ Hudson Investment Advisers Limited
<b>Fund Managers:</b>	Legal & General Henderson Capital Dynamics Yorkshire Fund Managers London CIV LCIV – Baillie Gifford LCIV - Ruffer Aviva Alinda
<b>Banker:</b>	NatWest
<b>Auditor:</b>	KPMG
<b>Performance Measurement:</b>	Northern Trust
<b>AVC Providers:</b>	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 2017/18.

### **The LGPS in brief**

- The LGPS is one of the largest public sector pension schemes in the UK, with 5.6 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 89 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 51.

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 51.

## **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 54.

## **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 2018**

**Chair:** Cllr S Choudhary

**Other Members:** Cllr A Aden  
Cllr A Choudry  
Cllr M Daly  
Cllr J Davidson  
Cllr K Perrin  
Cllr A Shahzad

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

**Other attendees:** Conrad Hall, Chief Finance Officer  
Ravinder Jassar, Head of Finance  
Peter Davies, Independent Financial Adviser

### **Pension Fund Sub-Committee Training**

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

Member training is supplemented by attendance at 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](http://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 57.

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 2016.

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 2016 were valued at £676m, were sufficient to meet 55% of the £1,238m liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £562m.

During 2017/18, the most commonly applied employer contribution rate within the Brent Pension Fund was 32.5% of pensionable pay and this will increase to 33.8% in 2018/19. 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 2017/18**

### **Economic Background**

In 2017 economic growth accelerated by 0.7% from 2016 levels in the US, Eurozone and Japan, while China maintained a growth rate of 6.7%. In the UK, however, growth slowed from 2.0% to 1.6%, with a similar rate being forecast for 2018. The price of Brent Crude oil rose from \$54 to \$69 during the year, stimulated by production curbs imposed by OPEC and Russia, as well as by stronger economic activity globally.

The period of special monetary measures embarked on by the world's central banks after the Financial Crisis of 2007/08 is beginning to wind down. The US Federal Reserve made two more ¼% rate rises during the year, and announced that it would start to reduce its balance sheet by not re-investing the proceeds of maturing bonds. The Bank of England, meanwhile, raised the UK interest rate by ¼% in November, and the European Central Bank halved its monthly purchases of bonds to €30bn from January 2018. The Bank of Japan continues with its programme of bond-buying, targeting a zero-yield on medium-term government bonds.

In June, the snap UK election called by the Prime Minister resulted in a loss of the Conservatives' overall majority, and they entered into a pact with the DUP to ensure they still had a working majority in Parliament. Negotiations on the terms of Britain's exit from the EU are continuing, amid disagreements within the Conservative party about many of the detailed arrangements. In France Emmanuel Macron was elected President at the head of a new centrist party, while several months after the German elections the CDU/CSU renewed its coalition with the SPD, allowing Angela Merkel to remain as Chancellor. The Italian elections in March have produced an uncertain outcome after the big gains registered by the Five Star Movement.

The United States Congress approved the Tax Bill in December, sharply cutting the Corporation Tax rate and also reducing the top rate of Income Tax. President Trump announced the imposition of tariffs on imports of steel and aluminium from certain countries, and has threatened to put tariffs on a range of Chinese goods, to which China has responded with its own list of items to be penalised if the US tariffs come into force. Russia has been the subject of diplomatic responses and further sanctions from the West following the alleged poisoning of two Russians in England.

### **Market Returns**

Equity markets moved within a narrow range during the year, and the strength shown from October – January was swiftly cancelled out by sharp falls in early February when investors became concerned about a possible rise in inflation in the US. After the exceptionally strong preceding year, Global Equities gave a total return of just 2.9% (in

£) in the year to March 2018. Within this figure, Emerging Markets (+8.7%), Japan (+7.5%) and Asia Pacific ex-Japan (+6.0%) were the strongest regions, while North America (+1.3%) and UK (-0.1%) were laggards.

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

In the year to March 2018, the pound gained 12% against a generally weak dollar, and 7% against the yen, but lost 4% against the euro. The yield on US Treasury bonds rose from 2.4% to 2.75% during the year, in response to the rate increases by the Federal Reserve and signs of rising inflation, while yields on UK and German government bonds were little changed for the year as a whole. Index-Linked Gilts were also flat, gaining just 0.7% during the year.

[Source: FTSE-A Index Linked (over 5 years), total return]

UK Commercial Property recorded a solid total of 11.3%, comprising a return of 21.6% from Industrial Property, 8.6% from Offices and 7.1% from Retail.

[Source: IPD Monthly Index of Total Returns]

## **Outlook**

The steady upward trend of equity markets since March 2016 appears to have come to an end with the resurgence of volatility in February and March 2018. The return of interest rates to more normal levels, and the gradual withdrawal of quantitative easing by central banks, are likely to limit the scope for further growth in asset prices in the coming year. In addition, bond markets are having to adjust to the signs of rising US inflation. The geopolitical backdrop remains as uncertain as ever, with Russia's relations with the West, and the consequences of the Syrian conflict, now being supplemented by a possible trade war as clouds on the horizon.

**Peter Davies**

**Senior Adviser – MJ Hudson Investment Advisers**

**May 2018**



# Investment Policy and Performance

## Fund Performance Review for the year 2017/18

### Introduction

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

During 2017/18, the following external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Henderson (fixed income and UK smaller companies equities)
- Capital Dynamics (private equity)
- Yorkshire Fund Managers (private equity)
- London CIV
- LCIV Baillie Gifford (diversified growth fund)
- LCIV Ruffer (diversified growth fund)
- Aviva (property)
- Alinda (infrastructure)

The cash balance is deposited with money market funds and through short term lending to local authorities.

### 2017/18 Investment Results

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2018 is shown below:

	Total Fund Return %	Fund Benchmark Return %
1 year	1.5	4.8
3 years	6.8	7.9
5 years	7.5	8.3

In absolute terms, the Fund's investment assets have achieved a return of 1.5% over the 12 months to 31 March 2018. This represented an under performance of 3.3% relative to its annual benchmark of 4.8%.

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

	Rank	Period ended 31 Mar 18	PIRC Local authority Average
1 year	97	1.5	4.5
3 years	80	6.8	8.3
5 years	83	7.5	8.8
10 years	98	5.1	7.7

Performance on investments is skewed somewhat by particularly poor results in Quarter 4 (January to March 2018) where the value of the fund reduced by 3%. This was primarily due to volatile performance in listed equities during this period, in particular overseas and UK equities which fell in value by 5% and 8.2% respectively. Prior to this the Fund rose in value by 6.5% between Quarters 1 and 3. Overall, the value of the Fund rose by 3.7%, from £802.7m to £831.3m, during 2017/18.

It is important to note that, as a long term investor, investment returns over a longer period of time should be considered. The table below shows the rolling three year performance of the Fund compared to other LGPS funds:

	Rank	Rolling 3 year return
2017/18	80	6.8
2016/17	75	9.9
2015/16	49	6.5
2014/15	80	10.1

Further analysis and commentary on the investment performance of individual mandates can be found within the Fund's performance monitoring reports that are presented to the Pensions Sub-committee on a quarterly basis.

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 (FSS)**

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found at page 60.

### **Investment Strategy Statement (ISS)**

The Investment Strategy Statement sets out the policy which determines how the Fund invests its assets. This can be found on page 100 of this document. The Scheme rules require that we publish the ISS 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.

# Brent Pension Fund Account

Pension Fund Accounts as at 31 March 2018

2016/17 £m		Notes	2017/18 £m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(48.6)	Contributions	7	(49.9)
(2.4)	Transfers in from other pension funds	8	(3.6)
<b>(51.0)</b>			<b>(53.5)</b>
40.2	Benefits	9	38.9
4.5	Payments to and on account of leavers	10	36.1
<b>44.7</b>			<b>75.0</b>
<b>(6.3)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>21.5</b>
3.9	Management expenses	11	4.3
<b>(2.4)</b>	<b>Net (additions)/withdrawals including management expenses</b>		<b>25.8</b>
	<b>Returns on investments</b>		
(4.8)	Investment income	12	(1.2)
0.7	Taxes on income	13	0.3
(121.2)	(Profits) and losses on disposal of investments and changes in the market value of investments	14	(22.4)
<b>(125.3)</b>	<b>Net return on investments</b>		<b>(23.3)</b>
<b>(127.7)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>2.5</b>
<b>(675.9)</b>	<b>Opening net assets of the scheme</b>		<b>(803.6)</b>
<b>(803.6)</b>	<b>Closing net assets of the scheme</b>		<b>(801.1)</b>

### Net Assets Statement

31 March 2017 £m		Notes	31 March 2018 £m
802.6	Investment assets	14	831.3
<b>802.6</b>			<b>831.3</b>
2.5	Current assets	20	1.4
0.0	Non-current assets	20	0.0
(1.5)	Current liabilities	21	(31.6)
	<b>Net assets of the fund available to fund</b>		
<b>803.6</b>	<b>benefits at the period end</b>		<b>801.1</b>

College of North West London exited the Fund on 1st August 2017. At 31st March 2018, the College's share of the Fund's net assets at that date had not been transferred (see Note 21). £30.9m of payments to and on account of leavers and current liabilities relates to this transfer of assets.

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2018, but excludes long-term liabilities to pay pensions and benefits in future years. The actuarial present value of promised retirement benefits is disclosed in Note 19

## 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 following description of the Fund is a summary only.

#### **a) General**

The Fund is a contributory defined benefit 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.

#### **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 35 employer organisations with active members within the Brent Pension Fund at 31 March 2018, listed below:

#### **Scheduled bodies**

London Borough of Brent

Alperton High School

ARK Academy

ARK Franklin Academy

ARK Elvin Academy

Capital City Academy

Claremont High School

Convent of Jesus & Mary Language College

Crest Academy

Furness Primary School

Gladstone Park School

Islamia Primary School

Kingsbury High School

Manor School

Michaela Community School

North West London Jewish day School  
 Oakington Manor 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**

Capita Business Services Limited  
 Conway Aecom  
 Apleona HSG Limited (previously Bilfinger originally Europa Facility (Services Limited)  
 National Autistic Society  
 Local Employment Access Project (LEAP)  
 Sudbury Neighbourhood Centre  
 Wetton Cleaning Services  
 Veolia  
 Xerox (UK) Limited  
 Barnardos  
 Taylor Shaw

<b>31 March 2017</b>	<b>Brent Pension Fund</b>	<b>31 March 2018</b>
40	Number of employers with active members	35
	<b>Number of employees in scheme</b>	
4,454	Brent Council	4,412
2,130	Other employers	1,835
<b>6,584</b>	<b>Total</b>	<b>6,247</b>
	<b>Number of pensioners</b>	
5,524	Brent Council	5,666
867	Other employers	636
<b>6,391</b>	<b>Total</b>	<b>6,302</b>
	<b>Deferred pensioners</b>	
6,646	Brent Council	6,923
1,260	Other employers	990
<b>7,906</b>	<b>Total</b>	<b>7,913</b>

### **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 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. During 2017/18, the most commonly applied employer contribution rate within the Brent Pension Fund was 32.5% of pensionable pay.

### **d) Benefits**

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

For a summary of the Scheme before April 2014 and details of a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits please refer to the LGPS website: [www.lgpsmember.org](http://www.lgpsmember.org)

## ***2. Basis of preparation***

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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 from the members and from the employers, 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) Contingent Assets**

Admitted body employers in the Brent Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. Contingent Assets are disclosed in Note 25.

**j) 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.

**k) 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.

**l) 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.

**m) 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.

**n) 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).

**o) 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 Fund's accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

#### *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 2018 was £98m (£129m at 31 March 2017).

##### **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 19. 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 2018 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
<b>Actuarial present value of promised retirement benefits (Note 19)</b>	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 £158m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £17m, and a one-year increase in assumed life expectancy would increase the liability by approximately £67m.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Private equity/infrastructure</b>	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 £98m. There is a risk that this investment may be under- or overstated in the accounts.

## 6. Events after the Balance Sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7. Contributions receivable

### By category

	2016/17	2017/18
	£m	£m
Employees' contributions	8.3	8.1
Employers' contributions:		
Normal contributions	37.2	38.9
Deficit recovery contributions	1.7	1.7
Augmentation contributions	1.4	1.2
Total employers' contributions	40.3	41.7
<b>Total</b>	<b>48.6</b>	<b>49.9</b>

### By authority

	2016/17	2017/18
	£m	£m
Administering Authority	36.3	39.0
Scheduled bodies	9.9	8.9
Admitted bodies	2.4	2.0
<b>Total</b>	<b>48.6</b>	<b>49.9</b>

## 8. Transfers in from other pension funds

	2016/17	2017/18
	£m	£m
Individual transfers	2.4	3.6
<b>Total</b>	<b>2.4</b>	<b>3.6</b>

## 9. Benefits payable

### By category

	2016/17	2017/18
	£m	£m
Pensions	33.0	34.4
Commutation and lump sum retirement benefits	7.0	4.2
Lump sum death benefits	0.2	0.3
<b>Total</b>	<b>40.2</b>	<b>38.9</b>

**By authority**

	2016/17	2017/18
	£m	£m
Administering Authority and Scheduled bodies	38.7	37.5
Admitted bodies	1.5	1.4
<b>Total</b>	<b>40.2</b>	<b>38.9</b>

*10. Payments to and on account of leavers*

	2016/17	2017/18
	£m	£m
Individual transfers	4.2	5.0
Refunds to members leaving service	0.3	0.2
Group transfers	0	30.9
<b>Total</b>	<b>4.5</b>	<b>36.1</b>

College of North West London left the Fund on 1st August 2017. Group transfers relates to the college's share of the Fund's net assets at that date. At 31st March 2018, this transfer had not taken place (see Note 21).

*11. Management Expenses*

	2016/17	2017/18
	£m	£m
Administration costs	0.7	0.7
Investment management expenses	3.0	3.5
Oversight and Governance costs	0.1	0.1
<b>Total</b>	<b>3.8</b>	<b>4.3</b>

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 (21k 2016/17)

**a) Investment management expenses**

	2016/17	2017/18
	£m	£m
Management Fees	2.8	3.4
Custody Fees	0.1	0.1
Transaction costs	0.1	0.0
<b>Total</b>	<b>3.0</b>	<b>3.5</b>

Management Fees are charged periodically as a percentage of the value of the assets invested in each fund. In 2016/17, the value of the Fund's total investments increased by more than £100m (Note 14). While the value of the investments has decreased during 2017/18, the value remains above the average for the previous year. Therefore, the fees have increased in line with this.

*12. Investment income*



	2016/17	2017/18
	£m	£m
Dividend income private equities/infrastructure	1.2	0.4
Income from Pooled property investments	3.4	0.3
Income from private equities/infrastructure	0.2	0.3
Interest on cash deposits	(0.1)	0.2
<b>Total</b>	<b>4.7</b>	<b>1.2</b>

### 13. Taxes on income

	2016/17	2017/18
	£m	£m
Withholding tax	0.7	0.3
<b>Total</b>	<b>0.7</b>	<b>0.3</b>

### 14. Investments

	Market value 31 March 2017 £m	Market value 31 March 2018 £m
<b>Investment assets</b>		
Pooled investments	620.3	636.9
Pooled property investments	3.6	2.1
Private equity/infrastructure	130.3	98.3
<b>Total investments</b>	<b>754.2</b>	<b>737.3</b>

#### a) Investments 17/18

	Market value 1 April 2017 £m	Purchases during the year £m	Sales during the year £m	Change in market value during the year £m	Market value 31 March 2018 £m
<b>Pooled investments</b>	620.3	0.0	(1.1)	17.7	636.9
<b>Pooled property investments</b>	3.6	0.0	(0.9)	(0.6)	2.1
<b>Private equity/infrastructure</b>	130.3	4.2	(44.5)	8.3	98.3
	<b>754.2</b>	<b>4.2</b>	<b>(46.5)</b>	<b>25.4</b>	<b>737.3</b>
<b>Other Investment balances:</b>					
<b>Cash Deposit</b>	<b>47.5</b>				<b>94.0</b>
<b>Investment Income due</b>	<b>0.9</b>				<b>0.0</b>
<b>Net investment assets</b>	<b>802.6</b>				<b>831.3</b>

<b>Investments 16/17</b>					
	<b>Market value 1 April 2016</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value 31 March 2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Pooled investments</b>	469.4	50.0	(0.7)	101.6	620.3
<b>Pooled property investments</b>	39.3	0	(33.5)	(2.2)	3.6
<b>Private equity/infrastructure</b>	129.4	9.5	(31.2)	21.8	130.3
	<b>638.1</b>	<b>59.5</b>	<b>(65.4)</b>	<b>121.2</b>	<b>754.2</b>
<b>Other Investment balances:</b>					
<b>Cash Deposit</b>	<b>36.2</b>				<b>47.5</b>
<b>Investment Income due</b>	<b>0</b>				<b>0.9</b>
<b>Net investment assets</b>	<b>674.3</b>				<b>802.6</b>

**b) Analysis of investments by category**

	<b>31 March 2017 £m</b>	<b>31 March 2018 £m</b>
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Fixed income unit trust – Public Sector	29.2	27.1
Fixed income unit trust – Other	62.1	67.1
Unit trusts	136.1	140.1
Diversified growth funds	125.3	128.3
<b>Overseas</b>		
Unit trusts	267.6	274.3
<b>Total Pooled funds</b>	<b>620.3</b>	<b>636.9</b>
<b>Pooled property investments</b>	<b>3.6</b>	<b>2.1</b>
<b>Private equity/infrastructure</b>	<b>130.3</b>	<b>98.3</b>

Total investments

754.2

737.3

#### Investments analysed by fund manager

##### Market value

31 March 2017			31 March 2018		
£m	%		£m	%	
374.4	49.6	Legal & General	382.7	51.9	
0.2	0.0	London CIV	0.2	0.0	
120.4	16.0	Henderson	125.7	17.1	
91.7	12.2	Capital Dynamics	72.9	9.9	
0.6	0.1	Yorkshire Fund Managers	0.5	0.1	
75.9	10.1	LCIV - Baillie Gifford	79.5	10.8	
49.4	6.5	LCIV - Ruffer	48.8	6.6	
3.6	0.5	Aviva	2.1	0.3	
38.0	5.0	Alinda	24.9	3.4	
<b>754.2</b>	<b>100.0</b>		<b>737.3</b>	<b>100.0</b>	

All the above companies are registered in the United Kingdom.

#### c) Stock lending

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

#### 15a. Valuation of financial instruments carried at fair value

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the	Not required	Not required

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

### Sensitivity of assets valued at Level 3

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

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value of decrease
		£m	£m	£m

Private equity	15%	65.1	74.9	55.3
Infrastructure	5%	33.2	34.9	31.5

### *15b. Fair value hierarchy*

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### **Level 1**

- 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.

Transfers between levels will be recognised when there has been a change to observable mark data (improvement or reduction) or other change in valuation technique.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss		639.0	98.3	737.3
Loans and receivables	94.0			94.0
<b>Total financial assets</b>	<b>94.0</b>	<b>639.0</b>	<b>98.3</b>	<b>831.3</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost	(31.6)			(31.6)
<b>Total financial liabilities</b>	<b>(31.6)</b>	<b>0</b>	<b>0</b>	<b>(31.6)</b>
<b>Net financial assets</b>	<b>62.3</b>	<b>639.0</b>	<b>98.3</b>	<b>799.7</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss		623.9	130.3	754.2
Loans and receivables	48.4			48.4
<b>Total financial assets</b>	<b>48.4</b>	<b>623.9</b>	<b>130.3</b>	<b>802.6</b>

**Financial liabilities**Financial liabilities at  
amortised cost**Total financial  
liabilities****Net financial assets**

(1.5)			(1.5)
(1.5)	0	0	(1.5)
46.9	623.9	130.3	801.1

*15c. Transfers between Levels 1 and 2*

There were no transfers between levels 1 and 2 during the year

*15d. Reconciliation of Fair Value Measurements within Level 3*

	£m
Value at 31 March 2017	130.3
Transfers into Level 3	0
Transfers out of Level 3	0
Purchases	4.2
Sales	(44.5)
Issues	0
Settlements	0
Unrealised gains/losses	0
Realised gains/losses	8.3
Value at 31 March 2018	98.3

*16. 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 2017			31 March 2018		
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
£m	£m	£m	£m	£m	£m
<b>Financial assets</b>					
620.3			Pooled investments	636.9	

3.6			Pooled property investments	2.1		
130.3			Private equity/infrastructure	98.3		
	47.5		Cash		94.0	
	0.9		Debtors		0.0	
<b>754.2</b>	<b>48.4</b>	<b>0.0</b>		<b>737.3</b>	<b>94.0</b>	<b>0.0</b>
			<b>Financial Liabilities</b>			
		(1.5)	Creditors			(31.6)
<b>754.2</b>	<b>48.4</b>	<b>(1.5)</b>	<b>Totals</b>	<b>737.3</b>	<b>94.0</b>	<b>(31.6)</b>

#### a) Net gains and losses on financial instruments

31 March 2017 £m		31 March 2018 £m
	<b>Financial assets</b>	
121.2	Fair value through profit and loss	25.4
<b>121.2</b>	<b>Total</b>	<b>25.4</b>

#### b) 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 2017			31 March 2018	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		<b>Financial assets</b>		
754.2	754.2	Fair value through profit & loss	737.3	737.3
48.4	48.4	Loans and receivables	94.0	94.0
<b>802.6</b>	<b>802.6</b>	<b>Total financial assets</b>	<b>831.3</b>	<b>831.3</b>
		<b>Financial liabilities</b>		
(1.5)	(1.5)	Financial liabilities at amortised cost	(31.6)	(31.6)
<b>(1.5)</b>	<b>(1.5)</b>	<b>Total financial liabilities</b>	<b>(31.6)</b>	<b>(31.6)</b>

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

#### 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.

### **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 the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

<b>Asset Type</b>	<b>31/03/2018 Value (£m)</b>	<b>Potential market movements (+/-)</b>
Bonds	94.1	7.0%
Equities	414.3	15.0%
Other Pooled investments	157.6	5.0%
Pooled Property investments	2.1	14.0%
Private Equity	65.1	15.0%

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows.

<b>Asset Type</b>	<b>31/03/2018 Value (£m)</b>	<b>Potential value on increase (£m)</b>	<b>Potential value on decrease (£m)</b>
Bonds	94.1	100.7	87.6
Equities	414.3	476.5	352.2
Other Pooled investments	157.6	165.5	149.7
Pooled Property investments	2.1	2.4	1.8
Private Equity	65.1	74.8	55.3
<b>Total</b>	<b>733.2</b>	<b>819.9</b>	<b>646.6</b>

### 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 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2017	31 March 2018
	£m	£m
Cash balances	47.4	94.0
UK Fixed income unit trust	91.3	94.2
<b>Total</b>	<b>138.7</b>	<b>188.2</b>

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash balances	94.0	0.9	(0.9)
UK Fixed income unit trust	94.2	0.9	(0.9)
<b>Total change in assets available</b>	<b>188.2</b>	<b>1.8</b>	<b>(1.8)</b>

Asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash balances	47.4	0.5	(0.5)
UK Fixed income unit trust	91.3	0.9	(0.9)
<b>Total change in assets available</b>	<b>138.7</b>	<b>1.4</b>	<b>(1.4)</b>

## 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 2018 and as at the previous period end:

Currency risk exposure – asset type	Asset value at 31 March 2017 £m	Asset value at 31 March 2018 £m
Overseas unit trusts	267.6	274.3
Overseas pooled property investments	3.6	2.1
Overseas private equity/infrastructure	130.3	98.3
<b>Total overseas assets</b>	<b>401.5</b>	<b>374.7</b>

A 1% 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 2018 £m	Change to net assets available to pay benefits +1% £m	-1% £m
Overseas unit trusts	274.3	2.7	(2.7)
Overseas pooled property investments	2.1	0.0	(0.0)
Overseas private equity/infrastructure	98.3	1.0	(1.0)
<b>Total change in assets available</b>	<b>374.7</b>	<b>3.7</b>	<b>(3.7)</b>

	Asset value as at 31 March 2017 £m	Change to net assets available to pay benefits +1% £m	-1% £m
Overseas unit trusts	267.6	2.7	(2.7)

Overseas pooled property investments	3.6	0.0	(0.0)
Overseas private equity/infrastructure	130.3	1.3	(1.3)
<b>Total change in assets available</b>	<b>401.5</b>	<b>4.0</b>	<b>(4.0)</b>

## 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.

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 2018 was £94.0m (31 March 2017: £47.5m). This was held with the following institutions:

	Rating	Balances as at 31 March 2017 £m	Balances as at 31 March 2018 £m
<b>Bank deposit accounts</b>			
NatWest	BBB+	4.4	(1.5)
Northern Trust		5.4	6.6
Money Market deposits	A+	37.7	48.9
<b>Other short-term lending</b>			
Local authorities		0	40.0
<b>Total</b>		<b>47.5</b>	<b>94.0</b>

## 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 2018 the value of liquid assets was £100.4m, which represented 12% (31 March 2017: £133.9m, which represented 18%) 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 2018 are due within one year.

#### **d) 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 2016. The next valuation will take place as at March 2019.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2016 (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 2016 actuarial valuation, the Fund was assessed as 55% funded (56% at the March 2013 valuation). This corresponded to a deficit of £562m (2013 valuation: £442m) at that time. As a result, a deficit recovery plan is in place which aims to achieve 100% funding over a period of 19 years from April 2016.

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

<b>Year</b>	<b>Employers' contribution rate</b>
2017/18	32.5%
2018/19	33.8%
2019/20	35.0%

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 2016 actuarial valuation report and the funding strategy statement on the Fund's website.

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

The main actuarial assumptions used for the March 2016 actuarial valuation were as follows:

Discount rate	3.8% p.a.
Pay increases	2.4% p.a.
Pension increases	2.1% p.a.

### **Mortality assumptions**

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

<b>Mortality assumption at age 65</b>	<b>Male</b>	<b>Female</b>
Current pensioners	22.3 years	24.5 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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2018 was £1,680m (31 March 2017: £1,635m). This figure includes both vested and non-vested benefits, although the latter is assumed to have a negligible value. 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 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### Financial assumptions

Inflation/pensions increase rate	2.4%
Salary increase rate	2.7%
Discount rate	2.6%

### Longevity assumption

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

	<b>Males</b>	<b>Females</b>
Current pensioners	22.3 years	24.5 years
Future pensioners*	24.1 years	26.4 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.



## Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	133
0.5% p.a. increase in the Salary Increase Rate	1%	17
0.5% p.a. decrease in the discount rate	9%	158
1 year increase in life expectancy	4%	67

## 20. Assets

### a) Current assets

	31 March 2017 £m	31 March 2018 £m
Debtors:		
- Contributions due – employees	0.4	0.2
- Contributions due – employers	1.8	1.0
- Sundry debtors	0.3	0.2
- Additional voluntary contributions	0.0	0.0
<b>Total</b>	<b>2.5</b>	<b>1.4</b>

### Analysis of debtors

	31 March 2017 £m	31 March 2018 £m
Central government bodies	0.0	0.0
Other local authorities	2.5	1.4
Other entities and individuals	0.0	0.0
<b>Total</b>	<b>2.5</b>	<b>1.4</b>

### b) Non-current assets

	31 March 2017 £m	31 March 2018 £m
Non- current assets	0.0	0.0

<b>Total</b>	<b>0.0</b>	<b>0.0</b>
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Non- current assets comprises of contributions due from employers, repayable later than a year from the Balance Sheet date.

## 21. Current liabilities

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
Payments to and on account of leavers -	0.0	30.9
Group transfers		
Sundry creditors	1.5	0.7
<b>Total</b>	<b>1.5</b>	<b>31.6</b>

## Analysis of creditors

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
College of North West London	0.0	30.9
Central government bodies	0.1	0.0
Other entities and individuals	1.4	0.7
<b>Total</b>	<b>1.5</b>	<b>31.6</b>

## 22. Additional voluntary contributions

	<b>Market value</b>	<b>Market value</b>
	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
Clerical Medical	1.2	1.2
Equitable Life	0.2	0.2
Prudential	0.1	0.1
<b>Total</b>	<b>1.5</b>	<b>1.5</b>

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.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

## 23. 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 £0.680m (2016/17: £0.673m) 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 £30.7m to the Fund in 2017/18 (2016/17: £29.4m). 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 3.9.4.4 of the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (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 2015) 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.

## 24. Contingent liabilities

The Fund had no contingent liabilities at 31 March 2018.

## 25. Contingent Assets

Outstanding capital commitments (investments) at 31 March 2018 totalled £29.5m (31 March 2017: £40.9m).

	31 March 2017	31 March 2018
	£m	£m
Capital Dynamics	20.0	13.0
Alinda Fund I	3.6	2.9
Alinda Fund II	17.3	13.6
<b>Total</b>	<b>40.9</b>	<b>29.5</b>

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.

### Other 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 2017	31 March 2018
	£'000	£'000
Apleona HSG Ltd (previously Bilfinger and E)	136	136
Capita Business Services Limited	123	123
Conway Aecom	111	111
Xerox (UK) Limited	29	29
Sanctuary	8	0
ThamesReach	5	0
<b>Total</b>	<b>412</b>	<b>399</b>

Sanctuary and ThamesReach ceased to be employers within the Fund during the year.

### 26. Impairment Losses

The Fund had no contingent liabilities at 31 March 2018.

## **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 2017/18 ('the Code of Practice').

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

- selected suitable accounting policies and applied them consistently

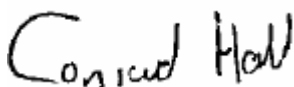
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

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 48 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 2018.



**Conrad Hall CPFA**  
Chief Finance Officer  
19 September 2018

### **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 2017/18**

#### **Opinion**

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Pension Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 3.

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 the London Borough of Brent for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts on 31 July 2018 and the date of this report.

#### **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 2017/18. 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 2017/18 with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Brent, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In addition, we read the information given in the Brent Pension Fund Annual Report and Accounts 2017/18 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, the purpose of our audit work and to whom we owe our responsibilities.

### **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters 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;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



**Andrew Sayers**  
**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London

E14 5GL

19 September 2018

# 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
<b>A</b>	<b>Structure</b>	
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>B</b>	<b>Representation</b>	
a.	<p>That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g. admission bodies)</li> <li>ii) scheme members (including deferred and pensioner scheme members)</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisers (ad-hoc basis only).</li> </ul>	<p>Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.</p> <p>The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.</p>

Ref.	Principles	Compliance and comments
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
<b>C</b>	<b>Selection and role of lay members</b>	
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.
<b>D</b>	<b>Voting</b>	
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.
<b>E</b>	<b>Training/facility time/expenses</b>	
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.
<b>F</b>	<b>Meetings (frequency/quorum)</b>	
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.
<b>G</b>	<b>Access</b>	
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.
<b>H</b>	<b>Scope</b>	
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.
<b>I</b>	<b>Publicity</b>	
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*.



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# 1 Introduction

## 1.1 What is this document?

This is 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”).

It 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. It is effective from 1st April 2017.

## 1.2 What is the London Borough of 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 London Borough of Brent 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; and
- 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 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 Investment Strategy Statement (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 of the London Borough of Brent: 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 ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- 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 (**NB** 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.

### **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,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Ravinder Jassar [Head of Finance] in the first instance at e-mail address [ravinder.jassar@brent.gov.uk](mailto:ravinder.jassar@brent.gov.uk) or on telephone number 020 8937 1487.

## 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 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 (or Multi Academy Trusts)**, 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** – some employers are able to participate in the LGPS via a 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. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

#### 2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

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## 2.5 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 (see [Appendix D](#), section [D5](#), for further details of how this is calculated), 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.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

## 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; and
- 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 at a reasonable cost.

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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- 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](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. 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 pace of paying contributions;
- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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	Local Authorities	Academies	Other	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	Yes - see <a href="#">Note (b)</a>	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	19 years	19 years	19 years	15 years	Future working lifetime of actives	Outstanding contract term
Secondary rate – <a href="#">Note (d)</a>	Monetary	% of payroll	Monetary	Monetary	Monetary	Monetary
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term if less than 4 years, else no reduction
Probability of achieving target – <a href="#">Note (e)</a>	[66%]	[75%]	[66%]	[75%]	[80%]	[50%]
Phasing of contribution changes	Covered by stabilisation arrangement		3 years	3 years	3 years	None
Review of rates – <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	<a href="#">Note (g)</a>	n/a	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
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 <a href="#">Note (j)</a> .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .		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 Community Admission Bodies 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 set a higher funding target (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, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their 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), or changes in the security of the employer.

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 2017 (see Note (g)).

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details for the Council Pool are as follows:

- Notional contribution rate 2017/18 starts 32.5% and rises 1.3% to 33.8% at 2018/19 and rises a further 1.2% to 35% in 2019/20 ;
- Actual contribution rate split between % of pay element and £ lump sum element each year;
- % of pay element = Primary rate for the Council Pool as calculated at 2016 valuation;
- £ lump sum element = amount calculated as balance of notional contribution rate that year, when applied to payroll increased from 2016 in line with valuation assumption (as opposed to actual payroll that year).

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. 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) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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 time horizons, for example where there were no new entrants.

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) (Secondary rate)**

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) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given

minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### **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 conversions)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. 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;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The 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;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

- v. 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 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, policies (iv) and (v) above 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 underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, 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. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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/outourcing of some services from an existing employer (normally a Scheduled Body such as a council or 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

Under this option 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 a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option 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

Under this option the contractor pays a fixed contribution rate and does not 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; and
- 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 (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 ongoing 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 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 ongoing 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.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, 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.

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 spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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 ongoing 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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (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).
- LEA schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.
- Academy schools may be pooled within their Multi Academy Trust (if this applies).
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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.

### **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.

Such flexibility includes a reduced rate of contribution, an extended time horizon, 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; and
- 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). (**NB** 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**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external 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 (eg regularly monitoring ill health experience and requesting contributions between valuations), details will be included in each that employer's Admission Agreement.

### **3.8 External ill health insurance**

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

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.

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 ongoing 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; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund 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 reallocated 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 (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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 as part of 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 outperformance assumption contained in the discount rate (see Appendix [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 Appendix [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; and

- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help 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 2020, it should be noted that this will need to be reviewed following the 2019 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, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund 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
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.



## 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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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 February 2017 for comment;
- b) Comments were requested within 10 days;
- c) There was an Employers Forum in March 2017 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Brent website, at [www.brent.gov.uk](http://www.brent.gov.uk);
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;

- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- 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 2019.

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 Pensions Committee and would be included in the relevant 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/Investment Strategy Statement, 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](http://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 Investment Strategy Statement (ISS) 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;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and the ISS, 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 and SIP/ISS 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 data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- 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 employers' 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 ISS 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 ISS;
- 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;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## 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 the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this</p>

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
	<p>risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### **C3 Demographic risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is</p>

Risk	Summary of Control Mechanisms
	permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a> ) 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 pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2016 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

#### C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
some way	<p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(j)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>



## 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.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

### **D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, 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 ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

### **D4 What affects a given employer's valuation results?**

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

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

#### **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".

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.

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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **E2 What basis is used by the Fund?**

The Fund’s standard funding basis is described as the “ongoing 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 ongoing 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 setting funding targets at the triennial funding valuation at 31 March 2016, and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that the discount rate used to measure the funding position at a given point in time will be 1.6% per annum greater than gilt yields at that time (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.8% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.8% per annum. The change has led to a reduction in the funding target (all other things being equal).

## **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. 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 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

## **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, 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.

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 ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is a slight reduction (less than a year) in average life expectancies. The approach taken is considered reasonable in light of 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 most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the <b>funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	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.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, 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.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.



<b>Letting employer</b>	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.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also 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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . 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.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. 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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See

[Appendix D](#) for further details.

**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.

**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 2016), 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.

# **Investment Strategy Statement (Published March 2016)**

## ***Introduction and background***

This is the Investment Strategy Statement (“ISS”) of the Brent Pension Fund (“the Fund”), which is administered by Brent Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Pension Fund Sub Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in February 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (1<sup>st</sup> April 2017).

## ***The suitability of particular investments and types of investments***

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Nonetheless, in the intermediate term while investment options become available within the London CIV or during a period of strategic investment reallocation, it may choose to increase allocations temporary in liquid assets with low fixed charges as an interim allocation.

The Fund holds the following investment beliefs:

- i) *It invests with a longer-term horizon than typical Pension Funds and looks at the underlying value of the assets; it is willing to look beyond the 12-month window and ignore short-term under-performance for long-term gains*
- ii) *It does not seeks to move in and out investments regularly, as it believes this is a costly practice*
- iii) *It prefers investments with lower fees and charges, where possible, therefore looks to make use of the London CIV*
- iv) *It seeks to have a holistic investment strategy, that is broadly stable over any three year period but will adapt the allocation at an appropriate point in time to reflect the long-term economic trends and the Fund liabilities*
- v) *It seeks to not have more than 15 investment allocations, save where it is exiting individual investment managers, to ensure it can review and manage them with appropriate oversight*

### ***Investment of money in a wide variety of investments***

#### **Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

**Table 1: Fund allocation**

Asset class	Target allocation %	Maximum invested %
UK equities	15	20
Overseas equities	30	40
Total equities	45	60
Property	0	6
Fixed Income	15	20
Infrastructure	8	10
Diversified Growth Funds	21	21
Private Equity	10	12
Total	100	N/A

Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

**Table 2: Investment Restrictions**

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%
5. Total investment in illiquid assets	30%

### Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

***The approach to risk, including the ways in which risks are to be measured and managed***

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

**Funding risks**

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

## **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis. The Fund is a long-term investor and therefore, the Committee seeks to act as a responsible asset owner. Further details of the Fund’s approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund’s assets managed on a passive basis. The Committee assess the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

## **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement (Appendix C).

***The approach to pooling investments, including the use of collective investment vehicles and shared services***

The Fund is a participating scheme in the London Collective Investment Vehicle (CIV). The proposed structure and basis on which the London CIV will operate was set out in the July 2016 submission to government.

**Assets to be invested in the pool**

The Fund's intention is to invest its assets through the London CIV as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 to government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has already invested the following assets via the London CIV

Asset class	Manager	Market value of assets	Benchmark
Diversified Growth Fund	Baillie Gifford	£79.5m	Base Rate +3.5%
Diversified Growth Fund	Ruffer	£48.8m	Base Rate +3.5%

At the time of preparing this statement the Fund has elected not to invest the following assets via the London CIV:

Asset class	Manager	Market value of assets	Benchmark	Reason for not investing via the London CIV
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Passive Equity	LGIM – Global Ex-UK	£274.3m	FTSE Developed World ex UK	Cheaper outside the CIV for technical reasons.
Passive Equity	LGIM - UK	£108.4m	FTSE All Share	Cheaper outside the CIV for technical reasons.
Active Equity	Henderson – UK small caps	£31.6m	FTSE Small Cap	Class not available through the London CIV
Property	Aviva - Europe	£2.1m	IPD All Properties Index	Exiting Property
Bonds	Henderson	£94.1m	Absolute Return 4% pa	Awaiting London CIV fixed income option
Infrastructure	Capital Dynamics	£8.4m	Absolute Return 8% pa	Not available through the London CIV
Infrastructure	Alinda	£24.9m	Absolute Return 8% pa	Not available through the London CIV
Private Equity	Capital Dynamics	£64.5m	Absolute Return 8% pa	Not available through the London CIV
Cash	Cash	£94.0m	Gilt Rate	Cash exists primarily for re-investment

Any assets not currently invested in the pool will be reviewed at least every year to determine whether the rationale remains appropriate. The next such review will take place on the 26 June 2018 meeting of the Pensions Sub Committee.

### **Structure and governance of the London CIV**

The July 2016 submission to government of the London CIV pool provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured. As the Pool develops and the structure and governance of the Pool are fully established the Fund will include this information in future iterations of the ISS.

***How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments***

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and each year it conducts a review of its policies in this area and its investment managers' approach to ESG.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

**The exercise of rights (including voting rights) attaching to investments**

**Voting rights**

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis. This may also be delegated to the London CIV in the future, as the vehicle with more weight to influence decisions in the future

**Stewardship**

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

# **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, including:

### **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: Engagement with the London CIV**

Brent will continue to engage with the London CIV and invest in sub funds in line with its Investment Strategy Statement.

### **3. Investment Strategy and 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 26 June 2018.

### **4. Review of existing fund managers**

A review of fund managers is to be completed, to identify managers who are not performing satisfactorily.

### **5. 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. 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 (PwC) and external auditors (KPMG) supports and assists with the management of risks.

## **PENSION ADMINISTRATION STRATEGY**

The commencement date for this Strategy is 1 April 2014.

***This strategy recognises that for administration costs to be minimised, and the mutual service to the member to be maximised, employers and the administering authority must co-operate closely.***

### **Introduction**

The purpose of this Pension Administration Strategy (PAS) is to provide a written statement of the administering authority's policies relating to pension administration matters to facilitate 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 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 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 59 of the Local Government Pension Scheme Regulations 2013. Related legislation includes:

- 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.

## **Review of this Strategy**

This Strategy will be reviewed at least triennially or following any material change in regulations that necessitate a change if sooner.

## **Employer responsibilities**

Each Scheme employer shall nominate a representative who will act as the primary contact who will be responsible for ensuring that all documentation and/or instructions are forwarded to the Brent Pension Fund in accordance with the prescribed timescales.

Specific employer responsibilities include:

- paying over employer and employee contributions to the Fund and providing a schedule of payments in the format stipulated by the Fund, with cleared monies to be received by 19<sup>th</sup> calendar day of month after deduction
- arranging for the deduction of Additional Voluntary Contributions (AVCs) and payment over of contributions to the AVC provider by the 19<sup>th</sup> calendar day of the month after deduction
- notifying the Fund when a Scheme member leaves employment within 15 working days of month end of leaving. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided or by completion and submission of the online Leaver Notification via Hartlink Online

- notifying the Fund when a Scheme member is due to retire including an accurate assessment of final pay and reason for retirement within 15 working days **before** the retirement date. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided
- notify the Fund of the death of a Scheme member as soon as practicable, but within 5 working days. Employers should refer to the Administering Authority and Scheme Employers Procedure Manual for full details of the information that must be provided.
- providing new/prospective Scheme members with a starter form and a Scheme guide (or refer them to the Fund website) within 5 working days of commencement of employment or change in contractual conditions
- notifying 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.
- providing year end information required by the Fund, via Hartlink Exchange in the format stipulated in the instructions issued to the nominated representative in February each year. Full data must be submitted by 30 April following the year end
- responding to enquiries from the Fund within 10 working days
- notifying the Fund if contracting out services which will involve a Transfer of Undertakings Protection of Employment (TUPE) transfer of staff to another organisation
- notifying the Fund if the employer ceases to admit new Scheme members or decides to terminate membership of the Fund as soon as possible.

It is imperative that the timescales referred to above are adhered to so that Capita Employee Benefits are able to administer the Fund within the timescales set out in line with Disclosure requirements

## **Fund responsibilities**



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

The Fund's responsibilities include the following:

- the administration of pensions records, including the preparation and distribution of the Annual Benefit Statements to all Scheme members
- the timely collection of contributions
- the calculation and payment of pensions, including the administration of the annual pensions increase
- advice and guidance to Scheme members
- advice and guidance to employers
- early retirement schemes for Fund employers
- to ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud
- to appoint an Additional Voluntary Contributions (AVC) provider.

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
Letter detailing transfer-in quote	10
Letter detailing transfer-out quote	5
Process refund and issue payment voucher	10
Letter notifying <b>estimate</b> of retirement benefit	3
Letter notifying <b>actual</b> retirement benefit	2
Process and pay lump sum retirement grant	3
Letter acknowledging death of member	3
Letter notifying amount of dependant's benefits	3
Calculate and notify deferred benefits	15
Pensions forecasts issued for deferred members as at 31 March each year	By the first week of May annually
Pensions forecasts issued for active members as at 31 March each year	By 31 <sup>st</sup> August

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

We use this data to target areas of improvement in our service provision. It helps us to understand the specific service pressures that the Fund faces and to operate as effectively and efficiently as we can.

### **Policy on charging employers for poor performance**

Where an employer materially fails to operate in accordance with the standards described in this Strategy, which leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer.

## **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 2016), 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.