

# Brent Pension Fund Sub-Committee

**Wednesday 29 May 2019 at 7.00 pm**  
Members Suite - 4th Floor, Brent Civic Centre,  
Engineers Way, Wembley, HA9 0FJ

## Membership:

### Members

Councillors:

S Choudhary (Chair)  
Aden (Vice-Chair)  
Abdi  
Daly  
Maurice  
Perrin  
Stephens

### Substitute Members

Councillors

A Choudry, Kabir, McLeish and  
Naheerathan

Councillors

Colwill and Kansagra

### Non-Voting Co-opted Members

Bankole

Brent Unison representative

**For further information contact:** Joe Kwateng, Governance Officer  
0208 937 1354; [joe.kwateng@brent.gov.uk](mailto:joe.kwateng@brent.gov.uk)

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:

**[democracy.brent.gov.uk](http://democracy.brent.gov.uk)**

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

**Please note that Members' Mandatory Training on Responsible Investment will commence at 5.45pm**

### **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
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<b>1</b>	<b>Declarations of personal and prejudicial interests</b>	
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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>2</b>	<b>Minutes of the previous meeting</b>	1 - 6
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<b>3</b>	<b>Matters arising</b>	
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<b>4</b>	<b>Deputations (if any)</b>	
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<b>5</b>	<b>Membership of the Local Authority Pension Fund Forum</b>	7 - 10
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The purpose of this report is to consider if the Fund should become a member of the Local Authority Pension Fund Forum.

**Ward affected:** All Wards      **Contact Officer:** Conrad Hall, Chief Finance Officer  
Tel: 020 8937 6528  
conrad.hall@brent.gov.uk

<b>6</b>	<b>Investment Monitoring Q1 2019</b>	11 - 28
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This report sets out the performance of the Fund in the first quarter of 2019.

<b>7</b>	<b>Review of Additional Voluntary Contributions</b>	29 - 32
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The purpose of this report is to review and recommend changes to current arrangements for Additional Voluntary Contributions (AVCs) which are provided in addition to the main Local Government Pension Scheme.

Appendix 1 is excluded from the press and public and restricted to members.

**Ward affected:** All Wards      **Contact Officer:** Conrad Hall, Chief Finance Officer  
 Tel: 020 8937 6528  
 conrad.hall@brent.gov.uk

**8      Draft Annual Report and Accounts 2018/19      33 - 178**

This report presents the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2019.

**Ward affected:** All Wards      **Contact Officer:** Conrad Hall, Chief Finance Officer  
 Tel: 020 8937 6528  
 conrad.hall@brent.gov.uk

**9      Update on the 2019 Triennial Valuation      179 - 182**

The purpose of this report is to update the committee on the 2019 Pension Fund Valuation.

**Ward affected:** All Wards      **Contact Officer:** Conrad Hall, Chief Finance Officer  
 Tel: 020 8937 6528  
 conrad.hall@brent.gov.uk

**10      LGPS update      183 - 200**

The purpose of this report is to update the Sub-Committee on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government which have would have a significant impact on the Fund.

Appendices 1 and 2 are attached to the main report.

**Ward affected:** All Wards      **Contact Officer:** Conrad Hall, Chief Finance Officer  
 Tel: 020 8937 6528  
 conrad.hall@brent.gov.uk

**11      Minutes of Pension Board - 13 March 2019      201 - 208**

## 12 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.

## 13 Exclusion of Press and Public

The following reports are not for publication as they contain the following categories of exempt information as specified under paragraph 3, Part 1 of Schedule 12A of the Local Government Access to Information Act 1972, namely:

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

14. London CIV Update.
15. Appendix to the Review of Additional Voluntary Contributions

<b>14 London CIV Update on investment matters</b>	209		-
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The purpose of this report is to update the committee on recent developments within the London CIV.

Appendices 1-3 are attached to the main report.

<b>Ward affected:</b>	All Wards	<b>Contact Officer:</b> Conrad Hall, Chief Finance Officer
		Tel: 020 8937 6528
		conrad.hall@brent.gov.uk

<b>15 Appendix 1 of the Review of Additional Voluntary Contributions</b>	221		-
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- Please remember to set your mobile phone to silent during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

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## LONDON BOROUGH OF BRENT

### MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Wednesday 27 February 2019 at 6.00 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Aden (Vice-Chair) and Councillors Daly, Maurice, Perrin and Stephens and co-opted member Ms Bankole.

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

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 6<sup>th</sup> November 2018 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None received.

5. **Implementation of the Investment Strategy**

Members considered a report that provided updates on progress on the implementation of the investment strategy which was agreed at the previous meeting. Mr Ravinder Jassar (Head of Finance) provided the following headline activities since the last meeting:

- The Janus Henderson small cap fund was sold in three tranches between mid-November and mid-December 2018 and resulted in total sales proceeds of £28.9m, net of any fees. By conducting the trades in this way, the Fund avoided significant transition costs that were planned as a result of a change in the manager of the small caps fund.
- The investment in the LCIV Emerging Markets fund (£30m) was split into two tranches, with £15m being invested in November 2018 and a further £15m planned in February 2019.
- A further £40m was invested into Growth Assets via the existing LCIV DGF manager, Baillie Gifford as a temporary investment while the London CIV's investments in Infrastructure and Property became available (with these

latter allocations to be built up over time). All trading was completed in December 2018, with the investment being split into two equal tranches.

- The Fund's exposure to the LCIV MAC fund was opened with an investment of £35m. As the fund only deals on a monthly basis, £18m were transferred in November 2018 and the remaining balance of £17m in January 2019.
- Of the £67.5m cash deposits balance, £30.7m paid out as part of the College of North West London transfer on 14 February 2019.

Mr Jassar referenced the Fund's strategic review when it was agreed to increase the Fund's exposure to income assets and, as part of this strategic change, increase the Fund's infrastructure target allocation from 8% to 15%. The strategic rationale for doing this was to increase the Fund's exposure to assets that seek to generate long-term real returns with a notable element of this return from income. With that in view and the ability to review commitments on an annual basis, he recommended that the Fund committed, subject to due diligence, £50m to LCIV's infrastructure fund at this time, with the commitment level revised on an annual basis. £50m represents c6% of Fund assets. The commitment would be drawn down over time and would represent a significant step in the Fund's strategic journey with an increased allocation to income assets. He then introduced Mr Robert Hall (Head of Equities, London CIV) who then gave a presentation on processes for Infrastructure Fund Design and selection of an Infrastructure Manager.

Mr Hall outlined the consultation process highlighting the following criteria for Infrastructure Fund Manager;

- Manager Diversification which covered a broad range of general partners and not overly reliant on a single company.
- Vintage Diversification with underlying investments staggered to give exposure to investments across different years.
- Asset Type Diversification with the ability to invest across primary, secondary partnerships, co-investment and direct investment to build a diversified portfolio of assets.
- All direct and underlying investments to adhere to the Responsible Investment policy with respect to environmental, social and governance considerations (ESG).
- Full Reporting of asset holdings and underlying funds.

In highlighting the infrastructure objectives Mr Hall added that the London CIV would expect a target net return of 8% to 10% and cash yield of 4% to 6% per annum with at least 80% on brownfield investments and 20% on greenfield investments and a strong focus to the UK and Europe (50-70%) and the remainder on rest of the world (30%-50%). There will also be a minimum of 25% invested in renewable projects. He then drew Members' attention to the fund design with respect to governance, veto rights and restrictions.

In the ensuing discussion, Members questioned LCIV about a range of issues including fee levels, the impact of "Brexit" and associated disinvestments including the decision by Nissan to divert the production of petrol engines from Sunderland to Japan, on-going issues about HS2 and the general approach to investments which



could have political undertones. Questions were also asked about the number of London boroughs that had expressed client interest and the type of assets that would be purchased.

Mr Hall informed Members that due to the size of assets under management there would significant fee savings for boroughs. He added that whilst there may be an impact from Brexit, it was noteworthy that several positive investment opportunities were in the pipeline both in the UK and US including construction of motorways, the National Grid for electric vehicles and battery storage. Mr Hall continued that LCIV would back out of politically sensitive investments if boroughs wanted and in reference to the slides added that there would be full visibility of the type of assets that would be purchased.

Mr Conrad Hall (Chief Finance Officer) emphasised the need for LCIV to inform members about potential politically sensitive investments.

In thanking Mr Robert Hall for an in-depth presentation on the Infrastructure investment proposal, Mr Conrad Hall and Mr Ravinder Jassar for their contribution in moving the strategy forward, the Sub-Committee **RESOLVED**:

- (i) To note the progress of implementing the investment strategy approved on the 6 November 2018 meeting, including in particular the appointment by the Council (as Administering Authority on behalf of the Brent Pension Fund) of BlackRock Investment Management (UK) Limited pursuant to an investment management agreement in order to facilitate the Pension Fund's investment into the following BlackRock pooled funds:

Aquila Life Over 15 Years UK Gilt Index Fund; and  
Aquila Life Over 15 Years UK Gilt Index (Term Lending) Fund.

- (ii) To agree to commit £50m in the London CIV's infrastructure offering in April 2019.

## 6. **Monitoring report on fund activity for the quarter ended December 2018**

The Sub-Committee received the performance monitoring report from Hymans Robertson (Independent Adviser to the Sub-Committee) that provided an overview of the Fund's investment holdings, delivered meaningful analysis to assess whether managers had delivered on their objectives within the quarter as well as provided an insight to as to the extent to which the returns achieved were consistent with each manager's philosophy, investment approach and market conditions.

Mr William Marshall (Partner, Hymans Robertson) introduced the report. He reminded Members about a number of strategic changes implemented in Q4 as the Fund journeyed towards the agreed interim target which included full divestment from Henderson's UK Small Cap, initial allocation to Henderson's EM equity fund and initial allocation to the LCIV MAC Fund (CQS). With reference to the slides, Mr Marshall explained that equity markets fell heavily as US interest rates rose again and investors became more pessimistic about the outlook for global growth. Global equity markets also took a sharp turn lower at the start of Q4 as US government bond yields climbed to 3.2%. Declines resumed in December as tighter monetary policy and concerns over the sustainability of the pace of global growth came to the

fore. Geographically, Japan was the worst performing region as the yen strengthened and the slowing growth in Europe and China weighed heavily on exporters. North America also marginally underperformed global indices while Emerging markets were the best performing region. However, returns to UK investors were less negative given renewed sterling weakness.

Drawing attention to performance by sector, Mr Marshall highlighted the strong performance within utilities and telecommunications and marginally so within healthcare and consumer goods. He continued that oil and gas was the worst performing sector as a result of declining oil prices.

In terms of manager performance, Mr Marshall explained that in the face of the poor performance of global equity markets, LGIM Global Equity delivered a negative return matching the benchmark in the last quarter and over a 12 month period but a healthy 3 year annualised index of +12.8%. With the economic outlook within UK dominated in recent times by recent political uncertainty about Brexit and the increasing prospect of a 'no deal' scenario which had dampened investor sentiment and dragged UK stocks lower in Q4 2018, LGIM UK Equity delivered a negative absolute return of 10.2%. He noted that since 31 December 2018 a slight rebound in markets had been observed. Capital Dynamics, with diversified portfolio by geography and style, delivered an annualised return of 17.8% (8% target return) over a 3 year timeframe. Members heard that Baillie Gifford, Ruffer Multi Assets and CQS Multi Credit underperformed the benchmark whereas Alinda Infrastructure and Capital Dynamics Infrastructure had outperformed their targets.

Over the next quarter, the Fund expected to fully divest from the Janus Henderson Total Return Bond, complete a new investment in BlackRock's over 15yr gilts passive fund and complete the allocation to Janus Henderson's EM and LCIV MAC funds.

In welcoming the update, The Sub-Committee **RESOLVED** to note the monitoring report on fund activity for the quarter ended December 2018.

## 7. London CIV Update

The purpose of this report is to update the committee on recent developments within the London CIV and the timescales attached to making investment decisions. Mr Sawan Shah (Senior Finance Analyst) briefly introduced the report and Mr Will McBean (Client Relations Manager) who provided further updates. Members heard that London CIV had £16.5bn assets under oversight including LGIM and Blackrock passive funds and that about 25% of London's assets were now pooled. He added that as at 31 December 2018, the value of London's assets invested directly through CIV stood at £7.5 billion of which Brent had 69% (£579m) of its assets under management overseen by the LCIV. Mr McBean appraised the Sub-Committee about LCIV new governance arrangements, the appointment of its CEO and that a search for Chief Investment Officer was underway.

Mr McBean informed Members about the LCIV programme of opening sub funds and recruiting fund managers to operate the sub funds, drawing attention to the appendix to the report that set out a summary of all sub funds currently available. He continued that in Q4 2018, the London CIV introduced the Global Bond Fund

managed by PIMCO as the second offering in the fixed income range. This followed the MAC fund as the other fund in the fixed income range which was launched in May 2018. In Q2 2019, LCIV expected to launch a Global Equity Core fund and an Inflation Plus fund, the latter being in the fixed income category.

In the ensuing discussion, Councillor Margaret McLennan enquired as to whether the LCIV was looking to appoint a Responsible Investment Officer in order to integrate environmental, social and governance (ESG) considerations in its strategic decision making. Mr Robert Hall confirmed that they would be looking in to this following feedback from other London Boroughs. Mr Conrad Hall (Chief Finance Officer) responded that a report on the LCIV's Responsible Investment policy was considered and endorsed by the committee at the last meeting in November 2018. This meeting also agreed the committee's Investment Beliefs which included references to integrating ESG into strategic decision making. He also clarified that, in the context of integrating ESG factors with regards to investment decisions, the Committee had a responsibility to ensure the Fund's investment strategy generates sufficient returns in order to pay members' benefits as they fall due and that the funding level of the Fund improves. In bringing the discussion to a close, the Sub-Committee:

**RESOLVED** to note the recent developments within the |London CIV.

8. **MHCLG Statutory guidance on asset pooling in the Local Government Pension Scheme (LGPS) Consultation**

The report informed Members that the Ministry of Housing, Communities and Local Government (MHCLG) had launched an informal consultation on draft new statutory guidance on asset pooling. The guidance (appended to the report), set out the requirements on administering authorities in relation to the pooling of LGPS assets and built on previous Ministerial communications and guidance on investment strategies.

Mr Sawan Shah (Senior Finance Analyst) in introducing the report stated that the new guidance aimed to support further progress in the reform of LGPS investment management which began in England and Wales in 2015. Mr Conrad Hall (Chief Finance Officer) summarised the key points of the guidance as set out in the report, highlighting the requirement for Pool members to appoint a pool company or companies to implement their investment strategies in order to maximise the benefits of scale. These included the selection, appointment, dismissal of investment managers; the management of internally managed investments and the provision and management of pool vehicles including pool funds. He added that the closing date for responses to and comments on the guidance is 28 March 2019

Members welcomed the draft statutory guidance as it was linked to the Fund's investment strategy and investment beliefs that were agreed in November 2018, with 69% of the Brent Pension Fund's investments pooled with the LCIV as at 31 December 2018. Having defined their response to this development the Sub-Committee **RESOLVED**

- (i) To note the fundamental change resulting from the draft new guidance is that the Brent Pension Fund will no longer be responsible for the selection and

dismissal of managers. Instead this responsibility will now be carried out by the pool.

- (ii) To note the report and the draft statutory guidance and that the Chief Finance Officer will prepare a formal response to the consultation on behalf of the Brent Pension Fund before the consultation closes, in consultation with the Chair of the Pension Fund Sub-Committee.

9. **Minutes of Pension Board - 13 December 2018**

The Sub-Committee welcomed Mr David Ewart (Chair of Pension Board) to the meeting and invited him to provide a summary of the meeting held on 13<sup>th</sup> December 2018. Mr Ewart informed the Sub-Committee that the Board noted the major improvements that had been achieved following the transfer of the pensions administration contract to LPP. That had helped the Fund to avoid the prospect of self-reporting to The Pensions Regulator (TPR). He noted that there was still some work to be done to resolve issues raised by TPR, including record keeping and other governance related matters. The Board re-affirmed its commitment to continuously monitor the situation. In conclusion, Mr Ewart added that TPR would be attending the next meeting of the Board on 13<sup>th</sup> March 2019.

With no further issues identified, the Sub-Committee **RESOLVED** that the minutes of the Pension Board held on 13<sup>th</sup> December 2018 be noted.

10. **Date of next meeting**


The date of next meeting would be confirmed at the Council's Annual General Meeting in May 2019.

11. **Any other urgent business**

None.

The meeting closed at 7.40 pm

S CHOUDHARY  
Chair

	<b>Pensions Fund Sub-Committee</b> 29 May 2019
	<b>Report from the Chief Finance Officer</b>
<b>The Local Authority Pension Fund Forum</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>	None
<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 The purpose of this report is to consider if the Fund should become a member of the Local Authority Pension Fund Forum.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to express their view on membership of the Local Authority Pension Fund Forum.

## 3.0 Detail

### Introduction

- 3.1 One of the areas of growing importance in the work of this Committee is how it fulfils its role as a responsible investor. Stakeholders, including both scheme employers and scheme members are becoming increasingly vocal in challenging the Committee to ensure it is carrying out its statutory duties with sufficient regard to concerns around environmental, social and corporate governance (ESG) issues.

- 3.2 80 LGPS Pension Funds have joined the Local Authority Pension Fund Forum (LAPFF) as a means of supporting their role as a responsible investor. This report considers whether it is appropriate for the Brent Pension Fund to now sign up as a member to the Forum.

### **MHCLG Guidance on Preparing and Maintaining an Investment Strategy Statement**

- 3.3 When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.
- 3.4 However, the law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors.

### **CIPFA Guidance**

- 3.5 The Myners Principles were updated in 2008 when the original ten principles were distilled down to six principles. Principle 5 relates to Responsible Ownership and in this context the *CIPFA Guide to the application of the revised Myners Principles* says:-

*“Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues. For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.”*

### **The Local Authority Pension Fund Forum (LAPFF)**

- 3.6 The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of local authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:
- Seeks to protect and enhance the value of members shareholdings by optimising LA pension funds' influence as shareholders on ESG issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance
  - Facilitates commissioning of research and policy analysis of issues more effectively than individual members
  - Provides a forum for consultation on shareholder initiatives
  - Provides a forum for information exchange and discussion about any investment issues

- Provides a forum to consider issues of common interest to all pension fund administrators and trustees.
- 3.7 The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.
- 3.8 The Forum currently has 80 local authority members including 29 English counties; 28 London authorities (including the City of London Corporation and the LPFA); 8 English metropolitan/ unitary authorities; 8 Welsh authorities; 4 Scottish authorities; The Environment Agency and 2 passenger transport authorities and 6 LGPS Pools.
- 3.9 LAPFF member funds now control assets of around £230 billion. The annual subscription for each year commencing on April 1<sup>st</sup> is £9,500 but this is reduced on a pro rata throughout the year consequently, the fee for the current year (until 31 March 2020 is now reduced by 25% to £7,125
- 3.10 Benefits of membership would include:-
  - Supporting shareholder value through engagement and activism on issues relating to ESG issues.
  - Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members)
  - Collective and more cost effective approach to research
  - Saving of officer time and cost in researching issues
  - Sharing research costs with 75 Forum member funds
  - Providing a Forum for discussion of any related local government pension fund issue
  - Opportunities for networking with colleagues from all parts of UK and all types of authority
  - Two free places at the LAPFF Annual Conference
  - Facilitating collaboration with other major institutional investor groups both nationally and internationally.
  - The Forum's aims are to provide a customised, cost effective vehicle for local authority pension funds to make their compliance with Myners principle 5 (responsible ownership) more effective.
- 3.11 Membership of LAPFF would further demonstrate the Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value.

#### **4.0 Financial Implications**

- 4.1 If the committee agrees to become a member of the forum the annual cost will be £9,500 (£7,125 in 2019/20) and will be funded by the Pension Fund.

## **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



# London Borough of Brent Pension Fund

## Q1 2019 Investment Monitoring Report

William Marshall, Partner

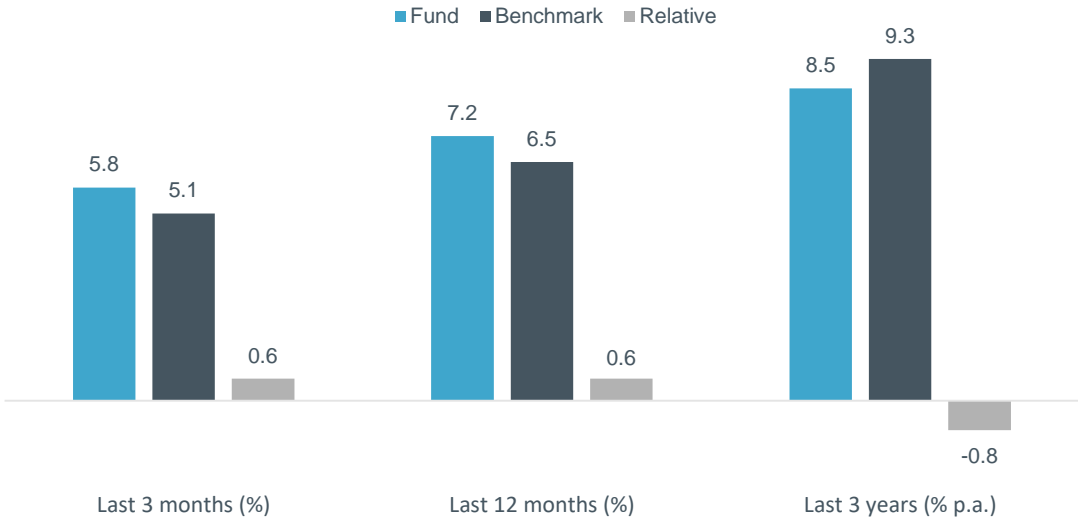
Caoimhe Bain, Associate Consultant

Kameel Kapitan, Associate Consultant

Executive Summary

- Total Fund return ahead of benchmark in the first quarter of 2019
  - Over the quarter the fund grew from just under £839m to just over £856m.
  - In general the Q1 2019 was a supportive environment for assets:
    - Equity markets returned c10%
    - Credit-spreads rebounded
    - Oil prices stabilised higher
  - Key contributors to drive the overall relative outperformance experienced were the two multi-asset growth funds and the reasonably new holding in CQS's multi-asset credit fund.
  - Marginally detracting from relative performance were the funds investments in Henderson Emerging Markets and the two infrastructure funds.
- Key Actions
- The Fund and Committee continue to monitor the infrastructure offering from the LCIV as a means to increasing their allocation in this asset class.
  - As a secondary option, the fund may wish to consider additional commitments to existing managers to build up exposure in the interim.

Performance



Manager Rating Changes

There were no changes to any manager ratings over the quarter.

High Level Asset Allocation

"GrIP"	Current (actual)	Interim Target	Long Term Target
Growth (Equity, DGF)	79.6%**	68.0%	60.0%
Income (Property, Infrastructure)	4.4%	17.0%	25.0%
Protection (Bonds)	16.0%*	15.0%	15.0%

\*Includes 2.7% currently held in cash. \*\*Whilst on the journey to its interim and long term targets, its has been agreed that the Fund will hold the excess assets within the growth portfolio, most notably the Baillie Gifford diversified growth allocation.

Asset Allocation

- Over the first quarter of 2019 further key strategic changes were implemented as the Fund journeys towards the agreed interim target:
- Full divestment from Henderson's Total Return Bonds
- Secondary allocation of c£15m to Henderson's EM equity fund
- Secondary allocation to the LCIV MAC Fund (CQS)
- Full allocation to BlackRock's long term UK Gilts fund
- Interim Target:
  - Growth: 68%
  - Income: 17%
  - Protection: 15%
- Long term Target:
  - Growth: 60%
  - Income: 25%
  - Protection: 15%

**Key Actions**  
With the numerous changes to the strategic allocations in recent months there are no expected divestments or new investments in the next quarter.

However, over the next few quarters the Fund expects to (preferably via the LCIV offerings depending on timescales):

- Increase its allocation to infrastructure
- Increase its exposure to property

Manager	Valuation (£m)		Actual Proportion
	Q4 2018	Q1 2019	
LGIM Global Equity	280.1	307.5	35.9%
LGIM UK Equity	105.4	115.4	13.5%
Capital Dynamics Private Equity	60.5	58.0	6.8%
Baillie Gifford Multi Asset	114.4	121.5	14.2%
Ruffer Multi Asset	47.1	48.6	5.7%
Henderson Emerging Markets	14.5	30.3	3.5%
<b>Total Growth</b>	<b>622.0</b>	<b>681.2</b>	<b>79.6%</b>
Alinda Infrastructure	27.8	25.6	3.0%
Capital Dynamics Infrastructure	11.7	11.4	1.3%
Aviva Property	0.3	0.2	0.0%
<b>Total Income</b>	<b>39.7</b>	<b>37.3</b>	<b>4.4%</b>
Henderson Total Return Bonds	91.6	0.0	0.0%
CQS Multi Credit	17.8	35.5	4.1%
BlackRock UK Gilts Over 15 yrs	0.0	78.7	9.2%
<b>Total Protection</b>	<b>109.4</b>	<b>114.2</b>	<b>13.3%</b>
Cash	67.5	23.5	2.7%
<b>Total Scheme</b>	<b>838.7</b>	<b>856.2</b>	<b>100.0%</b>

- Total Fund return was marginally ahead of benchmark/target for Q1 2019 by 0.7% as investments combined to deliver an absolute return of 5.8%.
- A rebound in equity markets saw strong positive returns in line with benchmark from LGIM's two equity mandates.
- Emerging market equities (Henderson) returned positively at 4.2% over the quarter but lagged behind benchmark and target due to its more defensive position.
- The funds new holding in CQS multi-asset credit provided a positive start with absolute performance of 2.7%.
- Despite, underperformance over the quarter from the Fund's infrastructure holdings, their relatively low proportion of the Fund's holdings resulted in minimal impact on overall performance.
- No performance is reported for Henderson's Total Return Bonds fund due to its complete sale in the quarter.
- No performance is also reported for the Fund's new allocation to BlackRock's over 15 yr UK Gilt fund due to the transition only being completed in March 2019. Performance figures will however be reported next quarter.

Fund performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
LGIM Global Equity	9.8	9.8	0.0	12.1	12.1	0.0	15.3	15.3	0.0
LGIM UK Equity	9.4	9.4	0.0	6.5	6.4	0.1	9.7	9.5	0.2
Capital Dynamics Private Equity	0.0	1.9	-2.0	20.8	8.0	11.9	16.4	8.0	7.7
Baillie Gifford Multi Asset	6.1	1.1	5.0	5.8	4.2	1.5	5.1	4.0	1.1
Ruffer Multi Asset	3.2	1.1	2.1	-0.6	4.2	-4.6			
Henderson Emerging Markets	4.2	7.4	-3.0						
Income									
Alinda Infrastructure				-3.6	8.0	-10.7	-5.5	8.0	-12.5
Capital Dynamics Infrastructure				36.5	8.0	26.4	6.6	8.0	-1.3
Protection									
CQS Multi Credit	2.7	2.5	0.2						
Total	5.8	5.1	0.6	7.2	6.5	0.6	8.5	9.3	-0.8

- Over the quarter we undertook a suitability study of CQS, the LCIV’s multi-asset credit manager. As a result, we have updated their rating to ‘Suitable’ as shown by the chart on this page.
- Over the quarter we downgraded our manager rating for Janus Henderson’s Emerging Market fund from ‘Positive’ to ‘Negative’ (see note below chart).
- All other manager ratings remain consistent with last quarter.

Manager ratings

Manager	Mandate	Hymans Rating
LGIM	Global Equity	Preferred
LGIM	UK Equity	Preferred
Capital Dynamics	Private Equity	Suitable
Baillie Gifford	Multi Asset (LCIV)	Preferred
Ruffer	Multi Asset (LCIV)	Preferred
Janus Henderson	Emerging Markets (LCIV)	Negative
CQS	Multi Credit (LCIV)	Suitable
Alinda	Infrastructure	Not Rated
Capital Dynamics	Infrastructure	Not Rated
Aviva	Property	Suitable
Janus Henderson	Total Return Bonds	Positive

Janus Henderson business update

Over the quarter Janus Henderson announced that its Head of Emerging Market Equities, Glen Finegan, had resigned from the firm. He has been placed on gardening leave and will leave the firm in mid-October. In addition, the remaining emerging markets team will leave the firm at the end of November. Janus Henderson is currently recruiting for a new team.

As a result of these changes, we have downgraded our research rating for Janus Henderson’s Emerging Market fund from ‘Positive’ to ‘Negative’.

LGIM business update

LGIM has announced the appointment of Michelle Scrimgeour as its new CEO, succeeding Mark Zinkula when he retires later this year. This appointment is subject to regulatory approval. Scrimgeour is currently CEO for EMEA at Columbia Threadneedle Investments and has 30 years’ experience at major asset-management firms. Prior to joining Columbia Threadneedle in 2017, she was Chief Risk Officer (“CRO”) at M&G Investments. Scrimgeour joined M&G in 2012 from BlackRock and was a member of the Executive Committee at BlackRock, overseeing the integration of BlackRock and Barclays Global Investors in London.

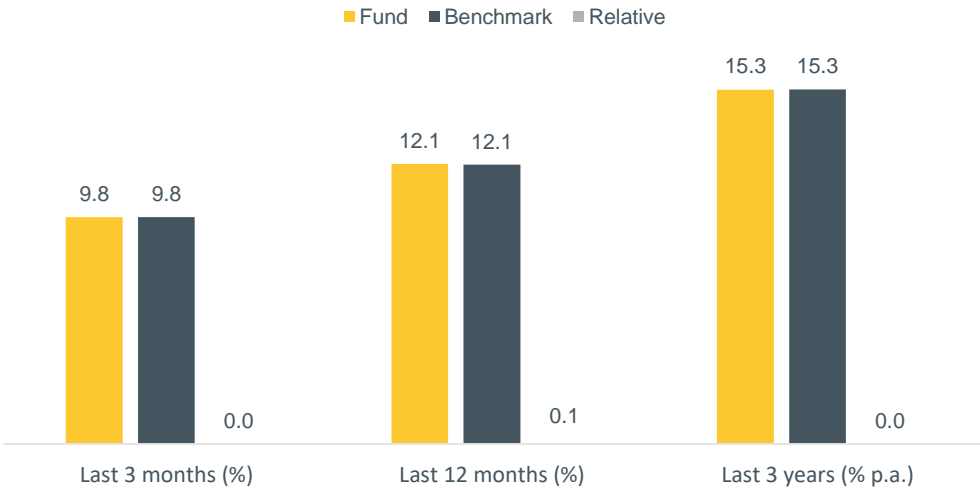
Our initial view is that given LGIM’s predominantly passive business, Scrimgeour’s previous roles seem relevant to the more operational aspects of investment management, so could be a good fit with LGIM’s passive heritage. Nonetheless the appointment is a sizeable step up in terms of scale of the business and breadth of responsibility (in under three years, she will have progressed from CRO to CEO).

In addition, LGIM has announced that its CRO, Simon Pistell, is to take up another risk role within the wider Legal & General Group. LGIM will wait for Scrimgeour to join later in the year before undertaking a process to hire Pistell’s replacement, with Claire Wallace acting as Interim CRO in the meantime.

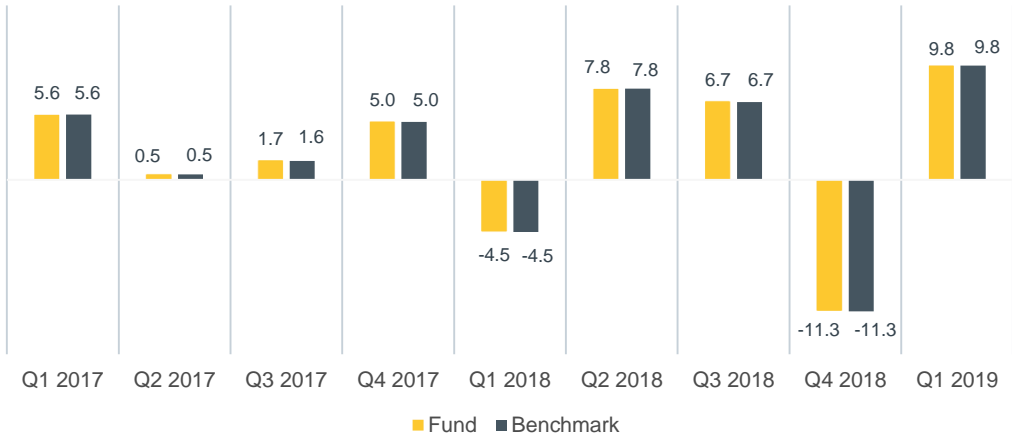
LGIM Global Equity

- Global equity markets performed strongly in the first quarter of 2019 rebounding from the fall experienced at the end of 2018.
- Consistent with expectations, LGIM's Global Equity mandate matched its benchmark over the quarter, delivering a positive absolute return of 9.8%.
- Despite signs of slowing global growth, the new year brought a more optimistic tone across equity markets as global central banks, led by the US Fed, adopted looser monetary policy stances at the start of 2019.
- There was a reversal in fortune for the funds top two technology holdings (Microsoft Corporation and Apple Inc) with returns of 16% and 20% respectively.
- The funds proportion of financial stocks (c20%) however would have detracted from overall return. This sector typically reacts negatively to a lower interest rate outlook.
- We continue to rate LGIM as "preferred".

Fund performance vs benchmark/target



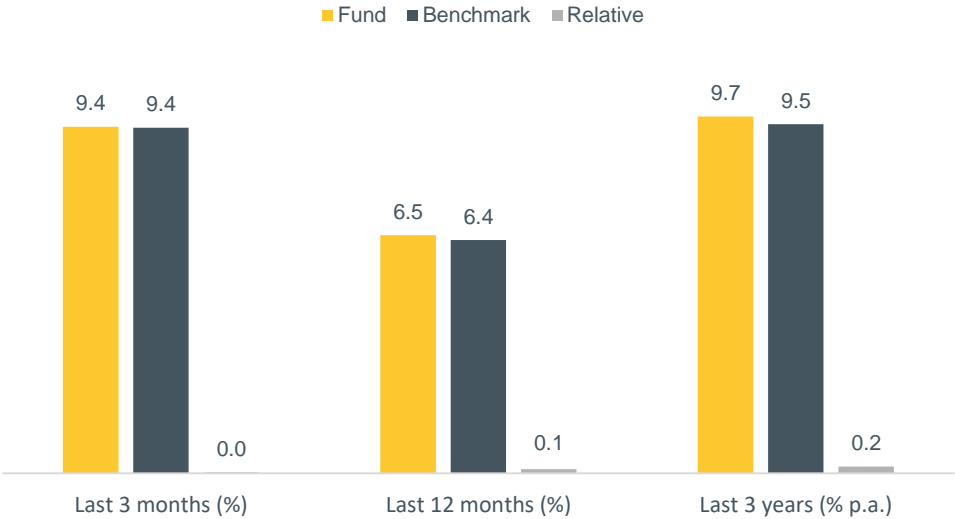
Historical Performance/Benchmark



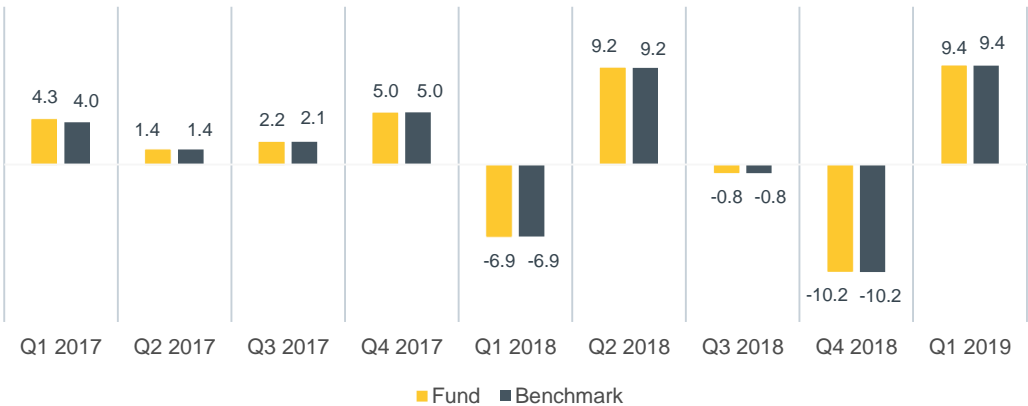
LGIM UK Equity

- The LGIM UK equity fund returned in line with benchmark over the quarter delivering an absolute return of 9.4%.
- Investor sentiment seemed to be buoyed over the quarter as a vote to reject a “no deal” Brexit and an extension of Article 50 were perceived to reduce the risk of a hard Brexit.
- This return was in spite of the above providing a headwind in the form of a stronger Pound Sterling which would have served to dampen returns for the internationally biased FTSE index.
- Contributing to positive performance in the index was the Oil and Gas sector, specifically holdings in BP and Royal Dutch Shell whose share price was supported by an increase in oil price in the quarter.
- We continue to rate LGIM as “preferred”.

Fund performance vs benchmark/target



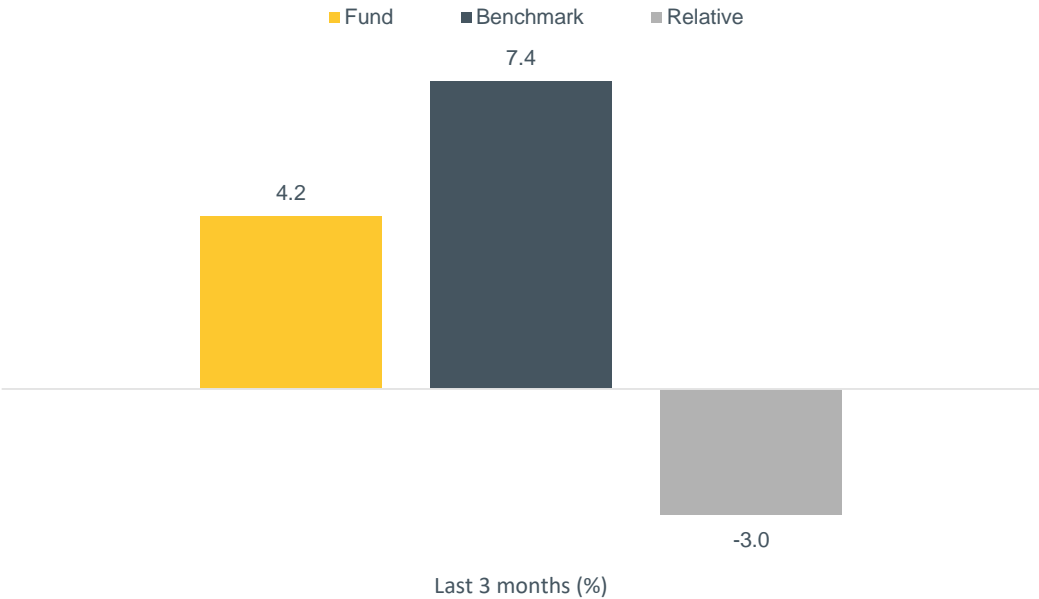
Historical Performance/Benchmark



Henderson Emerging Markets

- This is the first full quarter performance information available since the London Borough of Brent allocated to this fund in November 2018.
- The funds objective is to outperform the MSCI emerging market index by 2.5% p.a.
- Henderson's Emerging Markets fund produced a positive absolute return of 4.2% however this was behind benchmark of 7.4%. In addition, short term performance lags behind target, although relative performance is best assessed over the longer term. One quarter is too short a period to provide valuable insight.
- One of the key detractors from relative performance was the underweight position (zero weight) in technology companies such as Alibaba and Tencent which performed well over the quarter.
- In addition, its underweight position in China hurt relative returns, as the market rallied on US-China trade talks and some stabilisation in oil prices.
- Since 31 March 2019 US-China trade tensions have heightened so such a underweight position may benefit the fund in future.
- We have downgraded the rating for this fund to 'Negative'. Please see 'Manager Ratings' section for a further update.

Fund performance vs benchmark/target

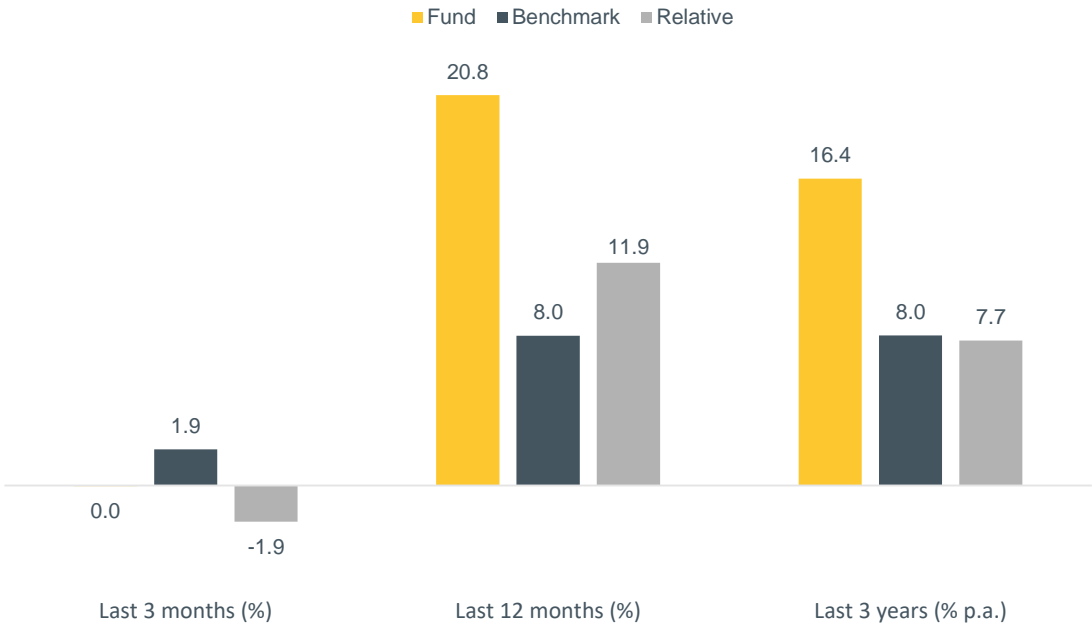




Capital Dynamics Private Equity

- Capital Dynamics invests Brent commitment across a number of different funds providing a well diversified portfolio by geography and style.
- Target: Deliver absolute return of 8.0% p.a.
- Assessing short and medium term performance of private markets can be a challenge. The comments below are based on numbers available to us.
- Capital Dynamics PE fund returned flat over the first quarter of 2019. This was significantly lower than its target of 1.9%.
- However, over a 3 year timeframe annualised return remains strong and ahead of target. Fund return has been 16.4% versus its 8% p.a. target.
- Six distributions were made over Q1 2019 for the following amounts:
  - USD 525,000
  - USD 1,034,000
  - USD 1,204,000
  - EUR 225,000
  - EUR 1,002,000
  - EUR 1,540,000

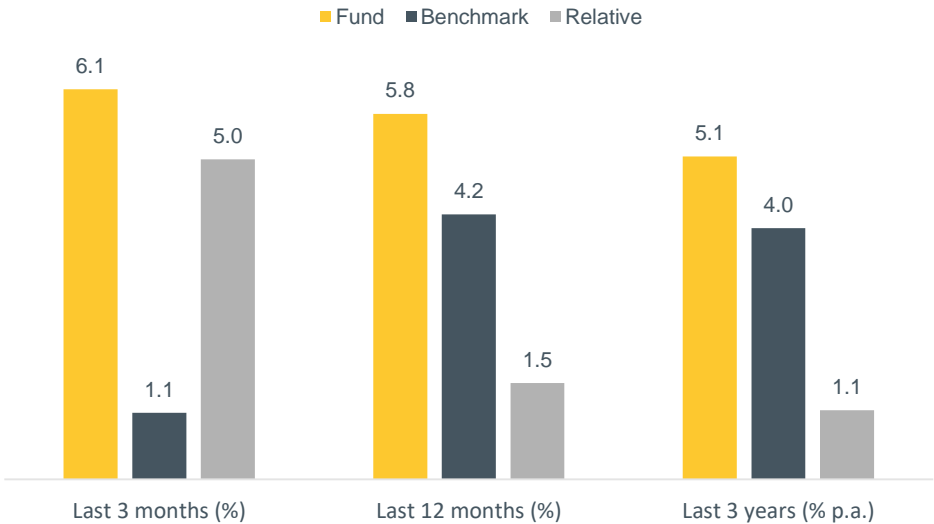
Fund performance vs benchmark/target



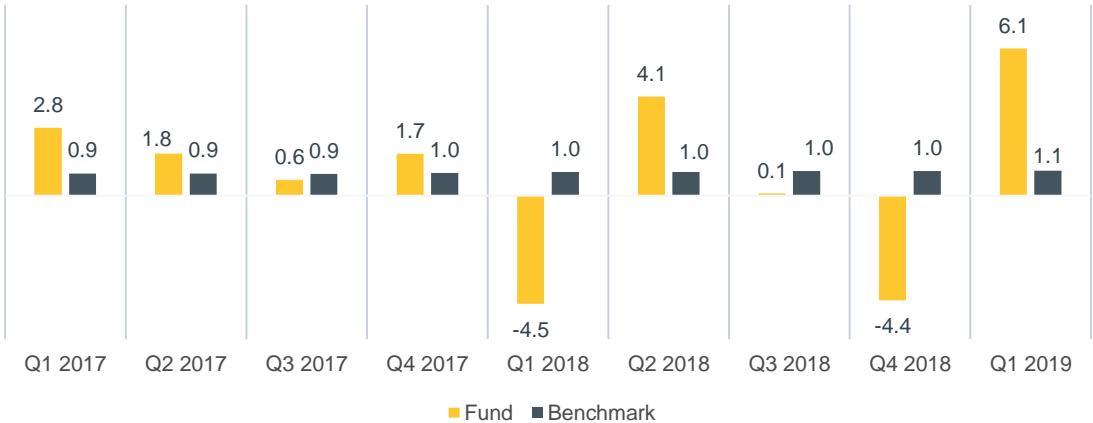
Baillie Gifford Multi-Asset

- Target: Base Rate + 3.5% p.a.
- Baillie Gifford's multi-asset growth fund returned 6.1% in Q1 2019.
- This strong quarter has boosted longer term performance which is now ahead of target. Over a 3 year period, annualised returns are 5.1% versus a current target of 4.0%.
- The fund benefited from certain manager actions taken over the quarter:
  - An increased allocation to emerging markets companies, in particular Chinese companies. China rallied in the first quarter as trade tensions with the US eased.
  - An increase in exposure to European high yield credit which performed well over the quarter as spreads tightened.
- In holding this allocation, the Fund benefited from a quarter where almost all asset classes benefits from a supportive environment.
- Baillie Gifford believe they are well positioned to perform well in a period of moderate growth and inflation.
- We continue to rate Baillie Gifford as 'Preferred'.

Fund performance vs benchmark/target



Historical Performance/Benchmark

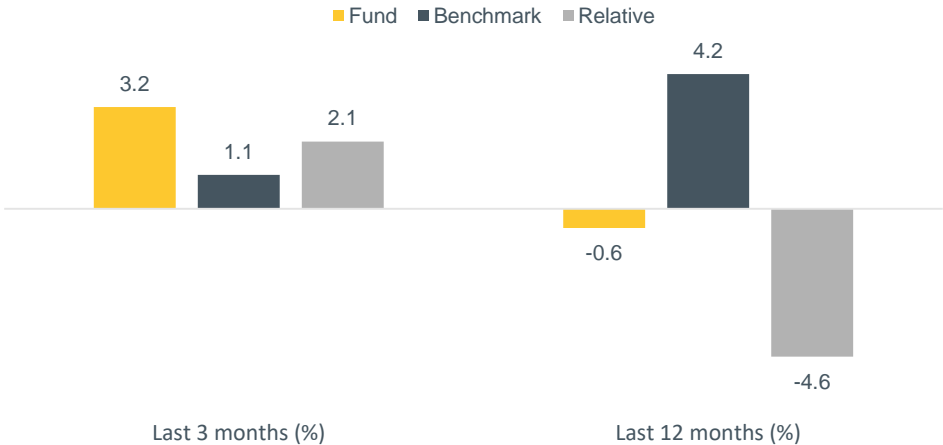


Ruffer Multi-Asset

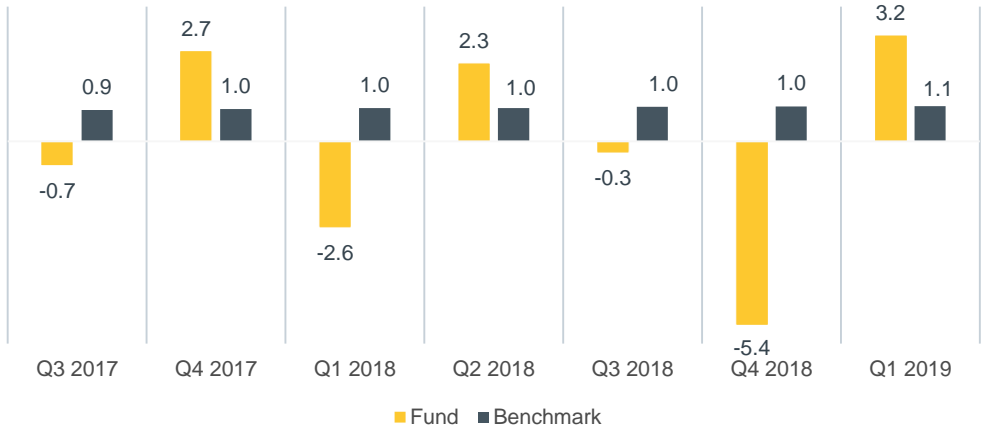
- Target: Base Rate + 3.5% p.a
- In the first quarter of 2019, the Ruffer Multi-asset fund generated an absolute return of 3.2%, comfortably ahead of its base rate + 3.5% p.a. of 1.1%.
- In holding this allocation, the Fund benefited from a quarter where almost all asset classes benefits from a supportive environment.
- The funds c40% holdings in fixed income over the period was one of the key contributors to its positive performance as yields fell over the quarter. In particular, US index-linked bonds returned significantly due to increased inflationary expectations following the Feds dovish monetary policy stance.
- Over the quarter the manager made a strategic allocation change by increasing exposure to European equity based on the view that its US counterparts valuations appear stretched.
- The key detractor from overall performance was the funds equity protection strategy which is in place to provide downside protection from an equity market fall. In a quarter where equity market rallied, such a holding serves to place a drag on performance.

- We continue to rate Ruffer as 'Preferred'

Fund performance vs benchmark/target



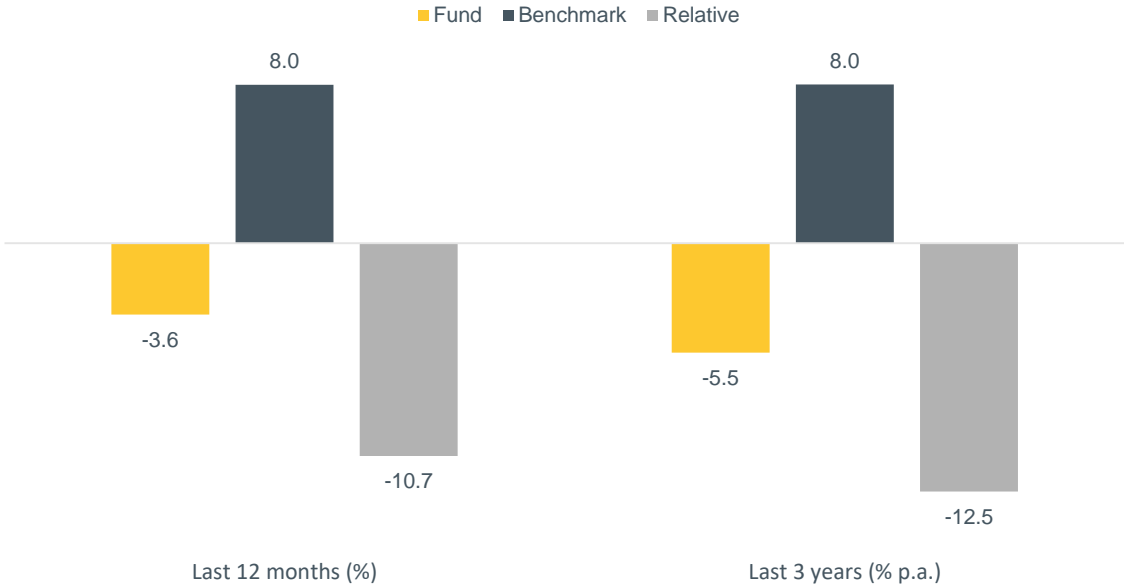
Historical Performance/Benchmark



Alinda Infrastructure

- The Fund is invested in two fund with Alinda, Alinda II and Alinda III. Target absolute return is 8.0% p.a.
- Over the quarter, there were no new investments made in the Alinda II fund. Remaining capital commitment still to be drawn is just under \$4m.
- The Alinda III fund increased its commitment level over the quarter to 75%. It completed its 7<sup>th</sup> acquisition of the fund in the form of a telecom venture in Missouri, United States. Following this commitment, we anticipate there remains around \$10m still to be drawn.
- Following discussions with the manager, we are not aware of any capital calls being made in the next quarter.
- The manager expects the Alinda III fund to deliver 12.2% cash yield per annum for the next 5 years.
- Assessing short and medium term performance of private markets can be a challenge. The return figures are based on numbers available to us.
- Most recent distributions:  
Alinda II: £6,212,201  
Alinda III: £1,333,442

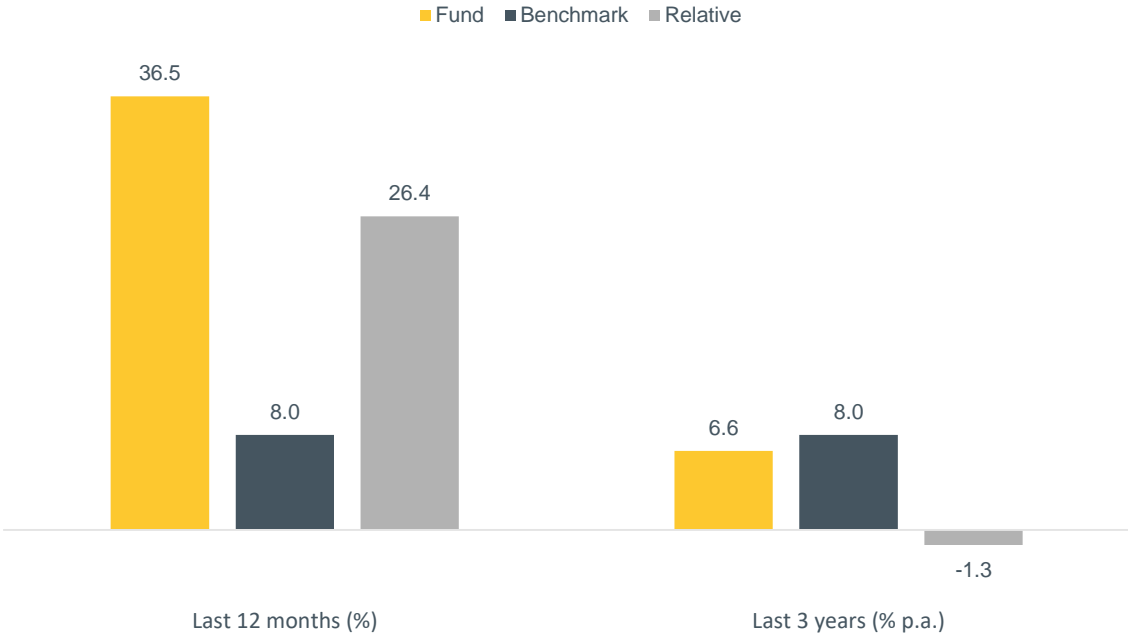
Fund performance vs benchmark/target



Capital Dynamics Infrastructure

- The Fund's holdings are currently solely held within Capital Dynamics Clean Energy and Infrastructure Fund.
- Target: Absolute return of 8.0% p.a.
- No investments were made over the quarter . Of the original capital commitment of \$15m, \$14.67m has been committed.
- We are not aware of any expected commitments over the next quarter.
- Note, infrastructure is a long term investment and short term volatility is to be expected as funds are gradually drawn down. Over the longer term however, we should expect more stable, predictable returns.

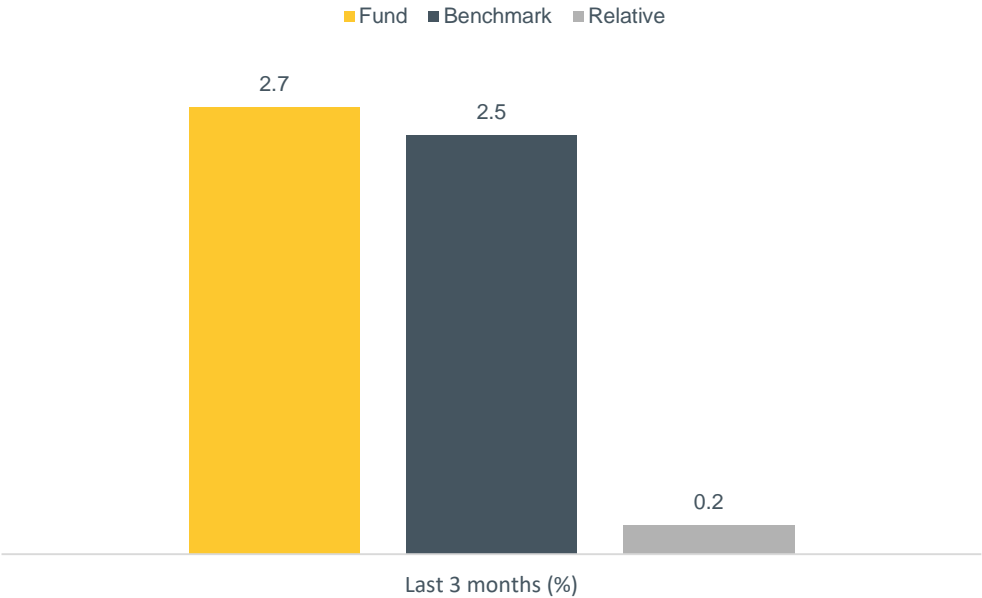
Fund performance vs benchmark/target



CQS Multi Credit

- CQS forms part of the London CIV's multi asset credit offering
- CQS's objective is to return LIBOR + 4.5% p.a. over a rolling 4 year period.
- As part of its strategic allocation journey to a more diversified portfolio, the Fund increased its allocation to the CQS multi-asset credit fund over the quarter.
- Over the period the fund outperformed delivering a absolute return of 2.7% against a target of 2.5%
- One of the key drivers of performance over the quarter was the mangers weighting in loans (over 50%), in particular the US loan market. The US loan market achieved its highest quarterly return since the first quarter of 2010.
- We undertook a suitability study of CQS over the quarter resulting in a manager rating of CQS of 'Suitable'.

Fund performance vs benchmark/target



Global GDP growth continued to slow in the fourth quarter with consensus forecasts being revised downwards for 2019.

Despite a slowdown in US GDP growth, the US has proved more resilient compared to Europe where the German economy has stalled, and Italy has fallen into a recession for the first time since early 2013.

In the UK, Brexit risk continued to hamper business investment with GDP growth decelerating to 0.2% in Q4 from 0.7% in Q3 2018. However, in Q1 2019 this was estimated to have increased by 0.5%.

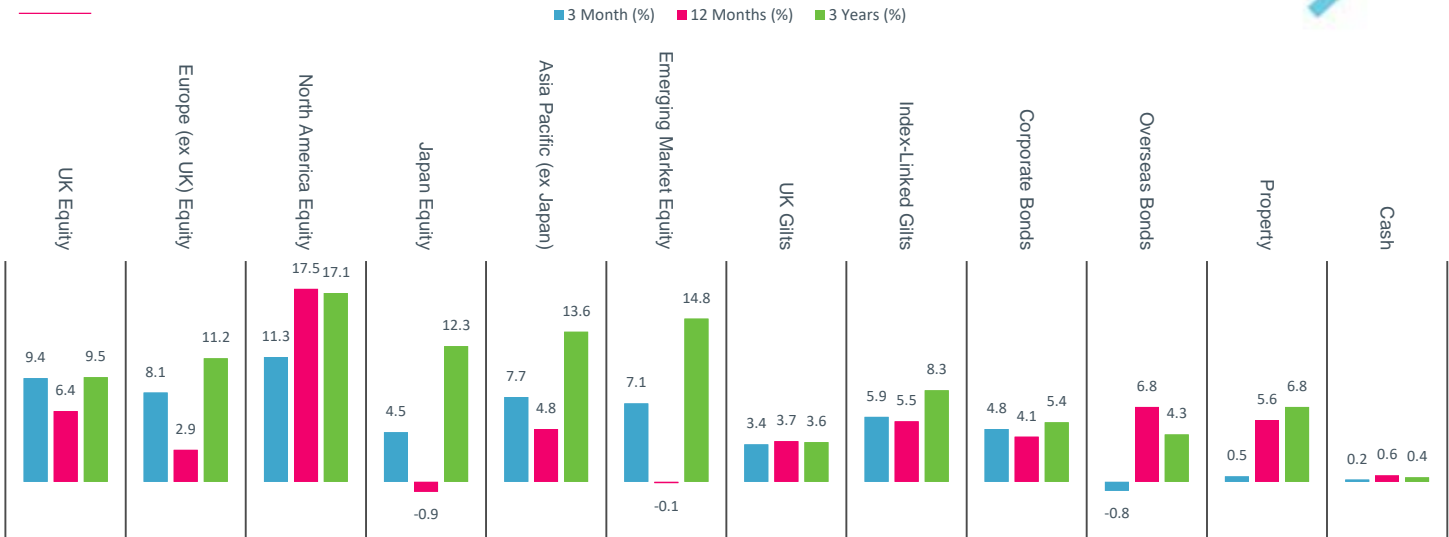
Despite signs of global growth slowing, the new year has brought a more optimistic tone across equity markets. Following their worst quarterly decline since 2011 in Q4 18, stock markets have rebounded strongly with global equities up 12.3% in local currency terms.

North America was the best performing region, whilst Japanese equities lagged as the market's high exposure to global trade continued to weigh on sentiment.

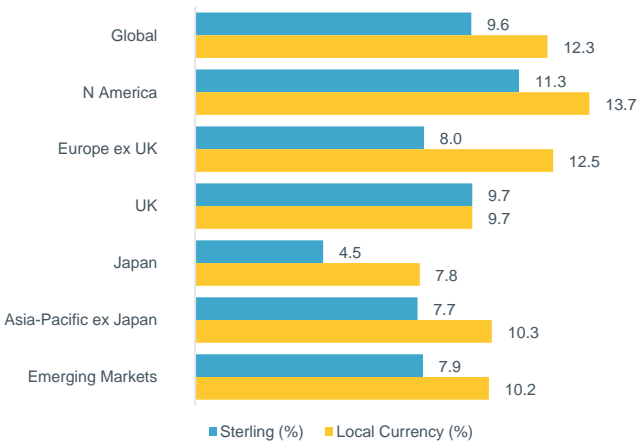
The FTSE All Share returned 9.4% over the quarter despite the strength of sterling being a headwind for the globally exposed larger cap names in the index.

At a sector level, the bounce back in risk assets reversed the trend seen in Q4 as cyclical stocks outperformed more defensive sectors.

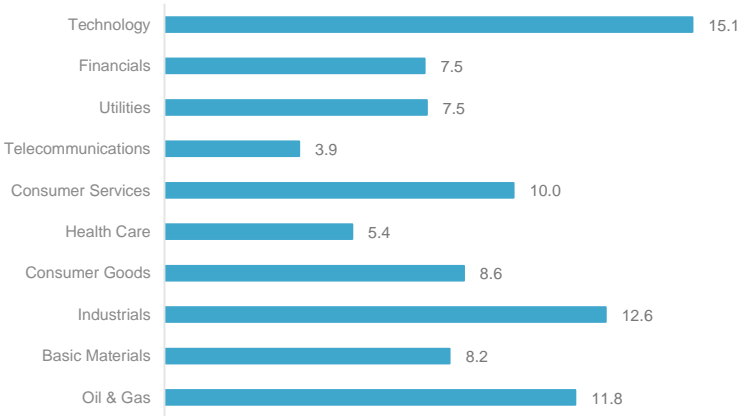
Historic returns for world markets



Regional equity returns



Global sector performance



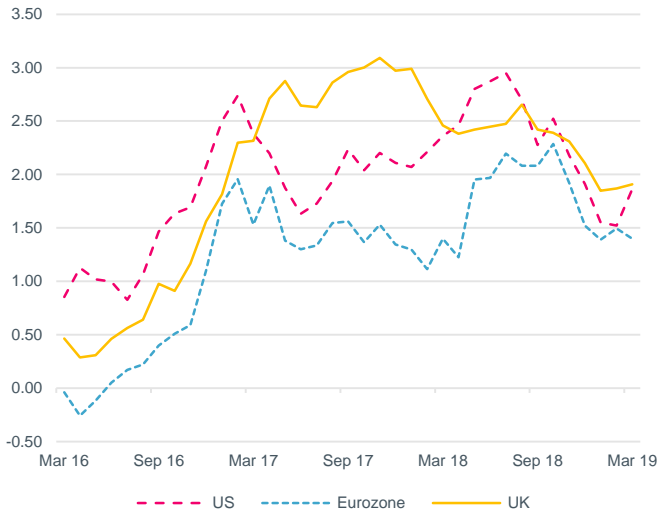
<sup>[1]</sup>All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. <sup>[2]</sup>FTSE All World Indices. <sup>[3]</sup>Relative to FTSE All-World Index.

The beginning of 2019 has seen rental growth remain flat, across all sectors, in the UK property market. Property rents increased marginally in February following two months of small declines. The growth in industrial capital values, which is now slowing, remains insufficient to offset the falling capital values in the retail and office markets. Brent crude stabilised at around \$67 towards the end of the quarter, compared to \$53 at the end-2018, but its sharp decline in the fourth quarter of 2018 has weighed on inflation expectations – consumer price inflation expectations for 2019 have been revised lower in most major developed economies except Japan.

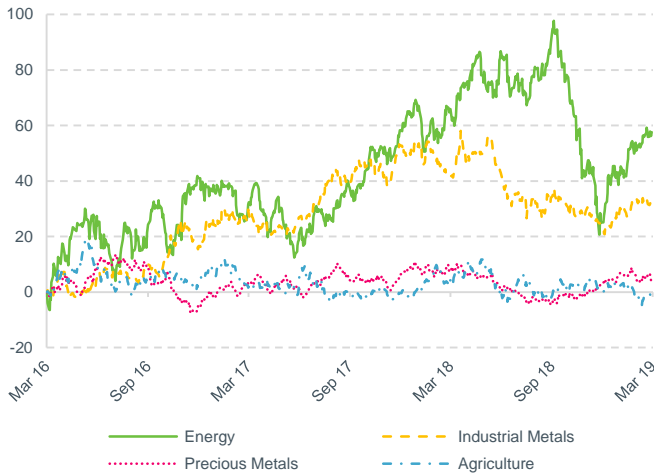
The slow down in global growth and continued absence of inflationary pressures has seen central banks adopt a more dovish stance with the Federal Reserve suggesting that no further rate hikes will take place this year and the ECB indicating no interest rate hikes until 2020. Conventional and index-linked gilt yields fell over the quarter with UK real yields hitting record lows.

Credit markets rebounded strongly from the sharp declines at the end of last year, perhaps an indication that investors are more relieved by the perceived end to monetary tightening than they are concerned by the slowdown in global economic growth. Sub investment grade credit markets outperformed investment grade markets as they benefited from signs of positive developments in the US-China trade talks, some stabilisation in oil-prices, and negative net issuance.

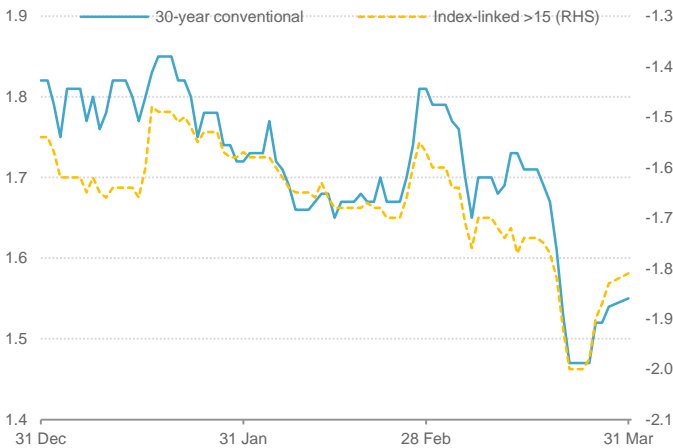
Annual CPI Inflation (% p.a.)



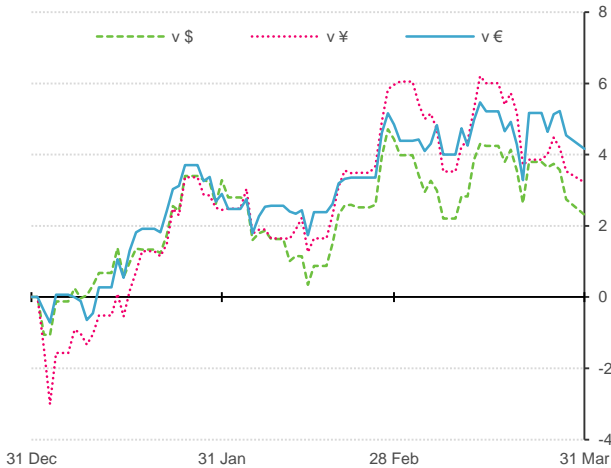
Commodity Prices



Gilt yields chart



Sterling trend chart (% change)





## Appendix


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, investment 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 investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Hymans Rating System	
Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Rating System	
Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

	<b>Pensions Fund Sub-Committee</b> 29 May 2019
	<b>Report from the Chief Finance Officer</b>
<b>Review of Additional Voluntary Contributions</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>	Part Exempt – Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
<b>No. of Appendices:</b>	1 – Review of AVC Arrangements
<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 The purpose of this report is to review and recommend changes to current arrangements for Additional Voluntary Contributions (AVCs) which are provided in addition to the main Local Government Pension Scheme.

## 2.0 Recommendation(s)

- 2.1 That Members of the Committee approve the LGPS specific AVC lifestyle strategy following the closure of the current lifestyle option and changes to the self-select fund range outlined in paragraphs 3.6 – 3.8 of the report.

## 3.0 Detail

- 3.1 Additional Voluntary Contributions (AVCs) are potentially a tax efficient way to save money for your retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension.

- 3.2 AVCs are a flexible way of saving for retirement and are invested in funds, so they have the potential to grow over time. It is important to note that AVC's are separate from the Brent Pension Fund and these investments are not assets of the Fund. The Fund has appointed Prudential as its AVC provider.
- 3.3 As of March 2019, there were 35 members with AVC investments with Prudential, of which 6 members had paid contributions in the period since 1 January 2019.
- 3.4 Prudential have announced the closure of the lifestyle option in 2019 and the Fund must decide on a new lifestyle strategy for those members currently invested and to be available for new members in future. In light of this announcement, the Fund commissioned its investment advisors, Hymans Robertson, to review the lifestyle option in place in light of the changes to lifestyle options being proposed by Prudential. This report is attached in Appendix 1.
- 3.5 It is recommended that the present lifestyle option, where AVCs are invested 100% in a passively managed UK equity fund up to 7 years to retirement and progressively switched from equities to gilts within 7 years of retirement, is discontinued.
- 3.6 It is recommended that the new lifestyle option outlined in Appendix 1 - Section 3, should be adopted as the new option available to members.
- 3.7 This is a LGPS specific AVC lifestyle strategy which better manages investment risks for the typical LGPS AVC member:
- AVC members often build-up large AVC savings by their 50s;
  - Most members will take their AVCs as 100% cash at retirement; and
  - Members' retirements may not take place on their normal retirement date.
- 3.8 In conjunction with this change in the lifestyle option, it is recommended to make the following changes to the self-select fund range in order to ensure the that choice of funds complements the lifestyle option and the range caters for members wanting to take a more active interest in where their AVCs are invested:
- Replace the Prudential Global Equity Fund with the Blackrock (30:70) Global Equity Index Fund used in the new lifestyle option;
  - The addition of the HSBC Islamic Global Equity Fund;
  - The addition of the Prudential/M&G UK Property Fund;
  - The removal of the long dated gilt fund;
  - The addition of the Prudential/M&G All-Stocks Corporate Bond Fund;
  - Replace the Discretionary Fund with the Prudential Dynamic Growth II and IV Funds used in the new lifestyle option.

Further information regarding these recommended change to the self-select fund range are outlined in Appendix 1 - Section 4.

- 3.9 All Prudential AVC members will be directly informed of the changes to the lifestyle and self-select funds. In conjunction with these changes, appropriate consideration will be given to the treatment of members' existing AVCs invested in the current lifestyle option, and any self-select funds that are to be closed.

#### **4.0 Financial Implications**

- 4.1 These are discussed throughout the report.

#### **5.0 Legal Implications**

- 5.1 The administering authority of the LGPS has a duty to ensure that AVC provision offered is such that it provides financial security as well as competitive investment and administrative performance. Members will therefore need to consider whether the changes proposed to the AVC lifestyle strategy and to the self-select fund range as outlined in paragraphs 3.6 – 3.8 meet such requirements.

#### **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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	<b>Pensions Fund Sub-Committee</b> 29 May 2019
	<b>Report from the Chief Finance Officer</b>
<b>Brent Pension Fund: Draft Annual Report and Accounts 2018/19</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 - Annual Report and Accounts 2018/19
<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 presents the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2019.

## 2.0 Recommendation(s)

- 2.1 The Committee is recommended to note this report.

## 3.0 Detail

- 3.1 Attached as appendix 1 are the draft Pension Fund Annual Report and Accounts for the year ended 31 March 2019
- 3.2 The accounts have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) governing the preparation of the 2018/19 financial statements for Local Government Pension Scheme funds. The accounts (which are unaudited) aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019.

3.3 The main items to note are as follows:

- During 2018/19, the value of the Pension Fund's investments has increased to £865m (2017/18 £801m). This is due to the strong performance of the equity markets in comparison to the previous year.
- Total contributions received from employers and employees were £52.1m for the year, an increase on the previous year's £49.9m.
- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £46m, an increase on the previous year's £39m.
- As in 2017/18, the Council is in a positive cash-flow position because its contributions exceed its outgoings to members.

#### **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





## **Brent Pension Fund**

# **Annual Report and Accounts 2018/19**

Pensions Regulator Scheme Number: 10272080

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Page no.

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## **Chairman's Foreword**

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2018/19.

The Fund has 6,756 contributors, 6,730 pensioners and 7,868 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 2018/19, the value of the Pension Fund's investments has increased to £856.4m (2017/18 £831.1m). This is against a backdrop of continued uncertainty in the global economy and volatility in the financial markets. Total contributions received from employers and employees were £52.1m for the year, an increase on the previous year's £49.9m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £45.9m, an increase on the previous year's £38.9m. As in 2017/18, 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
Legal Advisers:	In-house
Custodian:	Northern Trust - 1st July 2015
Actuary:	Hymans Robertson
Independent Adviser:	William Marshall - Hymans Robertson
Fund Managers:	Legal & General Henderson Capital Dynamics Yorkshire Fund Managers London CIV LCIV – Baillie Gifford LCIV - Ruffer Aviva Alinda Blackrock
Banker:	NatWest
Auditor:	Grant Thornton
Performance Measurement:	Northern Trust
AVC Providers:	Prudential Clerical Medical Equitable Life (legacy only)

## **The Local Government Pension Scheme**

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

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

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

This document is the Annual Report and Accounts of the Brent Pension Fund for 2018/19.

### **The LGPS in brief**

- The LGPS is one of the largest public sector pension schemes in the UK, with 5.8 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 90 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 48.

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 48.

### **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 50.

### **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 2019**

<b>Chair:</b>	Cllr S Choudhary
<b>Other Members:</b>	Cllr A Aden Cllr M Daly Cllr V Lo Cllr M Maurice Cllr K Perrin Cllr T Stephens
<b>Employee representatives:</b>	Elizabeth Bankhole (UNISON)
<b>Other attendees:</b>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance William Marshall, 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, Local Pensions Partnership (LPP). 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 53.

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 2018/19, the most commonly applied employer contribution rate within the Brent Pension Fund was 33.8% of pensionable pay and this will increase to 35.0% in 2019/20. 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.

## **Market and Economic Commentary 2018/19**

GDP data over the 12-month period confirms that global growth has moderated with forecasts being revised lower for 2019. US growth has remained relatively robust while growth slowed more markedly in Europe and Japan. Brexit risk appears to be causing a deferral of investment as the UK economy grew at its slowest pace in several years in 2018.

Oil prices rose to a peak of \$86 per barrel in October, before plummeting to \$53 towards the end of 2018. Despite a sharp recovery in oil prices in 2019, consumer price inflation expectations for 2019 have also been revised lower in most major developed economies.

The Fed continued its gradual tightening of monetary policy over the period, the Bank of England also raised interest rates in August. However, slowing global growth and inflation saw central banks, led by Fed, adopt more dovish stances at the beginning of 2019.

The strength of the US dollar, and to a lesser extent the Japanese yen, were key features of the foreign exchange market for much of the year. Despite continued uncertainty surrounding Brexit, Sterling drifted only marginally lower in trade weighted terms.

US 10-year treasury yields reached their highest level for seven years in early October before yields fell sharply towards the end of the period amid slowing global growth. Equivalent UK yields followed this pattern, ending the period at their lowest level since Q3 2017.

Total returns in credit markets were positive, though credit spreads moved wider. Speculative-grade credit spreads rose more than their investment-grade peers, particularly in the European high yield market where specific political risks led to greater widening in 2018.

Having risen to record highs, equity markets fell steeply in the fourth quarter of 2018, before rebounding strongly in the first 3 months of 2019 as global central bank rhetoric turned more dovish - global equity returned to positive territory with the FTSE All-World index returning 5.9% year-on-year (10.7% in Sterling terms).

Japan was the worst performing region as the strength of the yen and slowing growth in Europe and China weighed on exporters while North America outperformed. The more defensive utility and healthcare sectors outperformed while financials performed worst.

UK commercial property market returns slowed to 5.6% year-on-year, with the capital value index only marginally positive. Capital values and rents in the retail sector continue to fall - down over 8% and 3.5% respectively year-on-year. Even in the industrial sector, where investment demand remains strong, capital value growth and rental growth are slowing.

# Investment Policy and Performance

## Fund Performance Review for the year 2018/19

### Introduction

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

During 2018/19, 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)
- LCIV CQS (Multi Asset Credit)
- Aviva (property)
- Alinda (infrastructure)
- Blackrock

The cash balance is deposited with money market funds and through short term lending to local authorities.

## 2018/19 Investment Results

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2019 is shown below:

	Total Fund Return %	Fund Benchmark Return %
1 year	7.2	6.5
3 years	8.5	9.3
5 years	7.7	8.2

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 19	PIRC Local authority Average
1 year	TBC	TBC	TBC
3 years	TBC	TBC	TBC
5 years	TBC	TBC	TBC
10 years	TBC	TBC	TBC

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
2018/19	TBC	8.5
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.

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. Further information can be found in the Investment Strategy Statement.

## 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 64.

### **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 101 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 Accounts

Pension Fund Accounts as at 31 March 2019

2017/18 £m		Notes	2018/19 £m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(49.9)	Contributions	7	(52.1)
(3.6)	Transfers in from other pension funds	8	(2.8)
<b>(53.5)</b>			<b>(54.9)</b>
38.9	Benefits	9	45.9
36.1	Payments to and on account of leavers	10	1.8
<b>75.0</b>			<b>47.7</b>
<b>21.5</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(7.2)</b>
4.3	Management expenses	11	6.8
<b>25.8</b>	<b>Net (additions)/withdrawals including management expenses</b>		<b>(0.4)</b>
	<b>Returns on investments</b>		
(1.2)	Investment income	12	(1.4)
0.3	Taxes on income	13	0.0
(22.4)	(Profits) and losses on disposal of investments and changes in the market value of investments	14	(61.7)
<b>(23.3)</b>	<b>Net return on investments</b>		<b>(63.1)</b>
	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(63.5)</b>
<b>2.5</b>			
<b>(803.6)</b>	<b>Opening net assets of the scheme</b>		<b>(801.1)</b>
<b>(801.1)</b>	<b>Closing net assets of the scheme</b>		<b>(864.6)</b>

## Net Assets Statement

31 March 2018 £m		Notes	31 March 2019 £m
831.3	Investment assets	14	856.4
<b>831.3</b>			<b>856.4</b>
1.4	Current assets	20	9.1
0.0	Non-current assets	20	0.0
(31.6)	Current liabilities	21	(0.9)
<b>801.1</b>	<b>Net assets of the fund available to fund benefits at the period end</b>		<b>864.6</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). The transfer amount was initially estimated at £30.9m as at 31<sup>st</sup> March 2018. A revised figure was provided in January 2019 of £30.8m and the payment was made in February 2019.

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2019, 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 40 employer organisations with active members within the Brent Pension Fund at 31 March 2019, listed below:

#### **Scheduled bodies**

London Borough of Brent  
Alperton High School  
ARK Academy  
ARK Franklin Academy  
ARK Elvin Academy  
Braintcroft School  
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  
Newman Catholic College  
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

The Village 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)  
Caterlink LTD  
National Autistic Society  
Local Employment Access Project (LEAP)  
Sudbury Neighbourhood Centre  
Wetton Cleaning Services  
Veolia  
Xerox (UK) Limited  
Barnardos  
Taylor Shaw  
Wettons Ground Maintenance

31 March 2018	Brent Pension Fund	31 March 2019
35	Number of employers with active members	40
	<b>Number of employees in scheme</b>	
4,412	Brent Council	4996
1,835	Other employers	1760
<b>6,247</b>	<b>Total</b>	<b>6756</b>
	<b>Number of pensioners</b>	
5,666	Brent Council	6274
636	Other employers	456
<b>6,302</b>	<b>Total</b>	<b>6730</b>
	<b>Deferred pensioners</b>	
6,923	Brent Council	7790
990	Other employers	913
<b>7,913</b>	<b>Total</b>	<b>7868</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 2019. 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 2018/19, the most commonly applied employer contribution rate within the Brent Pension Fund was 33.8% 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 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 2019 was £95m (£98m at 31 March 2018).

##### 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<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 £176m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £19m, and a one-year increase in assumed life expectancy would increase the liability by approximately £73m.
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 £95m. There is a risk that this investment may be under- or overstated in the accounts.
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#### *6. Events after the Balance Sheet date*

There have been no events since 31 March 2019, and up to the date when these accounts were authorised that require any adjustments to these accounts.



## 7. Contributions receivable

### By category

	2017/18 £m	2018/19 £m
Employees' contributions	8.1	9.2
Employers' contributions:		
Normal contributions	38.9	39.7
Deficit recovery contributions	1.7	1.7
Augmentation contributions	1.2	1.5
Total employers' contributions	41.7	42.9
<b>Total</b>	<b>49.9</b>	<b>52.1</b>

### By authority

	2017/18 £m	2018/19 £m
Administering Authority	39.0	42.0
Scheduled bodies	8.9	8.5
Admitted bodies	2.0	1.6
<b>Total</b>	<b>49.9</b>	<b>52.1</b>

## 8. Transfers in from other pension funds

	2017/18 £m	2018/19 £m
Individual transfers	3.6	2.8
<b>Total</b>	<b>3.6</b>	<b>2.8</b>

## 9. Benefits payable

### By category

	2017/18 £m	2018/19 £m
Pensions	34.4	37.7
Commutation and lump sum retirement benefits	4.3	7.1
Lump sum death benefits	0.3	1.1
<b>Total</b>	<b>39.0</b>	<b>45.9</b>

### By authority

	2017/18 £m	2018/19 £m
Administering Authority and Scheduled bodies	37.6	44.1
Admitted bodies	1.4	1.8
<b>Total</b>	<b>39.0</b>	<b>45.9</b>

#### 10. Payments to and on account of leavers

	2017/18	2018/19
	£m	£m
Individual transfers	5.0	1.8
Refunds to members leaving service	0.2	0.1
Group transfers	30.9	(0.1)
<b>Total</b>	<b>36.1</b>	<b>1.8</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. In February 2019, the figure was revised to £30.8m, resulting in a surplus of £0.1m compared to the figure estimated in March 2018.

#### 11. Management Expenses

	2017/18	2018/19
	£m	£m
Administration costs	0.7	1.2
Investment management expenses	3.5	3.2
Oversight and Governance costs	0.1	0.2
Accounting adjustments	0.0	2.2
<b>Total</b>	<b>4.3</b>	<b>6.8</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 £16.5k (21k 2017/18)

##### a) Investment management expenses

	2017/18	2018/19
	£m	£m
Management Fees	3.4	2.7
Custody Fees	0.0	0.1
One-off Transaction Costs	0.0	0.4
<b>Total</b>	<b>3.4</b>	<b>3.2</b>

Management Fees are charged periodically as a percentage of the value of the assets invested in each fund. 2018/19 saw the implementation of a new investment strategy, with a number of new investments being purchased and sold in the 2<sup>nd</sup> half of the year, resulting in lower overall management fees, however increasing the amount of transaction fees incurred. New investments were done through the London CIV, allowing the Fund to benefit from lower overall fees.

One-off transactions costs are associated with implementing the funds new investment strategy which involved selling existing investments and buying new investments.

## 12. Investment income

	2017/18 £m	2018/19 £m
Dividend income private equities/infrastructure	0.4	0.2
Income from Pooled property investments	0.3	0.5
Income from private equities/infrastructure	0.3	0.2
Interest on cash deposits	0.2	0.5
<b>Total</b>	<b>1.2</b>	<b>1.4</b>

## 13. Taxes on income

	2017/18 £m	2018/19 £m
Withholding tax	0.3	0.0
<b>Total</b>	<b>0.3</b>	<b>0.0</b>

## 14. Investments

	Market value 31 March 2018 £m	Market value 31 March 2019 £m
<b>Investment assets</b>		
Pooled investments	636.9	737.7
Pooled property investments	2.1	0.2
Private equity/infrastructure	98.3	95.0
<b>Total investments</b>	<b>737.3</b>	<b>832.9</b>

### a) Investments 18/19

	Market value 1 April 2018 £m	Purchases during the year £m	Sales during the year £m	Change in market value during the year £m	Market value 31 March 2019 £m
<b>Pooled investments</b>	636.9	181.9	(122.0)	40.9	737.7
<b>Pooled property investments</b>	2.1	0.0	(1.4)	(0.5)	0.2
<b>Private equity/infrastructure</b>	98.3	6.1	(30.7)	21.3	95.0
	<b>737.3</b>	<b>188.0</b>	<b>(154.1)</b>	<b>61.7</b>	<b>832.9</b>
<b>Other Investment balances:</b>					
<b>Cash Deposit</b>	<b>94.0</b>				<b>23.5</b>
<b>Investment Income due</b>	<b>0.0</b>				<b>0.0</b>
<b>Net investment assets</b>	<b>831.3</b>				<b>856.4</b>

## Investments 17/18

	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018
	£m	£m	£m	£m	£m
<b>Pooled investments</b>	620.3	0.0	(1.1)	17.8	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	(44.4)	8.3	98.3
	<b>754.2</b>	<b>4.2</b>	<b>(46.4)</b>	<b>25.5</b>	<b>737.3</b>
<b>Other Investment balances:</b>					
<b>Cash Deposit</b>	47.5				94.0
<b>Investment Income due</b>	1.0				0.0
<b>Net investment assets</b>	<b>802.7</b>				<b>831.3</b>

### b) Analysis of investments by category

	31 March 2018 £m	31 March 2019 £m
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Fixed income unit trust – Public Sector	27.1	35.5
Fixed income unit trust – Other	67.1	
Unit trusts	140.1	224.6
Diversified growth funds	128.3	170.1
<b>Overseas</b>		
Unit trusts	274.3	307.5
<b>Total Pooled funds</b>	<b>636.9</b>	<b>737.7</b>
<b>Pooled property investments</b>	<b>2.1</b>	<b>0.2</b>
<b>Private equity/infrastructure</b>	<b>98.3</b>	<b>95.0</b>
<b>Total investments</b>	<b>737.3</b>	<b>832.9</b>

### Investments analysed by fund manager

## Market value

31 March 2018			31 March 2019		
£m	%		£m	%	
382.7	51.9	Legal & General	422.9	50.8%	
0.2	0.0	London CIV	0.2	0.0%	
125.7	17.1	Henderson	30.3	3.6%	
72.9	9.9	Capital Dynamics	69.4	8.3%	
0.5	0.1	Yorkshire Fund Managers	0.0	0.0%	
79.5	10.8	LCIV - Baillie Gifford	121.5	14.6%	
48.8	6.6	LCIV - Ruffer	48.6	5.8%	
0.0	0.0	LCIV- MAC (CQS)	35.5	4.3%	
2.1	0.3	Aviva	0.2	0.0%	
24.9	3.4	Alinda	25.6	3.1%	
0	0	Blackrock	78.7	9.4%	
<b>737.3</b>	<b>100.0</b>		<b>832.9</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
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £m	Value on increase £m	Value of decrease £m
Private equity	28%	58.0	74.2	41.8
Infrastructure	20%	37.0	44.8	29.2

### 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	
<b>Values at 31 March 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	0.0	737.9	95.0	832.9
Loans and receivables	23.5	0.0	0.0	23.5
<b>Total financial assets</b>	<b>23.5</b>	<b>737.9</b>	<b>95.0</b>	<b>856.4</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost	(0.9)			(0.9)
<b>Total financial liabilities</b>	<b>(0.9)</b>			<b>(0.9)</b>
<b>Net financial assets</b>	<b>22.6</b>	<b>737.9</b>	<b>95.0</b>	<b>855.5</b>
	<b>Quoted market price</b>	<b>Using observable inputs</b>	<b>With significant unobservable inputs</b>	
<b>Values at 31 March 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss		639.0	98.3	737.3
Loans and receivables	95.4			95.4
<b>Total financial assets</b>	<b>95.4</b>	<b>639.0</b>	<b>98.3</b>	<b>832.7</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>63.8</b>	<b>639.0</b>	<b>98.3</b>	<b>801.1</b>

#### 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 2018	98.3
Transfers into Level 3	0
Transfers out of Level 3	0
Purchases	6.1
Sales	(30.7)
Issues	0
Settlements	0
Unrealised gains/losses	0
Realised gains/losses	21.3
Value at 31 March 2019	95.0

#### 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 2018			31 March 2019		
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>					
636.9			737.7		
2.1			0.2		
98.3			95.0		
	94.0			23.5	
	1.4			9.1	
<b>737.3</b>	<b>95.4</b>	<b>0.0</b>	<b>832.9</b>	<b>32.6</b>	<b>0.0</b>
<b>Financial Liabilities</b>					
		(31.6)			(0.9)
<b>737.3</b>	<b>95.4</b>	<b>(31.6)</b>	<b>832.9</b>	<b>32.6</b>	<b>(0.9)</b>
<b>Totals</b>			<b>Totals</b>		

#### a) Net gains and losses on financial instruments

31 March 2018 £m		31 March 2019 £m
	<b>Financial assets</b>	
25.4	Fair value through profit and loss	61.7
<b>25.4</b>	<b>Total</b>	<b>61.7</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 2018			31 March 2019	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		<b>Financial assets</b>		
737.3	737.3	Fair value through profit & loss	832.9	832.9
95.4	95.4	Loans and receivables	32.6	32.6
<b>832.7</b>	<b>832.7</b>	<b>Total financial assets</b>	<b>865.5</b>	<b>865.5</b>
		<b>Financial liabilities</b>		
(31.6)	(31.6)	Financial liabilities at amortised cost	(0.9)	(0.9)
<b>(31.6)</b>	<b>(31.6)</b>	<b>Total financial liabilities</b>	<b>(0.9)</b>	<b>(0.9)</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 2018/19 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>31/03/2019 Value (£m)</b>	<b>Potential market movements (+/-)</b>
Bonds	35.5	9.7%
Equities	532.1	16.9%
Other Pooled investments	170.1	6.6%
Pooled Property investments	0.2	14.3%
Private Equity	95.0	28.3%

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>31/03/2019 Value (£m)</b>	<b>Potential value on increase (£m)</b>	<b>Potential value on decrease (£m)</b>
Bonds	35.5	38.9	35.2
Equities	532.1	622.0	516.9
Other Pooled investments	170.1	181.3	169.4
Pooled Property investments	0.2	0.2	0.2
Private Equity	95.0	121.9	87.4
<b>Total</b>	<b>832.9</b>	<b>964.4</b>	<b>809.0</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 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	<b>31 March 2018 £m</b>	<b>31 March 2019 £m</b>
Cash balances	94.0	23.5
UK Fixed income unit trust	94.1	35.5
<b>Total</b>	<b>188.1</b>	<b>59.0</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2019 £m</b>	<b>Change in year in the net assets available to pay benefits</b>	
		<b>+100 BPS £m</b>	<b>-100 BPS £m</b>
Cash balances	23.5	0.2	(0.2)
UK Fixed income unit trust	35.5	0.4	(0.4)
<b>Total change in assets available</b>	<b>59.0</b>	<b>0.6</b>	<b>(0.6)</b>

Asset type	Carrying amount as at 31 March 2018  £m	Change in year in the net assets available to pay benefits	
		+100 BPS £m	-100 BPS £m
Cash balances	94.0	0.9	(0.9)
UK Fixed income unit trust	94.1	0.9	(0.9)
<b>Total change in assets available</b>	<b>188.1</b>	<b>1.8</b>	<b>(1.8)</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 2019 and as at the previous period end:

Currency risk exposure – asset type	Asset value at 31 March 2018	Asset value at 31 March 2019
	£m	£m
Overseas unit trusts	274.3	307.5
Overseas pooled property investments	2.1	0.2
Overseas private equity/infrastructure	98.3	95.0
<b>Total overseas assets</b>	<b>374.7</b>	<b>402.7</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 2019  £m	Change to net assets available to pay benefits	
		+1% £m	-1% £m
Overseas unit trusts	307.5	3.1	(3.1)
Overseas pooled property investments	0.2	0.0	(0.0)
Overseas private equity/infrastructure	95.0	1.0	(1.0)
<b>Total change in assets available</b>	<b>402.7</b>	<b>4.1</b>	<b>(4.1)</b>

	Asset value as at 31 March 2018	Change to net assets available to pay benefits	
	£m	+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>

#### 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 2019 was £34.2m (31 March 2018: £94m). This was held with the following institutions:

	Rating	Balances as at 31 March 2018 £m	Balances as at 31 March 2019 £m
<b>Bank deposit accounts</b>			
NatWest	BBB+	(1.5)	2.0
Northern Trust		6.6	5.6
Money Market deposits	A+	48.9	24.9
<b>Other short-term lending</b>			
Local authorities		40.0	35.0
<b>Total</b>		<b>94.0</b>	<b>67.5</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 2019 the value of illiquid assets was £95.2m, which represented 11% (31 March 2018: £100.4m, which represented 12%) 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 2019 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 2019 was £1,823m (31 March 2018: £1,680m). 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	2.5%
Salary increase rate	2.8%
Discount rate	2.8%

#### **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

<b>Sensitivity to the assumptions for the year ended 31 March 2019</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount (£m)</b>
0.5% p.a. increase in the Pension Increase Rate (CPI)	8%	129.5
0.5% p.a. increase in the Salary Increase Rate	1%	13.6
0.5% p.a. decrease in the discount rate	9%	144.4

## 20. Assets

### a) Current assets

	<b>31 March 2018 £m</b>	<b>31 March 2019 £m</b>
Debtors:		
- Contributions due – employees	0.2	1.3
- Contributions due – employers	1.0	7.0
- Sundry debtors	0.2	0.8
<b>Total</b>	<b>1.4</b>	<b>9.1</b>

### Analysis of debtors

	<b>31 March 2018 £m</b>	<b>31 March 2019 £m</b>
Central government bodies	0.0	0.1
Other local authorities	1.4	9.0
Other entities and individuals	0.0	0.0
<b>Total</b>	<b>1.4</b>	<b>9.1</b>

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 2018 £m</b>	<b>31 March 2019 £m</b>
Payments to and on account of leavers	30.9	(0.1)
- Group transfers		
Sundry creditors	0.7	1.0
<b>Total</b>	<b>31.6</b>	<b>0.9</b>

### Analysis of creditors

	<b>31 March 2018 £m</b>	<b>31 March 2019 £m</b>
College of North West London	30.9	(0.1)
Other entities and individuals	0.7	1.0
<b>Total</b>	<b>31.6</b>	<b>0.9</b>

## 22. Additional voluntary contributions

	Market value 31 March 2018 £m	Market value 31 March 2019 £m
Clerical Medical	1.2	1.2
Equitable Life	0.2	0.2
Prudential	0.1	0.3
<b>Total</b>	<b>1.5</b>	<b>1.7</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 £0.796m (2017/18: £0.680m) 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 £32.5m to the Fund in 2018/19 (2017/18: £30.7m).

### 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 2019.

## 25. Contingent Assets

Outstanding capital commitments (investments) at 31 March 2019 totalled £26.9m (31 March 2018: £29.5m).

	31 March 2018	31 March 2019
	£m	£m
Capital Dynamics	13.0	14.1
Alinda Fund I	2.9	2.9
Alinda Fund II	13.6	9.9
<b>Total</b>	<b>29.5</b>	<b>26.9</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 2018	31 March 2019
	£'000	£'000
Apleona HSG Ltd (previously Bilfinger and Europa)	0.1	0.1
Capita Business Services Limited	0.1	0.1
Conway Aecom	0.1	0.1
<b>Total</b>	<b>0.3</b>	<b>0.3</b>

## 26. *Impairment Losses*

The Fund had no contingent liabilities at 31 March 2019.

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## **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 2018/19 ('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 15 to 45 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 2019.

**Conrad Hall CPFA**  
Chief Finance Officer  
Date TBC

**Independent auditor’s report**

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## Appendices

### Annual Governance Statement

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

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

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

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



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

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

- the Council as Administering Authority and the largest employer with 81% of the contributing membership
- other employers with 19% of the membership, and
- the Fund's contributors.

The Pension Fund Sub-Committee consists of:

- seven Brent councillors
- a representative of other employers

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.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: <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>	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.  The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.
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.

Ref.	Principles	Compliance and comments
<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.
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.

Ref.	Principles	Compliance and comments
<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

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to their stakeholders.

The Communications Strategy is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulation 2013. The provision requires the Administering Authority to:

- (1) Prepare, Maintain and publish a written statement setting out its policy concerning communications with:
  - (a) Members
  - (b) Representatives of members
  - (c) Prospective members
  - (d) Scheme employers
- (2) In particular the statement must set out its policy on:
  - (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers
  - (b) the format, frequency and method of distributing such information or publicity; and
  - (c) the promotion of the Scheme to prospective members and their employers

The Fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication.

## Pension Fund Administration

From October 2018, the London Borough of Brent delegated the pension administration service to Lancashire County Council (LCC) who have engaged the Local Pensions Partnership (LPP) to undertake their pensions portfolio. LPP was formed in 2016 through a collaboration between LCC and the London Pensions Fund Authority (LPFA) and provides pension services to the Local Government Pension Scheme, police, firefighters and other public sector funds.

## Communication Responsibilities and Resources

The provision of timely, relevant information in a suitable format is key to ensuring efficient and effective communications. It is important that we consider the costs in terms of resource and staff time for all communications and work with the LPP to ensure there are appropriate systems and processes in place to facilitate these communications with our stakeholders.

### Communications with Scheme Members

Our aims for communicating with our scheme members are:

- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team
- to encourage the use of the pension scheme website and registration to My Pension Online - Member Self Service.

The Key actions will be:

- continual review of employee communication methods to ensure they are effective and efficient
- on-going promotion of the Brent Pension Scheme website and Member Self Service
- Working with LPP to ensure communications are relevant and timely

Action	Audience	Media	End of Year Review 2019
Review and update the pension website <a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a>	All	Web	
Promote the use of the pension website <a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a>	All	Web	
Promote My Pension Online – Member Self Service	Active and Deferred	Web	
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	

The pension scheme will provide the following communications as required, in addition to day to day individual communications with members.

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
<a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a> Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Newsletters and scheme updates	Web or paper	As required	For viewing as required. Post to home address for targeted communication	All
Forms	Web or paper	As required	Available to download or post to home address	All
Annual Benefit Statements	Web or paper if opted out of online statements	Annually	For viewing as required. Members are informed of availability via personal email, email to employers or internal Global News	Active and Deferred
Road shows/ Workshops	Face to face	When required	Advertised via email, Global News, Posters and employers	Active
Pensioner payslips	Paper	1 <sup>st</sup> pension payment and every April and May. Payslip sent if a variation in £3 or more	Post to home address	Pensioner
Notice of Pensions Increase	Paper / Electronic	Annually in April	Post to home address for those who opted out of e-communication and upload to <a href="http://www.yourpension.org.uk/Brent/Home.aspx">http://www.yourpension.org.uk/Brent/Home.aspx</a>	Pensioner

Internal Disputes Resolution Procedure	Paper or Web	Continually available. Updated as required	Post to home address or available to download	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

## Explanation of communications

**Pension Website** - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

**Scheme booklet** - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

**Newsletters** - Newsletters are issued as required, usually when a significant change to the scheme occurs. Pensions Increase newsletters are sent annually to advise pensioner members of the increase to their pension.

**Forms** – Many of the required LGPS forms are available on the pension website such as opt out form, 50:50 or Main Scheme election form and expression of wish form.

**Annual Benefit Statements** – For active members these include the current value of benefits as well as the projected benefits to their normal retirement date. The associated death benefits are shown along with details of any individuals the member has nominated to receive the lump sum death grant. For deferred members these show the current value of the pension benefits, associated death benefits and details of any individuals the member has nominated to receive the lump sum death grant. These released at the end of August and are available on My Pension Online – Member Self Service. Members can opt out of the online service and elect to receive a paper copy sent to their home address.

**Pensioner payslips** – The payslips are sent when a member receives their first pension payment. They are posted to the pensioner's home address.

**Internal Disputes Resolution Procedure** – A formal notification of the procedure to follow in the event that a dispute cannot be resolved by the LPP pension administration team or the Brent Pensions Projects or Contracts Manager

**Annual Report and Accounts** – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the Brent Pensions website.



## Communications with Prospective Scheme Members

Our aims for communicating with our prospective scheme members are:

- to increase the take up of the LGPS
- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team

The Key actions will be:

- review of communication methods to ensure they are effective and efficient
- ensuring automatic enrolment and re-enrolment is well communicated

Action	Audience	Media	End of Year Review 2019
Ensure pension forms are included in starter packs	New employees	Electronic	
Review and update the pension website	All	Web	
Work with employer to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	

The pension scheme will work with employers to provide the following communication as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Joiner Option Form	Paper	On commencing employment	Via employers	New employees
<a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a> Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

## Explanation of communications

Pensions Joiner Option Form – Form provided to all new employees which provides the details of the pension scheme website and allows them to advise of any previous pension entitlements.

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

Scheme booklet - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pensions website.

## Communications with Scheme Employers

Our aims for communicating with our scheme employers are:

- to improve relationships
- to assist them in understanding their role as a scheme employer
- to assist them in understanding their funding/cost requirements
- to work together to achieve accurate scheme actuary data submissions
- to ensure smooth staff transfers

The Key actions will be:

- offer induction meetings for all new scheme employers
- assist with the implementation of Your Fund, the LPP's online submission portal
- on-going promotion of the employer section of the Brent pension website
- working with relevant parties to admit new employers to the fund

Action	Audience	Media	End of Year Review 2019
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System	
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face	

Review and update the pension website	Employer	Web	
Work with LPP and Scheme employers to implement Your Fund.	Employer	Web	
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face	

The pension scheme will provide the following communication to employers as required.

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
Contact sheet	electronic	Annually	By email	All
Induction meeting	Face to Face	On becoming a scheme employer	By email	New scheme employers
Pension Website <a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a>	Web	Continually available. Updated as required	Advertised on all communications	All
Tupe Manual and Admissions Policy	Web	Continually available. Updated as required	For viewing as required	Scheme employers and potential admitted bodies
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All
Pension Fund Valuation reports	Electronic	Every three years	Via email	All
Funding Strategy Statement	Web	Continually available. Replaced every three years and updated as required	For viewing as required.	All

## **Explanation of communications**

Contact sheet – A form distributed annually to all scheme employers to ensure contact details are kept up to date. Details are recorded on the ERM system on Altair

Induction Meeting – A meeting offered to all new academies and admitted bodies to discuss roles and responsibilities. An information leaflet is being updated to accompany the meeting and will be made available on the pension website once completed

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP

Tupe Manual and Admissions Policy – These documents are relevant to Letting Authorities that are looking to outsource a service to a third party supplier

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pensions website

Pension Fund Valuation Reports – A report issued every three years setting out estimates assets and liabilities of the Fund as a whole and setting individual employer contribution rates for the next three year period

Funding Strategy Statement – A summary of the Fund's approach to funding its liabilities, including reference to the Fund's other policies although it is not an exhaustive statement of policy on all issues.

## **Communications with Representatives of Members**

### ***Pensions Committee***

Our aims for communicating with Pensions Committee are:

- to provide information to enable the Committee to make decisions delegated under the Council's constitution
- to provide information to ensure the Committee are kept informed of pension related matters
- to ensure the Committee are aware of their responsibilities in relation to the Scheme

The Key actions will be:

- to submit Committee reports, which have been reviewed by the relevant Council business partners and senior manager
- To arrange training sessions when required

Action	Audience	Media	End of Year Review 2019
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	
To arrange required training as and when required	Pensions Committee Members	Face to Face	

The pension scheme will provide the following communication to Pensions Committee Members as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Committee Reports	Paper and Web	Quarterly and as and when required	By email and available on the Brent.Gov.uk website	Pension Committee Members and Trade Union representatives
Pensions Committee Briefings	Face to face	Quarterly and as and when required		Pensions Committee Members and Trade Union representatives
Training sessions	Face to face	When there is a new Pensions Committee and as and when required	By email	Pensions Committee Members and Trade Union representatives

### Explanation of communications

Pensions Committee Reports – Formal reports written by Pension Fund officers and reviewed by Business Partners and a Senior Leadership Team member. Published on the Brent.gov.uk website

Pension Committee Briefings – Pension Fund officers attend each Committee meeting and provide a verbal briefing on each Committee report

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Training is shared with the Local Pension Board members where applicable

## **Pensions Board**

Our aims for communicating with the Local Pensions Board are:

- to provide information to enable the board to assist the Scheme Manager in executing their duties
- to provide information to ensure the board are kept informed of pension related matters
- to provide training with regards to investment and administration matters

The Key actions will be:

- to submit reports on areas identified for review by the Board.
- To arrange training sessions with Fund officers, advisors and external experts when required

<b>Action</b>	<b>Audience</b>	<b>Media</b>	<b>End of Year Review 2019</b>
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	
To arrange required training as and when required	Local Pension Board	Face to Face and online	

The pension scheme will provide the following communication to the Pension Board as required.

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
Pension Board Reports	Paper and Web	Quarterly and as and when required	By email and available on the Brent.Gov.uk and yourpension.org.uk websites	Local Pension Board
Local Pension Board Briefings	Face to face	Quarterly and as and when required	Fund officers attend each meeting	Local Pension Board
Training sessions	Face to face and online	Before each board meeting. Continual self- development is also required	Face to face delivered by Fund officers and targeted online training	Local Pension Board

## **Explanation of communications**

Pension Board reports – Written by Pension Fund officers to provide a formal update to a particular area of work

Pension Board briefings – Pension Fund officers attend each Board meeting to provide a verbal overview of written reports and to provide updates on any on-going work

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Targeted training is also available for Local Pension Board members online via the Pensions Regulator website. Training is shared with the Pensions Committee members where applicable

## **Other Stakeholders**

### ***Pension Fund Manager (Finance)***

The Pension Fund Manager (Finance) responds to staff, employer and other enquiries. Skills and knowledge are kept up to date through participation in seminars and conferences.

### ***Local Pensions Partnership***

The scheme manager is responsible for monitoring the administration contract with the Local Pensions Partnership. Monthly client reviews take place to monitor the contract and check the service level agreements are being met. They are also responsible for maintaining relationships with scheme employers, trade unions and other relevant stakeholders.

### ***Investment Fund Managers***

Day to day contact between the Pension Fund Manager (Finance) and the investment fund managers is maintained. Each fund manager is required to present their performance reports to the Pensions Committee on a cyclical basis, unless performance concerns override this.

### ***Trade Unions***

Trade unions in the London Borough of Brent are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Scheme.

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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/outsourcing 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 “gilt 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.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

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

Risk	Summary of Control Mechanisms
	Employer ill health retirement experience is monitored, and insurance is an option.
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) to 3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f) to 3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector 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
<p>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>	<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>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, 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>



Risk	Summary of Control Mechanisms
	<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 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 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.

## 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 <b>the 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

	<p>guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.</p>
<b>Letting employer</b>	<p>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.</p>
<b>LGPS</b>	<p>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.</p>
<b>Maturity</b>	<p>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.</p>
<b>Members</b>	<p>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).</p>
<b>Primary contribution rate</b>	<p>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.</p>
<b>Profile</b>	<p>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.</p>
<b>Rates and Adjustments Certificate</b>	<p>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.</p>
<b>Scheduled Bodies</b>	<p>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</p>

public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Secondary contribution rate**

The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. 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 Regulations”). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.

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 Fund’s primary objective 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. The funding position will be reviewed at each 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 are agreed by the employers 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 Fund has the following funding principles:

- Ensure that sufficient resources are available to meet all benefit 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
- Maximise the returns from investments within reasonable risk parameters.

The Committee has translated its objectives, taking into account the funding principles outlined above, into a suitable long-term 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 (e.g. 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).

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 significantly from the target allocation (accepting that, given the nature of some of the underlying investments, it may take the Fund time to move to the long-term target allocation). This is covered in more detail later in this Statement.

Providing a framework for all investment decision making to enable delivery of the above key objective are the Fund's investment beliefs. The Fund's currently held investment beliefs which are reviewed regularly are set out in the Appendix.

#### *Strategic allocation*

The Fund's current assets include:

- Equities (UK and overseas)
- Diversified growth
- Government bonds
- Private equity
- Infrastructure
- Property
- Multi asset credit

The Fund is invested in these asset classes 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 when it is deemed appropriate to do so.

The Regulations require the Fund to set out the maximum percentage relative to the total value of all investments that it will invest in particular investments or classes of investment. The Fund's long-term strategic target investment allocation is set out in Table 1 below and includes the associated maximum percentage limits for each asset class associated with the long-term strategic targets. 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).

The Regulations also require the Fund to have regards to the diversification of its investments. The overall strategic benchmark outlined in Table 1 comprises a mix of different assets which is provides considerable diversification for the Fund.

The strategic balance of investment takes account of the risk/return characteristics of each asset class e.g. the potential for higher long term returns from equity is balanced against an expectation of higher levels of short term volatility from this asset class; and by looking at the strategy as a whole and the interaction of the asset classes the Fund holds.

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 strategy not previously known to the Committee is proposed, appropriate advice is sought and training is provided to help the Committee reach an informed decision.

**Table 1: Fund allocation**

<b>Asset class</b>	<b>Long-Term Target allocation %</b>	<b>Maximum invested %</b>
UK equities	45	60
Overseas equities		
Diversified Growth Funds	15	30
Private Equity	0	10
<b>Total Growth</b>	<b>60</b>	<b>90</b>
Infrastructure	15	30
Property	10	20
<b>Total Income</b>	<b>25</b>	<b>40</b>
Fixed Income	15	25
<b>Total Protection</b>	<b>15</b>	<b>25</b>
<b>Total</b>	<b>100</b>	<b>N/A</b>

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 managers 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.

## ***Risk Measurement and Management***

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth oriented assets) to help it achieve its funding objectives. It has a 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 to 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.
- Environmental, social and governance ("ESG") – The risk that ESG related factors (including climate change) reduce the Fund's ability to generate the long-term returns and/or have implications on the Fund's liabilities.
- 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 long-term 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 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 seeks to mitigate systemic risk through holding a diversified portfolio, but appreciate 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. Also the risk that, due to the illiquid nature of the asset classes, the Fund cannot implement its agreed investment strategy on a timely basis.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- 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 rebalancing arrangements to ensure, where possible, 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 also holds liquid diversifying assets over the period while the agreed exposure to less liquid alternatives are being built up.

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 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. The Fund has regular correspondence with the London CIV regarding their managers and their approach to monitoring and assessing managers.

## **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. Further details of the Fund's approach to pooling and relationship with the London CIV is provided in the section below.

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 and is reviewed on a regular basis. The key criteria for assessment of Pool solutions will be as follows:

- 1 The pool enables access to an appropriate solution that is consistent with the beliefs, objectives and benchmark criteria set by the Fund and/or
- 2 There is a benefit to the Fund in investing in the solution offered by the pool.

At the time of preparing this statement the Fund has already invested the following assets via the London CIV (see table below).

Asset class	Manager
Diversified Growth Fund	Baillie Gifford
Diversified Growth Fund	Ruffer
Multi-asset Credit	CQS
Emerging Markets equities	Janus Henderson

In addition, the Fund has exposure to LGIM and BlackRock both of whom are LGPS specific fee scales in place and have benefits of scale due to being pooled with the managers' other clients assets.

In time, as set out in the indicative timetable for investing through the pool and in line with one of the Committee's stated beliefs, the intention is for all assets (subject to due diligence) to be transitioned into the LCIV. The exceptions to this are the Fund's passive assets and the Fund's existing investments in closed ended funds (which will run-off over time).

### **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 (Further information is provided in the London CIV's website (<https://londonciv.org.uk/>))

All participants of the CIV are both shareholders and investors in the London CIV company and the governance structure enables both formal and informal scrutiny.

### ***How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments***

The Committee recognise that ESG factors can influence long term investment performance and the Fund's 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 (including climate change) 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. Its investment beliefs include explicit statements relating to ESG and climate change. The ESG criteria of its existing investment investments are assessed on an ongoing basis and ESG is a key consideration when assessing the relative merits of any potential new Fund investments. The Fund also conducts an annual review of its:

- Policies in this area,
- Investment managers' approach to responsible investing; and
- Members' training needs and implements training to reflect these needs.

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 London CIV itself is committed to responsible investment and duly recognises the role of ESG factors in the investment decision making process, evidenced by its own 'responsible investment policy'. The Fund is supportive of this and will monitor the policy on a regular basis as more assets transfer into the pool to ensure consistency with its own beliefs. Details of the investment managers' governance principles can be found on their websites.

## **The exercise of rights (including voting rights) attaching to investments**

### **Voting rights**

The Committee wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles, which in turn will feed through into good performance.

In practice, 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 at least an annual basis.

### **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.

The Committee is willing to consider potential investor collaboration opportunities if such opportunities offer the scope to improve engagement with companies and help increase the potential for long-term sustainable returns to be achieved.

## Appendix – 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 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. 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 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. Their 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.

## 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 (Grant Thornton) supports and assists with the management of risks.

# **PENSION ADMINISTRATION STRATEGY (December 2018)**

## **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.

<b>Task</b>	<b>Description</b>
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 Adminstrating 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.

<b>Payments of monies due</b>	<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>
<b>End of year error rates</b>  Examples of end of year errors <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> </ul>	Respond to errors within 10 working days of notification  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

<ul style="list-style-type: none"> <li>Significantly low/high pensionable remuneration compared to the previous year with no explanation as to the reason</li> </ul>	
<b>Submission of year end return</b>	<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>
<b>Response to other queries raised</b> (e.g. by the LPP Pensions Services or Employer Services teams) <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 the right to levy a fee on an employer whose performance consistently falls short of the standards set out in this document.

<b>Activities</b>	<b>Fees excluding VAT</b>
<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.

## 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.



	<b>Pensions Fund Sub-Committee</b> 29 May 2019
	<b>Report from the Chief Finance Officer</b>
<b>2019 Triennial Valuation</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>	None
<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 The purpose of this report is to update the committee on the 2019 Pension Fund Valuation.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to note the report.

## 3.0 Detail

- 3.1 Every three years, a formal valuation of the whole Fund is carried out under Regulation 62 (1) of LGPS Regulations 2013 to assess and examine the ongoing financial position of the Fund. Its purpose is to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).
- 3.2 The FSS sets out the underlying assumptions and principles that are adopted when valuing the Fund's liabilities and setting contribution rates. The FSS also

addresses the fact that different employers within the fund have different objectives and it includes the overall time horizon for the funding plan.

3.3 Some of the key assumptions in the valuation process are detailed below. These will be reviewed as part of the valuation process.

- The discount rate – this is the interest rate we can assume to achieve in the future. This affects how much money the Fund needs to hold now;
- Future price inflation;
- The probability and circumstances that pensions will be paid;
- How long pensions will be paid for.
- Other demographic assumptions – such as the number of members that are married.

3.4 Below is an indicative timeline for the valuation process which will commence in July 2019, following the completion of the data cleanse project by LPP:

<b>Date</b>	<b>Event</b>
12 July 2019	Provision of data to the Fund actuary by LPP on behalf of the scheme manager.
Early August 2019	Sign off for data submitted by the Fund actuary.
02 October 2019	Sub-committee meeting - Provision of initial whole fund results, compASS results and employer contribution strategy proposal (draft FSS).
Early October 2019	Issue employer results together with draft Funding Strategy Statement for formal consultation.
27 November 2019	Sub-committee meeting - Provision of valuation results for employers and proposed contribution rates. Finalisation of FSS following employer consultation.
25 February 2020	Sign off 2019 valuation report and FSS.
01 April 2020	Implementation of new FSS and contribution rates.

3.5 The previous valuation, conducted in 2016 showed that the Brent Pension Fund had a low funding position of 55% and had set contribution rates accordingly whilst maintaining the deficit recovery period. This was 22 years at the 2013 valuation, 19 years at the 2016 valuation and it is envisaged, subject to the outcome of the 2019 valuation, that deficit recovery period will reduce to 16 years.

3.6 The Government Actuary Department (GAD) have also been reviewing the funding valuations of LGPS funds. In June 2018, Brent was flagged by the GAD for its funding level. However, overall it was not a significant cause for concern as the fund had set appropriate contribution levels, demonstrated a reducing deficit recovery period between valuations and adopted reasonable actuarial assumptions.

- 3.7 Whilst the results of the valuation cannot be pre-empted, given the increasing scrutiny on LGPS funds, from GAD, The Pensions Regulator and the Scheme Advisory Board, this valuation is likely to maintain the existing strategy. The current strategy does not envisage any reductions in contributions rates as this would be imprudent and likely to create issues with GAD and the other regulators. Further modest increases in the contribution rate may be required however the Fund will have to wait until the results of the valuation for this to become clearer.
- 3.8 Brent Council, in its role as the administering authority, will be assisting employers through this process. Support will be provided in the form of employer forums and training. The Fund will consult with employers through the valuation process and the draft employer results and FSS will be issued for formal consultation. This is currently anticipated for early October 2019. There will also be the opportunity to arrange 1-1 meetings with the actuary and Brent officers.
- 3.9 Complete and accurate membership data is critical in ensuring the valuation results are accurate. If the Fund actuary is concerned about the quality of the underlying data, they will usually add a margin of prudence into their assumptions to accommodate data inaccuracies. This could mean that participating employers may have to pay contribution rates that are not directly related to the underlying liabilities.
- 3.10 Following the transition of pension administration from Capita to LPP, a separate project was commissioned to cleanse common and scheme specific data ahead of the Triennial valuation. The project is due to be completed by the end of June ahead of the provision of data to the actuary.
- 3.11 Significant progress has been made since the start of the project. Of the 14 separate work streams within the project, as at 30/04/2019, 3 had been completed, 10 were in progress and 1 was yet to be actioned. The project is on track and is scheduled to be completed on time. As this relates to matters of pensions administration, the project is being closely monitored by the Pension Board.

#### **4.0 Financial Implications**

- 4.1 These are discussed throughout the report.

#### **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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	<b>Pensions Fund Sub-Committee</b> 29 May 2019
	<b>Report from the Chief Finance Officer</b>
<b>LGPS Update</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. Exit payments cap - LGPC Secretariat Summary 2. SAB Advice Note
<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 The purpose of this report is to update the committee on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government which have would have a significant impact on the Fund.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to note the recent developments in the LGPS.

## 3.0 Detail

### Exit Payments Cap

- 3.1 The government first announced plans to cap exit payments in the public sector in 2015. On 10 April 2019 HM Treasury (HMT) launched a consultation on draft regulations, guidance and Directions to implement the cap.

- 3.2 The exit payment cap is set at £95,000 and redundancy payments (including statutory redundancy payments), severance payments, pension strain costs – which arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age – and other payments made as a consequence of termination of employment are included in the cap.
- 3.3 Payments related to death in service or ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal are not counted in the definition of exit payments. There are certain circumstances when the cap must be or may be relaxed.
- 3.4 The statutory redundancy element of an exit payment cannot be reduced. Should the cap be exceeded, other elements that make up the exit payment must be reduced to achieve a payment below the cap.
- 3.5 It is unclear what the impact on a LGPS member will be if the cap is exceeded and the exit payment includes pension strain cost. It is understood that the policy intent is for the member's pension benefits to be reduced to the extent that the exit payment cap is not breached. A summary of the consultation produced by the LGPC Secretariat is attached in Appendix 1.
- 3.6 The government is currently seeking views on the proposed draft regulations and the consultation closes on 3 July 2019. The fund is also awaiting further analysis from LGA's Local Government Pension Committee and the Scheme advisory board.
- 3.7 Brent officers, in consultation with the Fund's advisors, will prepare a response to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

### **Valuation Consultation**

- 3.8 MHCLG launched a consultation about changes to the valuation cycle and the management of employer risk for LGPS funds in England and Wales. The consultation closes on 31 July 2019.

The five key proposals covered by the consultation are:

- 3.9 Transitioning local fund valuations from 3 yearly to 4 yearly, so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards.
- 3.10 Giving funds the power to carry out 'interim' valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances (with the 'trigger points' for the interim valuations subject to statutory guidance).
- 3.11 Allowing funds more flexibility around the way in which they manage employers that exit the LGPS, by spreading cessation debt repayments or setting up

private sector style 'deferred debt' arrangements to ease employer concerns over affordability.

- 3.12 Amending LGPS Regulations to allow exit credits to be reduced to nil where a pass-through arrangement is in place.
- 3.13 Removing the requirement for further education, higher education and sixth form college corporations in England to offer new employees access to the LGPS.
- 3.14 The fund is awaiting further analysis from LGA's Local Government Pension Committee and the Scheme advisory board in relation to this consultation.
- 3.15 Brent officers, in consultation with the Fund's advisors, will prepare a response to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

### **McCloud Case**

- 3.16 On 21 December 2018 it was reported that the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.
- 3.17 Following the judgment, on 30 January 2019, the Government published a written statement that paused the HMT cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. This was supplemented by the publication of the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, on 15 February 2019.
- 3.18 On 8 February 2019, Scheme Advisory Board (SAB) confirmed it had no option but to pause its own cost management process pending the outcome of the McCloud case. As a result, no changes were made to benefits which had been planned in respect of the LGPS cost management process from 1 April 2019. This situation will be reviewed once McCloud is resolved which is not expected for some months.
- 3.19 On 14 May 2019, the scheme advisory board (SAB) published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. This is attached to this report in Appendix 2. The fund is currently analysing the implications of the advice note and will work with the Fund actuary and investment advisor to manage the potential ongoing risks for the fund.

## **4.0 Financial Implications**

This report is for noting, so there are no direct financial implications. However, the outcome of the consultations could have financial implications for the Fund, in particular the exit cap and the outcome of the McCloud case.

Further work will be done with the Fund actuary to analyse the implications and report back to the committee.

## **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



## Exit payments cap

In 2015 the government first announced plans to introduce a cap on exit payments in the public sector. The cap includes any pension strain cost. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

On 10 April 2019, HM Treasury opened a [consultation](#) on draft regulations, Directions and guidance to implement the exit cap. The consultation will run for 12 weeks and closes on 3 July 2019. The LGA will be responding formally to the consultation ahead of the 3 July deadline.

This document has been produced by the LGPC Secretariat and provides a summary of the consultation and the proposed regulations for LGPS administering authorities and local government employers.

## Consultation documents

HM Treasury (HMT) published the following consultation documents on 10 April 2019:

**1. Consultation document - 'Restricting exit payments in the public sector: consultation on implementation of regulations'**

The consultation document sets out what types of public sector exit payments the regulations apply to, summarises the proposed regulations and the reasons for introducing these regulations. Details of how to respond are included, and information concerning how respondents' data will be processed.

**2. Draft regulations - 'Annex A: The Restriction of Public Sector Exit Payments Regulations 2019'**

'The Regulations' include:

- the bodies whose exit payments are covered by the cap
- what constitutes an exit payment and what is exempt
- the requirement for individuals and public sector bodies to report and record information about exit payments and
- the circumstances in which the cap must be relaxed and the process for approval in situations where the cap may be relaxed.

**3. Schedule – 'Annex B: £95k cap on exit payments in the public sector schedule (draft)'**

'The Schedule' sets out public sector authorities and public sector offices that may be affected by the exit payment cap. There are circumstances where the cap must or may be waived. Where relevant, the Schedule specifies what body is the sponsoring department who would be responsible for approving the relaxation of the cap.

**4. Guidance – 'Annex C: Restriction of public sector exit payments: guidance on the 2019 regulations'**

'The Guidance' sets out more information on how the legislation should be implemented, and particularly gives more information about the process to follow when a public sector body wishes to relax the restriction.

**5. HMT Direction – 'Mandatory HM Treasury directions'**

'The Directions' describe when the exit payment cap must be relaxed, in what circumstances it can be relaxed and when HMT approval is required.

There are occasions when the contents of the consultation documents contradict each other, there are contradictions within a single document and there are differences in the wording of the Regulations, the Enterprise Act 2016 and the Small Business, Enterprise and Employment Act 2015. The Guidance states that 'Where there is any discrepancy between the regulations and the guidance, the regulations prevail'. This is the approach followed in producing this document. Any area of significant difference in the consultation documents, draft regulation or existing legislation is highlighted.

## **What is the level of the cap?**

The exit payment cap is set at £95,000. Although regulation 153A(9) of the Small Business, Enterprise and Employment Act 2015 allows for Regulations to be introduced which change the cap, under the proposed Regulations there is no provision for the cap to be index-linked.

In relation to those employed in local government, it should be noted that the group who are most likely to be affected by the cap are those over age 55 who are members of the LGPS (or another public sector pension scheme).

## **Who is covered by the Regulations?**

The cap will apply to the whole of the public sector, but is being implemented in two stages. At the first stage the Regulations will apply to exit payments made by:

- local authorities
- the UK Civil Service
- the NHS in England and Wales
- academy schools
- police forces (including civilian staff)
- Fire and Rescue Authorities

where they fall within the responsibility of the UK government regarding employment.

Schedule 2, Part 1 of The Local Government Pension Scheme Regulations 2013 lists the employers who must enrol employees into the Local Government Pension Scheme. The majority of employers listed in Part 1 of Schedule 2 are in scope of the exit payment Regulations. The main exceptions being housing management companies, further and higher education corporations and sixth form college corporations who are not covered by the Regulations.

LGPS administering authorities may wish to check whether any of their Schedule 2 Part 3 employers are listed in the Schedule.

### **Devolved administrations**

#### Wales

Although most employers in scope of the exit payment cap perform devolved functions, public sector compensation **is not** a power that has been devolved to the Welsh Assembly. The exit payment Regulations therefore do apply in Wales to local authorities, schools, fire and rescue authorities, NHS Trusts etc. with the exception of 'relevant Welsh exit payments' which are payments made to holders of these offices:

- member of the National Assembly for Wales
- the First Minister for Wales
- Welsh Minister appointed under section 48 of the Government of Wales Act 2006
- Counsel General to the Welsh Government
- Deputy Welsh Minister

- member of a county council or a county borough council in Wales
- member of a National Park Authority in Wales
- member of a Fire and Rescue Authority in Wales.

### Scotland

The Regulations do not apply to exit payments made by the Scottish Corporate Body or by any authority which wholly or mainly exercises functions within devolved competence (within the meaning of section 54 of the Scotland Act 1998).

The Regulations apply to payments made to non-ministerial office holders and staff of the Scottish Administration.

### Northern Ireland

The Regulations do not apply to payments made by Northern Irish authorities which wholly or mainly exercise devolved functions.

### **Public sector bodies not covered by the cap**

A newly created public sector body will not be covered by the cap until it is added to Schedule 1. The government expects all public sector bodies not covered by the Regulations – whether they are new or established bodies – to restrict exit payments voluntarily.

The Regulations will be extended to the rest of the public sector at the second stage, with a limited number of exemptions.

The government has proposed that the Secret Intelligence Service, the Security Service, the Government Communications Headquarters and the Armed Forces should be exempt from the cap due to the unique demands and features of careers in these fields.

The Scottish Parliament, Northern Ireland Assembly and Welsh Assembly could introduce regulations which restrict the exit payments made by those public sector bodies in Scotland, Northern Ireland and Wales respectively, which are not covered by these Regulations.

### **What is an exit?**

The Regulations apply where there has been a ‘relevant public sector exit’ which occurs when an employee leaves the employment of a public sector authority listed in the Schedule, or when a holder of a public sector office listed in the Schedule leaves office.

In the LGPS there are other events which can lead to a pension strain cost which are **not** exits and which therefore are **not** covered by the Regulations:

- Early payment of deferred benefits and all or part of the early payment reductions are waived
- Flexible retirement – providing the member’s pay reduction is achieved by changing the employee’s contract.

If a LGPS member takes flexible retirement and the pay reduction is achieved by ending their current employment contract and starting a new one then an exit has occurred and the exit payment restrictions would apply.

Although the Guidance and Regulations concentrate on specific exits such as redundancy, because of the wide nature of the definition of exit, we will need to ensure that there are no other circumstances in which payments are made under the scheme which may be caught.

## Payments included in the cap

The cap will apply to payments of the following types, but see also the list of exclusions which follows:

- a) any payment on account of dismissal by reason of redundancy – including a statutory redundancy payment
- b) any payment made to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost of a pension scheme of such a reduction not being made [pension strain costs]
- c) any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement
- d) any severance payment or ex gratia payment
- e) any payment in the form of shares or share options
- f) any payment on voluntary exit
- g) any payment in lieu of notice due under a contract of employment [but only if it exceeds a quarter of the employee's annual salary – see the next section]
- h) any payment made to extinguish any liability to pay money under a fixed term contract
- i) any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office [this will include pay in lieu of notice which is due other than under a contract of employment].

The following payments are **not exit payments** for the purposes of the Regulations:

- a) any payment made in respect of death in service
- b) any payment made in respect of incapacity as a result of accident, injury or illness
- c) certain payments made to retiring firefighters – separate guidance will be issued to cover the position for firefighters
- d) a specific service award paid to a member of the judiciary
- e) a service payment made in respect of annual leave due under a contract of employment
- f) any payment made in compliance with an order of any court or tribunal
- g) a payment in lieu of notice due under a contract of employment that does not exceed one quarter of the relevant person's annual salary.

What payments are included in the calculation of an exit payment is subject to change. If HMT becomes aware of payments being made to exiting employees or office holders that are not currently defined as exit payments then it is likely that these payments will be added to the above list.

Where an exit payment exceeds the cap, the employer or the body responsible for determining the remuneration payable to the holder of a public office covered by these regulations must reduce the exit payments until the cap is satisfied. Any statutory redundancy entitlement under the Employment Rights Act 1996 cannot be reduced.

### Multiple exit payments

If an individual becomes entitled to more than one exit payment within 28 days, the Regulations prescribe the order in which those exits are treated to have occurred based on the date of exit, salary, hours worked and length of service. The cap applies to the total of the two (or more) exit payments. However, because the statutory redundancy payment cannot be reduced, there may be occasions when an employee receives two or more exit payments within 28 days and the total of those exit payments exceeds the cap. It is the individual's obligation to inform their other public sector employers if they receive an exit payment.

The employer has an obligation to ensure that any exit payment they make does not exceed the exit cap, or if it does exceed the cap that it is compliant with HMT Directions on relaxation. Employers must put processes in place to request information about any recent or pending public sector exit payments before making such a payment to an exiting employee or office holder.

## **Pension strain cost**

HMT's assumption is that employers will, where possible, cap the redundancy lump sum and allow individuals to receive the pension top up in full. There is no requirement for employers to follow this process, which means that the Regulations as they stand allow employers to restrict any of the elements that make up the exit payment (other than any statutory redundancy payment) in any order.

In a pension scheme which allows partial reduction, if the exit payment cap would otherwise be breached and the exit payment includes pension strain costs, retirement benefits would be reduced to a level which means the cap is not breached. The individual would have the option of buying out some or all of that reduction.

If the Regulations prevent an exit payment being made (because the pension strain cost exceeds the cap and the pension scheme rules do not allow partial reduction, for example) then a cash payment, not exceeding the cap must be paid to the individual.

## **The position for the LGPS**

Paragraph 5 of Schedule 6 to the Enterprise Act 2016 amends the Local Government Pension Scheme Regulations 2013 to allow:

- partial reduction of a member's pension benefits where otherwise the exit payment cap would be breached and
- a scheme member to pay a charge to buy out some or all of that reduction

These changes do not come into effect until HMT issue a commencement order. The effect of the exit payment Regulations on the LGPS is dependent on whether they are enacted before or after the LGPS regulations changes set out in the Enterprise Act come into force.

### **1. LGPS Regulations are unchanged**

If an exit payment includes pension strain cost and would exceed the cap, it is unclear whether the pension could be paid under regulation 30(7)(b) of the LGPS Regulations 2013 if the strain cost referred to in regulation 68(2) cannot be paid in full. It is our understanding that the intention is for the member to receive a fully reduced pension in this circumstance, plus the cash alternative of the strain cost (up to the maximum allowed by the cap). Changes to the LGPS regulations would be required to introduce the option for a member who is made redundant or leaves on the grounds of business efficiency at age 55 or over to defer payment of their pension.

### **2. LGPS Regulations amended to allow partial reduction**

If an exit payment includes pension strain cost and would exceed the cap, then the member's benefits would be reduced to such a level that the exit payment cap is not breached. The member would have the option of paying extra to buy-out some or all of the reduction.

The proposed regulation changes do not introduce the option to defer payment of pension benefits in the event of a LGPS member who is over age 55 being made redundant or leaving on the grounds of business efficiency. As the regulations

currently stand, a LGPS member whose exit payment has been capped would be forced to accept a reduced pension.

If the option to defer payment of LGPS benefits on redundancy or retirement on business efficiency grounds at age 55 or over is introduced, then a member who exercises the option to defer could be paid the cash alternative to the pension strain cost (up to the maximum allowed by the exit payment cap).

In order to implement partial reduction in the LGPS, guidance from the Government Actuary's Department (GAD) on partial reductions and on the cost of buying out those reductions would be required. Detailed information concerning the method of calculating the partial reduction in a members' benefits, the method and calculation for buying out the reduction – particularly the calculation which would be involved in working out the reduction to apply where some but not all of the reduction has been bought out, and the deadline that applies to an election to make such a payment would be required. It is likely that changes to the LGPS regulations and new statutory guidance would be required to effect this change.

The Regulations do not specify how to calculate the strain cost related to the early payment of a pension on an unreduced basis. The LGPS Regulations state that this strain cost is to be 'calculated by an actuary appointed by the administering authority' and the Guidance says that it 'may be the amount as calculated by the scheme actuary'. Currently, the method of strain cost calculation is formulated locally based on the demographic make-up of the LGPS members in an administering authority. Demographic differences across the country mean that strain cost and the implications for the exit cap could differ widely for LGPS members in different geographical areas, even if they are similar in other respects such as age, salary level and length of pension scheme membership.

If there is no change to the current position then the calculation of the strain cost element of an exit payment will differ between LGPS administering authorities. The benefit of this approach is that the strain cost reflects the best estimate of the cost of paying the pension early, based on actuarial assumptions and the demographics of members participating in the LGPS in a particular administering authority. The main disadvantage is that a member may be affected by the cap based on the calculation adopted by one administering authority who would not be affected had the strain cost been calculated by another administering authority.

An alternative would be for GAD to introduce a standard method of calculating pension strain cost in the LGPS. This would have the advantage that the application of the exit payment cap would be equitable and consistent across the entire scheme. Significant demographic differences exist across the country. The use of a single method of strain cost calculation could result in strain costs being overpaid by certain employers, which may lead to a reduction in employer contribution rates. In other administering authorities the strain cost paid by employers would not reflect the 'true' cost of paying the pension early and consequently could lead to increased employer contribution rates. In these circumstances the exit payment may not reflect the actual cost to the employer of releasing a LGPS pension early.

## **Relaxation of the restriction on exit payments**

HMT Directions set out the circumstances in which the exit payment restrictions must be relaxed – mandatory cases – and the circumstances when they may be relaxed – discretionary cases.

The HMT Directions do not apply to exit payments made by a devolved Welsh authority.

The 'Decision Maker' is the person who exercises the power to relax the exit payment restriction. This power generally rests with a Minister of the Crown but can be delegated in respect of exit payments made by certain public sector bodies. This is covered further in the next section.

The power to relax the exit payment cap can be exercised in respect of an individual, or in exceptional circumstances in respect of a group of employees, for example where redundancies occur as a result of specific workforce reforms.

### **Mandatory cases**

The exit payment restriction must be relaxed in the following circumstances:

- Where the obligation to make the payment arises as a result of the applying TUPE regulations
- Where the payment relates to a complaint that an Employment Tribunal (ET) has the jurisdiction to consider. This is limited to complaints under whistleblowing or discrimination legislation and the employer believes, on the balance of probabilities, that an ET would find in favour of the complainant
- Certain exit payments made by the Nuclear Decommissioning Agency

### **Discretionary cases**

The exit payment restriction may be relaxed if the Decision Maker is satisfied that:

- not exercising the power would cause undue hardship
- not exercising the power would significantly inhibit workforce reform \*
- an agreement to exit was made **and** the exit was planned to occur before the Regulations came into force, the exit was delayed and the reason for that delay was not attributable to the employee or office holder.

\* There is a difference in the wording of the consultation documents here. HMT Directions refer only to 'workforce reform', but the Guidance specifies 'urgent' workforce reform.

Section 4.5 of the Guidance states that 'the reasons for exercising a power to relax the cap should relate directly to a relaxation category', but section 5.1 says that the cap can be relaxed 'outside of the circumstances outlined in HMT directions...'. The Regulations support the position that the exit payment restriction can be relaxed for reasons other those set out in the Directions with HMT consent. It is possible that there may be changes in later versions of the Regulations, Directions or Guidance which may affect the rules concerning relaxation on grounds other than those currently listed in the HMT Directions.

### **The power to relax the cap**

Generally, the power to exercise the cap lies with a Minister of the Crown, the 'Decision Maker', but this is delegated to certain other public sector bodies.

<b>Payment made by:</b>	<b>Power to relax restrictions delegated to:</b>
A devolved Welsh Authority	Welsh Ministers
A local authority in England	The full council of that local authority
A fire and rescue authority	The fire and rescue authority
The Greater London Authority	The London Assembly

Depending on who is the 'Decision Maker' and whether the exit payment is being restricted on mandatory or discretionary grounds, HM Treasury approval may also be required before the exit payment restriction can be relaxed.

The consultation documents do not agree on when certain types of approval are required. Table 1 on page 9 sets out our interpretation of the information provided in the consultation documents.

The relevant public sector employer is responsible for ensuring that any exit payment does not exceed the cap, or if it does that the relaxation of the cap has been done in compliance with HMT Directions or with HMT consent.

If an exit payment is made in excess of the cap which is not compliant with HMT Directions, the employer must make an assessment on whether to pursue repayment through the courts. Sanctions may also be imposed on the employer (or, if appropriate the sponsoring department) by HMT.

## **Recording and reporting exit payments**

The Regulations impose responsibilities on Decision Makers, employers and employees related to exit payments.

### **Employee: requirement to inform**

An employee with multiple employments in the public sector who receives an exit payment in respect of one employment is required, as soon as is reasonably practicable, to inform all other public sector authorities by whom he or she is employed about that exit payment in writing. Specifically, the amount and type of exit payment, who will be paying it and the date they left employment or ceased to hold office to which the exit payment relates.

### **Decision Makers and employers: Duties to keep records**

The Regulations require that the person who exercises the power to relax the restriction must keep a written record, for three years from the exit date, of:

- a) the fact that the power has been exercised
- b) the name of the person in respect of whom the power was exercised
- c) the amount and type of the exit payment in respect of which the power was exercised
- d) the date on which the power was exercised
- e) the reasons why the power was exercised.

The relevant public sector authority must publish the details from c), d) and e) at the end of each financial year.

Although it is not required by the Regulations, the Guidance includes a recommendation that employers record instances when an exit payment is capped.



**Table 1: The power to relax restrictions on exit payments**

<b>Employer <sup>1</sup> making the exit payment</b>	<b>Decision Maker</b>	<b>Type of case</b>	<b>Consent of HM Treasury required?</b>
Local authority in England	Full council of that authority	Mandatory	No
A fire and rescue authority	The fire and rescue authority	Discretionary	Yes <sup>2</sup>
The Greater London Authority	The London Assembly		
Any other public sector body covered by the Regulations	Minister of the Crown	Mandatory	No
		Discretionary	No <sup>3</sup>
All of the above	As above	Outside of circumstances outlined in HMT Directions	Yes

A devolved Welsh authority	Welsh Ministers	All – HMT Directions do not apply	No
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<sup>1</sup> or a body responsible for determining the remuneration payable to the holder of a public sector office listed in Schedule 1

<sup>2</sup> The Guidance states that the sponsoring department would have to approve the business case supporting the relaxation of the exit cap as well as HMT. The requirement for this additional approval is not reflected in the wording of the Regulations or the HM Directions.

<sup>3</sup> The Guidance suggests that HM Treasury approval is required where the Decision Maker is a Minister of the Crown, but this is not reflected in the Regulations or the HMT Directions.

The Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly may enact regulations to restrict exit payments made by devolved bodies that are not covered by the Regulations. If they do so, any power to relax the restrictions would lie with Scottish, Welsh or Northern Irish Ministers. The HMT Directions would not apply.

## The Consultation

The consultation invites responses from:

- employing bodies within scope and out of scope of the Regulations
- employees
- bodies representing those employers or employees
- academics with expertise in this area
- public and private sector pay, pension, remuneration and HR professionals
- anyone else who might be impacted by this consultation

to the following questions:

1. Does draft schedule 1 to the regulations capture the bodies intended? If not, please provide reasons.
2. Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.
3. Do you agree with the exemptions outlined? If not, please provide evidence.
4. Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.
5. Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?
6. Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.
7. Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?
8. Are you able to provide information and data in relation to the impacts set out above?

Responses can be submitted:

Online: <https://www.smartsurvey.co.uk/s/QABLW/>

By email: [ExitPaymentCap@treasury.gov.uk](mailto:ExitPaymentCap@treasury.gov.uk) with the subject heading 'Consultation on Exit Payment Cap'

In writing: Workforce, Pay & Pensions Team  
HM Treasury  
1 Horse Guards Road  
London, SW1A 2HQ.

### Disclaimer

The information contained in this document has been prepared by the LGPC Secretariat, a part of the Local Government Association (LGA). It represents the views of the Secretariat and should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in this document. It would be helpful if readers could bring to the attention of the Secretariat any perceived errors or omissions by emailing [query.lgps@local.gov](mailto:query.lgps@local.gov).

# Scheme Advisory Board

## Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud)

1. The Local Government Pension Scheme Advisory Board (SAB) is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.
2. The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.
3. It will consider items passed to it from the Ministry for Housing, Communities and Local Government (MHCLG), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.
4. This guidance is published under Regulation 110 (3) *The Local Government Pension Scheme Advisory Board also has the function of providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds*

### Purpose of this guidance

5. Due to the pause of the cost cap process (both HMT and SAB) and the uncertain outcome of the McCloud case there is a scheme liability which is unknown in both scale and timing. A survey of administering authorities undertaken by the SAB in February and March 2019 indicated very strong support for SAB guidance on the approach to be taken with regard to this liability in the 2019 valuation process.

### Cost Cap

6. Both the HM Treasury employer cost cap and the SAB cost management process are currently paused pending the outcome of McCloud. At the time of pausing a package of improvements costed at an average of 0.9% of payroll had been recommended. Depending on the profile of the membership of individual LGPS employers the impact on contributions could have varied widely.
7. Depending on the McCloud judgement and the cost of any remedy the following outcomes will be possible.
  - The proposed changes to the scheme as a result of the cost cap will be unnecessary, (should the remedial actions proposed by the Employment Tribunal to address the McCloud judgement match or exceed the costs of benefit improvements required under the cost cap or;
  - Should the McCloud judgement not stand, the cost cap changes will need to be reviewed to allow the impact to be backdated to 1 April 2019 in line with Government commitments or;
  - Should any McCloud remedy cost less than cost cap then further changes to the scheme may be required backdated to 1<sup>st</sup> April 2019

# Scheme Advisory Board

## McCloud

8. Both the timing and the outcome of the age discrimination case McCloud and Sargeant are currently unknown. The potential impact on all public service pension schemes is significant should the 2018 Court of Appeal's finding that protections for those within 10 years of retirement are unlawful be upheld. If, however, the finding is not upheld then the cost cap process will restart.
9. More information on the McCloud case can be found on the Cost Management page of the SAB website <http://www.lgpsboard.org/index.php/structure-reform/cost-management>

## Proposed approach to the valuation

10. Given the unknown nature in the scale and timing of any impact on liabilities as a result of Cost Cap and McCloud the following approach to the 2019 valuation is advised; That -
  - I. If there is no finalised outcome on Cost cap/McCloud (in the form of a formal notification by MHCLG to administering authorities including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.
  - II. In setting employer contributions for 2020 each administering authority should, with their Actuary, consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks. This should be to allow employers to be aware of and make provision for the potential cost even though any additional contributions may not commence until after the outcome is known.
  - III. Once the outcome of Cost cap/McCloud is known and appropriate benefit changes are made, administering authorities should re-visit employer contributions under such statutory guidance or provision in regulation as may be available at that time. Authorities are referred to the proposals for interim valuations and revisiting employer contributions in the consultation entitled Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk published 8<sup>th</sup> May 2019 <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>
  - IV. At present the impact on exit payments and credits is unknown. Therefore authorities should take account of regulatory requirements, FSS provisions and discuss the approach to be taken with their actuaries. It may be for example that for some employers any impact from either McCloud or Cost Cap would be immaterial and therefore no change to calculations is required. For others it may be that a level of prudence could be included in calculations to ensure that the fund is not adversely affected by the outcome of this process. Authorities are referred to the proposed changes to exit credits in the consultation entitled Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk published 8<sup>th</sup> May 2019.

# Scheme Advisory Board

- V. In order to provide some assistance for authorities in assessing the potential impact of McCloud the SAB have commissioned GAD to estimate both an overall scheme McCloud cost and a 'worst case' McCloud scenario on a range of pay assumptions. These figures will be published on the SAB website as soon they become available.

## Accounting provision

11. CIPFA have provided a separate note on accounting for McCloud/Cost Cap which can be found at <https://www.cipfa.org/services/networks/pensions-network/documents-and-guidance/mccloud-briefing-note>

**SAB Secretariat**  
**14.5.2019**

Contact [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk) or [robert.holloway@local.gov.uk](mailto:robert.holloway@local.gov.uk) or [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk)

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## **MINUTES OF THE PENSION BOARD Wednesday 13 March 2019 at 6.00 pm**

PRESENT: Mr Mr Ewart (Chair), Councillor and Councillors Kabir, Ms George and Mr Stewart

### **1. Apologies for absence**

Received from Councillor Crane and Mr Sebastian Steer.

### **2. Declarations of interests**

Councillor Kabir declared that she was the Chair of Governors of Village School.

### **3. Minutes of the previous meeting and Matters arising**

The minutes of the last meeting held on 13 December 2018 were approved as an accurate record. There were no matters arising from the minutes.

### **4. The Pensions Regulator**

The Board welcomed and received a presentation from representatives of The Pension Regulator (TPR). The presentation focussed on the TPR's expectations on the responsibilities of the Pension Board and Scheme Manager, TPR engagement with LGPS Brent and its (TPR) future work.

Board members heard that they were expected to have knowledge and understanding of scheme rules, administration and policies in addition to avoiding conflicts of interest, publishing information and recording of meetings and decisions. Members were pleased to note that the Brent Pension Fund had made significant progress in respect of record keeping, risk management, contract management and various other governance related activities.

In setting out the vision for the future, TPR would introduce two functions of supervision and enforcement by extending its regulatory reach coupled with clearer, quicker and tougher engagement. In this way it was hoped to build strong and transparent relationships, enabling stakeholders to better understand TPR.

Members thanked TPR for the presentation.

**RESOLVED** to note the presentation.

### **5. Pensions Administration Update**

The Pensions Board received a report which updated on various pension administration matters as part of its remit to oversee the administration of the Brent Pension Fund. Mr Ravinder Jassar (Head of Finance) gave a summary of the main aspects of the updates covering the outcome of the statutory re-enrolment process,

the upcoming triennial valuation of the fund, annual benefit statements for 2019 and an update on the engagement with TPR.

Mr Jassar informed the Board that 156 staff were enrolled into an eligible pension scheme of which 150 staff were enrolled into the LGPS, 2 staff were enrolled into the NHS pension scheme and 4 staff were enrolled into the Teachers' pension scheme. A total of 71 opt-outs had been received across the LGPS and NHS schemes. Members also heard that as part of the commitment to improve engagement with employers and following feedback from employers, a number of tailored training programmes had been arranged in March 2019. The training, which would cover a number of strategic topics, would be delivered through four sessions split over two days starting on 25th March.

Mr Jassar explained that every three years, a formal valuation of the whole Fund was required to be carried out under Regulation 62 (1) of LGPS Regulations 2013. The valuation aimed to assess and examine the ongoing financial position of the Fund and to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates. This, amongst others, would ensure that each employer's liabilities were as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS). In preparation for the triennial valuation, the Fund's actuary (Hymans Robertson), would be commencing early modelling on contribution rates with the work on the valuation commencing from July 2019, following the completion of the data cleanse project by LPP. The results were expected to be received around the final quarter of 2019, following which a programme of employer liaison would commence, including a formal consultation, on the draft FSS.

Members were advised that it was the scheme manager's statutory responsibility to issue an annual benefit statement (ABS) to all eligible active and deferred members by 31 August each year. In relation to active members, the scheme manager had historically had a number of issues with regards to the production of ABS. These issues included missing data on year-end returns, queries from year-end returns not being resolved on time and not being notified of starters and leavers. A deadline of 30 April 2019 had been set for year-end returns to be submitted to LPP to ensure sufficient time to resolve any queries and ensure production of ABS within the required timeframe. The dedicated training session had been arranged to support employers through this process and an online portal would be made available for all employers whereby data would be submitted on a monthly basis rather than an annual basis via year end returns. In addition, the scheme manager and LPP would be closely monitoring this project as part of the monthly performance meetings.

The outcome of the 2018 ABS rollout was also discussed as the proposal previously presented to the Pension Board in December 2018 had changed with respect to active members. It was the scheme managers understanding that of the small number of active members that did not receive an ABS, a manual statement of benefits would be issued as soon as outstanding queries were resolved with employers. LPP has subsequently informed the scheme manager that while this is possible on a case by case basis it would be challenging to do for all of these members due to the resources currently allocated to delivering business as usual, the data cleanse project and the backlog of cases project. Members and the scheme manager were content to agree with the revised approach on the basis that



these members were able to receive a statement of their benefits should one be requested and that they would receive an official ABS as part of the 2019 ABS rollout. It was considered that this revised approach did not materially change the basis of the previous decision, made in accordance with the Breaches Policy, to not report this to TPR as a material breach.

The Board was advised that the internal audit of the pension fund had concluded that the issues identified and the resulting recommendations were successfully implemented and that the service was no longer a cause for concern. Furthermore, measures had been put in place to ensure that the issues did not re-occur. Mr Jassar continued that since TPR informed him that they would be conducting in depth engagement to discuss governance and administration of the scheme, five meetings had been held and a wrap up meeting was planned to be held at the end of March 2019. As a result of the detailed feedback on various topics received from the meetings, a number of actions with regards to improving the governance of the scheme as set out within the report, had been agreed.

In welcoming the updates, the Board thanked the scheme manager and his team of officers for the work undertaken and **RESOLVED** to note the update.

## 6. Pensions Administration Performance Report

This report updated the Pension Board on performance of the pension administration contract with LPP together with a review of its (LPP) performance of the contract. Mr Ravinder Jassar (Head of Finance) introduced Mr James Wilday (LPP) to present the updates.

Mr Wilday informed the Board that LPP and the scheme manager were holding monthly meetings to monitor the performance of the contract, scrutinising both individual and monthly trends. He drew Members' attention to the tables within the report which showed contract statistics for cases processed grouped by category and, monthly progress since the contract commenced in October 2018.

He advised that whilst the percentage of cases completed on time significantly improved in February across all categories, the number of cases carried forward was disappointing, a reflection of a large backlog of cases that LPP inherited from the previous administration provider. It was noted however, that the number of cases carried forward was 113 lower than the previous month.

Mr Wilday clarified that as at the beginning of February 2019, there was 1 complaint and 1 IDR case outstanding. In February 2019 none of these cases were resolved and a further 6 cases were received. Of these 6 cases, 4 cases were complaints and 2 were IDR cases. 1 new case received was resolved. Brent and LPP were taking action to ensure that these cases were resolved swiftly however, the complexity of some cases meant that this was not always possible.

In responding to questions about underlying issues, Mr Wilday stated that they mainly related to delays, inaccurate information and inherent issues from the previous administration provider, Capita. He added that LPP had now put in place robust plans to address Annual Benefit Statement (ABS) were sent out on time.

Members thanked Mr Wilday and his team for the progress update and **RESOLVED** that a further performance update be reported to the next meeting of the Board.

## 7. **Updated Brent Risk Register 2019**

This report presented the updated Risk Register for the Brent Pension Fund Pensions Administration Service. Mr Ravinder Jassar (Head of Finance) informed the Board that since the last meeting of the Board, the Risk Register had been revised and updated following the transfer of the administration contract to LPP. The revision was necessary due to changes in new systems and processes which in turn changed the risk profile of certain activities. He continued that since the last meeting, the following three new risk areas had been identified:

- Loss of key staff members
- Data Breaches
- Cyber Security

He added that the risk management strategy for third party providers, Hymans and LPP, would also be checked to ensure they were robust.

In welcoming the updated risk register, the Board agreed with the classifications as set out in the appendix to the report and **RESOLVED** to note the report.

## 8. **Update on the Record Keeping Plan 2019**

This report set out the London Borough of Brent Pension Fund Record Keeping Plan (as amended in February 2019). The plan primarily related to various activities and objectives that cover the period January 2019 to December 2019 and beyond.

Mr James Wilday (LPP) emphasised the need for the Pension Fund to maintain the highest possible data quality standards, complying with its core functions and ensuring the cost effective use of resources, if it was to pay the correct pension benefits to its members when they fell due. He continued that the updated Record Keeping Plan focused around ensuring the completeness and robustness of scheme data following the transition from Capital to LPP in October 2018. The updates also reflected recommendations made by The Pensions Regulator following a number of meetings in 2018 and early 2019.

Members were informed that progress of data improvement plans was being monitored by officers and presented to the Pension Board quarterly. Mr Wilday added that in partnership with the scheme manager and Hymans, LPP was on track to complete work streams by 30 June 2019.

Members thanked Mr Wilday for the presentation and **RESOLVED** to note the updated report.

## 9. **Brent Pension Board Terms of Reference review**

The purpose of this report was to update the terms of reference of the Brent Pension Board, taking into account relevant guidance from The Pensions Regulator, advice from the Fund actuary and implementing lessons learned from recent training events. The revised terms of reference also aimed to further clarify the roles and responsibilities of members of the Pension Board.

Mr Ravinder Jassar (Head of Finance) informed the Board that since its current terms of reference was agreed in July 2015, there had been significant changes in the knowledge, experience and guidance and hence the roles and responsibilities of Board members. In order to comply with the developments and clarify the core functions of the Board, it was an appropriate time to update the terms of reference. He explained that the term of office for members would run for an initial two year period with the appointments to the Pension Board confirmed annually by the General Purposes Committee.

Mr Jassar then examined each appointment in turn as set out within relevant paragraphs of the report from which it was noted that the Brent member representative (Pension Scheme member) and the Independent Chair of the Board were confirmed by the General Purposes Committee on 10 July 2017 for a period of two years from 1 July 2017. As their term of office would end on 30 May 2019, a recruitment process would be undertaken to fill those positions for approval at the General Purposes Committee planned for May 2019.

In welcoming the revised terms of reference, the Board **RESOLVED** to note the planned recruitment to fill the positions as outlined above.

#### 10. **LGPS Regulations Update**

This report updated the Board on recent changes to the Local Government Pension Scheme regulations and other key developments from the Local Government Association's Pensions Committee. With reference to the report, Mr Ravinder Jassar (Head of Finance) highlighted the main developments.

Members noted that the cost management case (referred to as McCloud Case) about transitional protections that protected older judges and firefighters was still pending. He then referenced the MHCLG consultation paper which proposed amendments to the LGPS to which responses would be submitted by the Chief Finance Officer by April 2019. He continued with the Government's 'Fair Deal' policy which was introduced in 1999 and set out how pensions issues should be dealt with when staff were compulsorily transferred from the public sector to independent providers delivering public services.

Members heard that the LGPS SAB had asked Hymans Robertson to research the key issues impacting on the continued effectiveness of the scheme's governance now and in the future.

Members welcomed the update and **RESOLVED** to note the report.

#### 11. **Implementation of the Investment Strategy**

This report updated the Board on progress on the implementation of the investment strategy. Members were being asked to note the recommendations of the report which had been considered and approved by Brent Pension Fund Sub-Committee at its last meeting on 27<sup>th</sup> February 2019.

Mr Ravinder Jassar (Head of Finance) highlighted the salient elements which included an arrangement with the LCIV to synchronise the transaction for the second tranche of the LCIV Baillie Gifford investment of £20 with another local authority that was selling at the same time. The arrangement resulted in a saving of approximately £44,000. In regards to infrastructure fund, he added that the Fund had been recommended to commit, subject to due diligence, £50m to LCIV's infrastructure fund. This commitment level would be revised on an annual basis and the funds would be drawn down over time.

Members welcomed the report and **RESOLVED** to note the following decisions by Brent Pension Fund Sub-Committee:

- (i) Noted the progress of implementing the investment strategy approved on the 6 November 2018 meeting, including in particular the appointment by the Council (as Administering Authority on behalf of the Brent Pension Fund) of BlackRock Investment Management (UK) Limited pursuant to an investment management agreement in order to facilitate the Pension Fund's investment into the following BlackRock pooled funds:

Aquila Life Over 15 Years UK Gilt Index Fund; and  
Aquila Life Over 15 Years UK Gilt Index (Term Lending) Fund.

- (ii) That the proposed investment in the London CIV's infrastructure offering in April 2019 be agreed.

## 12. **Monitoring report on fund activity for the quarter ended December 2018**

Mr Ravinder Jassar (Head of Finance) introduced the report which provided an update on monitoring activity for the quarter ended December 2018. He gave an overview of the fund's investment holdings and an insight to the extent to which the returns achieved were consistent with each manager's philosophy, investment approach and market conditions.

With reference to the slides, Mr Jassar explained that equity markets fell heavily as US interest rates rose again and investors became more pessimistic about the outlook for global growth. Global equity markets also took a sharp turn lower at the start of Q4 as US government bond yields climbed to 3.2%. Geographically, Japan was the worst performing region as yen strengthened and the slowing growth in Europe and China weighed heavily on exporters. North America also marginally underperformed global indices while Emerging markets were the best performing region. However, returns to UK investors were less negative given renewed sterling weakness.

Drawing attention to performance by sector, Mr Jassar highlighted the strong performance within utilities and telecommunications and marginally so within healthcare and consumer goods. He continued that oil and gas was the worst performing sector as a result of declining oil prices.

Over the next quarter, the Fund expected to fully divest from the Henderson Total Return Bond fund, complete new investment in BlackRock's over 15yr gilts passive fund, complete 2nd tranche allocations to Henderson EM and LCIV MAC funds and receive call for funds for Alinda III infrastructure fund.

As the report had been considered and approved by Brent Pension Fund Sub-Committee at its last meeting on 27<sup>th</sup> February 2019, it was:

**RESOLVED** to note the report for the quarter ended December 2018.

### 13. **London CIV Update**

The report updated the Board on recent developments within the London CIV and the timescales attached to making investment decisions. Mr Ravinder Jassar (Head of Finance) updated the Board about the recent appointment of Mr Mike O'Donnell as permanent CEO to the board of the London CIV. The LCIV would commence the recruitment of a Chief Investment Officer.

In respect of investments, he informed the Board that Brent had 69% (£579m) of its assets under management overseen by the LCIV. 46% (£385.5m) in a passive investment product in overseas and UK equities through Legal & General, 19.2% in two diversified growth funds, Ruffer 5.6% (£47.1m) and Baillie Gifford 13.6% (£114.4m), 1.7% (£14.5m) in Emerging Market equities through Janus Henderson and 2.1% (£17.8m) in the MAC fund managed by CQS

As the report had been considered and approved by Brent Pension Fund Sub-Committee at its last meeting on 27<sup>th</sup> February 2019, it was:

**RESOLVED** to note the updates.

### 14. **MHCLG Statutory guidance on asset pooling in the Local Government Pension Scheme Consultation**

The report informed the Board about an informal consultation on draft new statutory guidance on asset pooling launched by The Ministry of Housing, Communities and Local Government (MHCLG). The guidance set out the requirements on administering authorities in relation to the pooling of LGPS assets and built on previous Ministerial communications and guidance on investment strategies.

Mr Ravinder Jassar (Head of Finance) explained the key points of the guidance as set out in paragraph 3 of the report which included the appointment of a pool company or companies to implement the investment strategies and to maximise the benefits of scale. It was noted that the process of selection, appointment, dismissal of investment managers would also be in the hands of the pool company. He continued that 69% of the Brent Pension Fund's investments were invested with the LCIV as at 31 December 2018 and on that basis the draft statutory guidance was welcomed as it was clearly linked to the Fund's investment strategy and beliefs .

The Board welcomed the draft new statutory guidance and:

**RESOLVED** to note that the Chief Finance Officer would prepare a formal response to the consultation on behalf of the Brent Pension Fund before the consultation closing date of 28 March 2019.

15. **Any other urgent business**

*Vote of Thanks*

On behalf of the Board, the Chair expressed appreciation to the team of officers for their work within the municipal year.

16. **Date of next meeting**

The date of next meeting will be confirmed after the Council's annual Meeting in May 2019.

The meeting closed at 7.50 pm

MR. D EWART  
Chair

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