



Brent

Brent Pension Fund Sub-Committee

Tuesday 25 February 2020 at 6.00 pm

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

Membership:

Members

Councillors:

S Choudhary (Chair)

Aden (Vice-Chair)

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

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

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

Notes for Members - Declarations of Interest:

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

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

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

***Disclosable Pecuniary Interests:**

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

****Personal Interests:**

The business relates to or affects:

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

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

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

or

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

- You yourself;

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

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
1 Declarations of personal and prejudicial interests	
Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
2 Minutes of the previous meeting	1 - 8
3 Matters arising	
4 Deputations (if any)	
5 LAPPF Presentation	9 - 16
6 Abatement of Local Government Pension on re-employment	17 - 24
This report provides the Committee with information regarding the reduction or suspension of a Local Government Pension on account of further employment within Local Government after an individual has retired (Abatement). The report also explains the background to the "Abatement" rules and the current statutory provisions for doing so.	
Ward affected: All Wards Contact Officer: Minesh Patel, Director of Finance Tel: 020 8937 4043 minesh.patel@brent.gov.uk	
7 Review of Investment Strategy	25 - 44
This report presents the analysis and results of the investment review carried out by Hymans Robertson. This review follows on from the 2018 strategic investment review and the Fund's 2019 Actuarial Valuation. The purpose of the review was to review the current investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives.	

Ward affected: All Wards **Contact Officer:** Minesh Patel, Director of Finance
Tel: 020 8937 4043
minesh.patel@brent.gov.uk

8 Update on Responsible Investment, Climate Change Risk and Environmental, Social and Governance (ESG) issues 45 - 74

This report provides an update on Environmental, Social and Governance (ESG) considerations with regards to strategic investment decisions, in particular how the fund is continuing to manage the risks of climate change.

An appendix to this report is excluded from the press and public 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)"

Ward affected: All Wards **Contact Officer:** Minesh Patel, Director of Finance
Tel: 020 8937 4043
minesh.patel@brent.gov.uk

9 Monitoring report on fund activity for the 4th quarter 2019 75 - 92

This report presents information about the performance of the Fund in quarter 4 2019.

10 LGPS Update 93 - 156

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

Ward affected: All Wards **Contact Officer:** Minesh Patel, Director of Finance
Tel: 020 8937 4043
minesh.patel@brent.gov.uk

11 2019 Triennial Valuation Results

157-206

This report sets out the results of 2019 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

Appendices 1-3 are exempt from the press and public as they contain 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)"

Ward affected: All Wards

Contact Officer: Minesh Patel, Director of Finance

Tel: 020 8937 4043

minesh.patel@brent.gov.uk

12 Minutes of Pension Board 22 October 2019

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13 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.

14 Exclusion from the Press and Public

The following reports are excluded from the press and public as they contain 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)".

15 Appendices to Valuation

215-290

16 Appendix 3 - Update on ESG

291-292

17 CIV Update

293-298

The purpose of this report is to update the committee on recent developments within the London CIV (LCIV).



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.



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Wednesday 2 October 2019 at 6.00 pm

PRESENT: Councillor Aden (Vice Chair in the Chair) and Councillors Choudry, (substitute for Councillor Choudhary), Perrin and Stephens

Apologies for absence were received from: Councillors S Choudhary, Daly, Maurice and Bankole

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

None.

2. **Minutes of the previous meeting -**

RESOLVED:

that the minutes of the previous meeting held on 29 May 2019 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

The Sub-Committee welcomed Mr Simon Erskine who addressed the meeting on behalf of Brent Divest. In reference to the report by the Director of Finance on Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues, Mr Erskine submitted the following comments. As the analysis in that report was likely to delay any action on protecting the Fund from the inherent risk of fossil fuel investment, any proposed action should be time limited with the shortest possible timescale and any engagement should be followed up with concrete action. In his view, the Council's policy of engaging with fossil fuel investment was not achieving the desired effect. He made reference to other London boroughs which had made a firm commitment to fully divest from fossil fuel investments and urged Brent to follow that example. Mr Erskine however acknowledged the Fund's fiduciary duty to safeguard the financial security of the Fund and thus its members.

In conclusion, Mr Erskine urged the Sub-Committee to urgently explore in partnership with other boroughs that had made the commitment to divest from fossil fuel investment and that whilst the Fund was awaiting the appropriate CIV funds to

which existing funds could be moved, it should carry out the analysis suggested in the report (Responsible Investment in ESG) at an early agreed deadline and with set goals.

Mr Erskine was thanked for his address.

5. Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues

This report set out the Fund's proposed approach to further integrating Environmental, Social and Governance (ESG) considerations into its strategic decision making and set out a new package of measures which subject to committee approval, the Fund intends to take in the short and medium term to manage the risk of climate change. Mr Ravinder Jassar (Director of Finance) introduced the report and highlighted the Fund's Responsible Investment (RI) commitment, reflected in the Fund's Investment Strategy Statement. He clarified that the Fund's funding principles were as follows; to ensure that sufficient resources were available to meet all benefit as they fell 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 to maximise the returns from investments within reasonable risk parameters

He added that the ESG criteria of its existing investments were assessed on an ongoing basis, including regular interaction and challenge of the Fund's investment managers (including the Fund's asset pool, London CIV). In recent years this had involved working with the London CIV to develop an overarching Responsible Investment policy, which the Committee endorsed and agreed to adopt in November 2018. Mr Jassar referenced the successful strategy of encouraging the Fund's managers to improve their disclosures and quarterly reporting with detailed breakdown on ESG matters.

Mr Jassar proposed to undertake a carbon footprint exercise for the Fund in order to improve its understanding of the Fund's holdings. This project would be undertaken by Officers working with our investment advisors, Hymans, to scope out the project further and report back to the committee. The exercise would use the latest data on greenhouse gas emissions attributable to global companies. The data collated would be used by officers to direct research and engagement activity with a view to assessing the opportunities and risks related to the shares. Following this, recommendations on the measurement of and actions related to carbon emissions would be then presented to the committee for approval.

Mr Jassar continued that individual funds engaging with companies on their own were thought to be unlikely to have as much of an impact and recommended working collaboratively so as to maximise their influence on major companies on topics such as climate change, labour rights and other ESG issues. There were a number of collaboration groups, including the Local Authority Pension Fund Forum (LAPFF). He outlined the membership and the combined investment assets of the LAPFF and added that additional information requested had been provided directly to members and the decision to join the forum brought back to the Sub-Committee.

Members then discussed investment in fossil fuel, how to engage and sought an idea as to the timescale for producing the joint report by officers and Hymans (investment advisor). Mr Jassar confirmed that the report would be available for the meeting in February 2020. In respect of the financial implications for joining the LAPFF, Councillor Perrin expressed his dissatisfaction. With the above in mind the Sub-Committee RESOLVED:

- i) To note the overall report with regards to position on responsible investment and climate change;
- ii) to note the further work proposed with regards to scenario analysis, carbon footprint analysis and consideration of alternative index-tracking funds.
- iii) to agree the Fund's membership of the Local Authority Pension Fund Forum (LAPFF)
- iv) that the investment plans be reviewed by February 2020.

6. Investment Monitoring report on fund activity for the 2nd quarter

This report updated members on the Fund's activity for quarter 2, 2019. The report was presented by William Marshall and Kameel Kapitan (Hymans). Mr Marshall introduced the report by cautioning Members that there could be a potential impact on the Fund depending on the outcome of the Brexit negotiations. Mr Kapitan informed Members that the Fund returned ahead of benchmark in the Q2 2019, continuing the strong start to 2019 and over the quarter the fund grew from just over £856m to almost £896m. In general, the Q2 2019 was another positive quarter with both risk seeking and defensive assets delivering positive returns. Members heard that the 3 key contributors to overall relative outperformance were; Janus Henderson's EM fund, Ruffer's multi-asset investment and Capital Dynamics' Private Equity.

Members heard that with the numerous changes to the strategic allocations in recent months there were no expected divestments or new investments in the next quarter. However, it was anticipated that the Fund would seek to increase its allocation to infrastructure via the London CIV's offering in Q4 2019, subject to the fund receiving the necessary FCA approval. Mr Kapitan explained that the delays in the LCIV's property offering may lead Officers and the Committee to consider alternative solutions in the interim period. Currently the funds were held within Baillie Gifford's diversified growth allocation but discussions are scheduled for Q4 2019 as to whether there were other more appropriate alternatives. He then provided updates on individual fund managers performance against benchmark and their ratings highlighting certain aspects of Ruffer and Baillie Gifford businesses as set out in the report.

In welcoming the updates, Members RESOLVED:

That the investment monitoring report on Fund activity for Q2, 2019 be noted.

7. **Brent Pension Fund: Annual Report and Accounts 2018/19**

This report presented the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2019. Mr Sawan Shah (Senior Finance Analyst) informed Members that there had been no major changes to the audited Annual Accounts since the submission of the Draft Annual Accounts to the Sub-Committee. He continued that only minor amendments and additional clarifications were made to the draft accounts by Grant Thornton (Council's auditors). He highlighted the following main items:

The value of the Fund's investments increased from £831.1m to £856.4m and total contributions received from employers and employees totalled £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, totalled £45.9m, an increase on the previous year's £38.9m. He added that as in 2017/18, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members.

In response to a member's question on the increase in pensions and other benefits paid to members, Mr Shah clarified that it had resulted from the programme of voluntary redundancies for members over 55 years of age.

In welcoming the report, it was **RESOLVED**:

That the Brent Pension Fund Annual Report and Accounts 2018/19 be noted.

8. **LGPS Update**

This report updated the Sub-Committee on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government. Mr Ravinder Jassar (Head of Finance) introduced the report and informed Members that the HM Treasury (HMT) launched a consultation on draft regulations, guidance and directions to implement the exit payment cap which was set at £95,000. He drew Members' attention to the Local Government Association (LGA) response paper, appended to the report, which raised concerns on the feasibility and consequences of implementing the Policy in the manner set out in HM Treasury's Consultation Document.

Mr Jassar then gave an update on the McCloud case; transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015. Members heard that 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. He then outlined the key points from the Advice Note and added that the Fund Actuary had produced a summary regarding the various approaches in which the McCloud risk can be managed. Given that no remedy had been agreed by 31st August 2019, it would leave Funds to consider locally, how best to manage the uncertainty and risk. Approaches to this was expected to vary across LGPS Funds depending on Officers' and Committees' views on the risk. The Fund was currently analysing and working together with both the Fund Actuary and Investment Advisor to manage the potential ongoing risks for the Fund. As part of the external audit of the Pension Fund accounts, the auditors

requested an estimate of the potential impact of McCloud, and if material, reflect the changes in the accounts. This was estimated at £3m at whole fund level. Depending on the liability profiles on different employers, the impact would vary across different employers.

In respect of Governance, Mr Jassar informed Members that the Scheme Advisory Board (SAB) commissioned Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance going forwards. Hymans Robertson undertook a process of engaging extensively with stakeholder groups and fund types to consider four governance models, each of which would be assessed against set criteria. The results found that there was a majority preference in adopting a governance model which combined improved practice with greater ring fencing of the LGPS within existing structures. In addition to this, the results found that there was a preference for clearer ring-fencing of Pension Fund management from the host authority, including budgets, resourcing and pay policies.

Following the analysis of these results, Hymans Robertson proposed that an outcome based approach to LGPS governance, with minimum standards, should be adopted rather than a prescribed governance model. In addition to this, Hymans Robertson proposed updating of relevant guidance and training requirements. Following the approval of the good governance report, the Scheme Advisory Board (SAB) has asked Hymans Robertson to assist with the next stage of this project which will involve the defining of good governance outcomes and options for assessment of these outcomes. Further details of the results and analysis undertaken by Hymans Robertson were set out in Appendix 3 to the report. Overall the Fund supported these recommendations, in particular, clearly clarifying the standards expected in areas of governance and administration.

Members welcomed the report and RESOLVED:

That the report on the recent developments in the LGPS be noted.

9. Review of Fund benchmarks and performance targets

The purpose of this report was to review the Fund's investment benchmarks and performance targets at an individual asset class level. On behalf of Hyman Roberts (Fund Investment Advisor), Mr Robert Marshall explained that The Fund required benchmarks so that 'gaps' or problems with performance can be identified and performance improvements can be achieved through investigating causes and identifying the best solutions. He drew Members' attention to the recommendations to the Fund's benchmarks and performance targets (attached at appendix 1). Mr Marshall added that at an individual asset class level, it was proposed to adopt new benchmarks and performance targets set against Capital Dynamics Private Equity, Baillie Gifford Multi Asset, Ruffer Multi Asset, Alinda Infrastructure, Capital Dynamics Infrastructure and LCIV CQS Multi Credit.

In noting that the changes would be incorporated in the next quarterly reporting of Fund activity, Members RESOLVED:

That the proposed changes to the Funds investment benchmarks and performance targets be noted.

10. **Equitable Life Proposal**

The report outlined proposed changes to the Equitable, a legacy Additional Voluntary Contributions (AVC) provider for the Brent Pension Fund. Mr Sawan Shah (Senior Finance Analyst) informed Members that AVCs were potentially a tax efficient way to save money for retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension. He clarified that the scheme which affected about 25 members only and provided by Equitable Life, was not part of the assets of Brent Pension Fund.

Members heard that in June 2018, Equitable Life announced that it had entered into an agreement to transfer its business to Utmost Life and Pensions. In August 2019, it wrote to all the LGPS administering authorities affected by the transfer to advise them that as both 'Scheme Policy Holders' and 'Eligible Members' they were able to vote on the scheme or the proposed changes as set out in the report. Mr Shah drew members' attention to leading Counsel's advice and in reiterating the recommendation to delegate authority to the Director of Finance added that regard would be had to leading Counsel's advice in determining how to vote.

In welcoming the report, Members **RESOLVED**:

That delegated authority be granted to the Director of Finance on the decision to vote as outlined in section 3.7 of the report.

11. **Minutes of Pension Board - 13 June 2019**

The Sub-Committee welcomed Mr David Ewart (Independent Chair, Pension Board) and invited him to provide a summary of the Board's last meeting. Mr Ewart informed the Sub-Committee that in general, the Board observed an improved performance and a positive outlook by LPP, the pensions administration team. He highlighted the significance of the monthly meetings which were being held by the pensions administration team to monitor the performance of the contract, looking at both the individual month and trends across months. It was noted that the cases completed on time had significantly improved since February across all categories. He added that phase 1 of the Record Keeping Plan (RKP) project which addressed critical issues with common and scheme specific data, focusing on ensuring scheme data is accurate, was in time for the triennial valuation.

Mr Ewart was thanked and in welcoming the update, Members **RESOLVED**:

That the summary of the Board's last meeting be noted.

12. **Any other urgent business**

None.

13. **Exclusion of Press and Public**

RESOLVED:

That the press and public be excluded from the consideration of the following reports as they contain 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)"

14. **London CIV Update**

The purpose of this report was to update the Sub-Committee on recent developments within the London CIV (LCIV). Mr Ravinder Jassar (Head of Finance) provided updates on personnel at the LCIV and the confirmation of the appointment of J.P. Morgan as the new sub-fund manager of the LCIV Emerging Market Equity Fund, subject to the completion of the Investment Management Agreement (IMA). Members also received updates on multi asset credit fund and infrastructure fund and noted that the proposal submitted by the LCIV in August 2019 for the Infrastructure Fund had been granted permission.

RESOLVED:

- i) That the recent developments with the London CIV be noted;
- ii) That the transition arrangements relating to the LCIV Emerging markets fund be noted;
- iii) That the Fund's strategic asset allocation be tactical.

15. **2019 Triennial Valuation**

The purpose of this report was to update members on the progress of the 2019 Triennial Valuation and the next steps and also requested members to approve the draft FSS (Funding Strategy Statement) for consultation with employers and delegate authority to finalise the Council contribution rate. Mr Ravinder Jassar (Head of Finance) introduced Mr Douglas Green and Ms Laura McInroy from Hyman Robertson who presented the report on 2019 Triennial Valuation.

Mr Douglas Green explained that the Triennial Review ends with the setting of the contribution rates of the various employers for the period 2020/21 through 2022/23. Its key document was the Funding Strategy Statement (FSS) that set out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately. He continued that The Whole Fund results look at the overall funding level, noting that various employers would have different funding levels based on contribution rates in the past.

Ms McInroy then gave a detailed presentation on the valuation, drawing members' attention to the draft FSS attached to the report as appendix 1, which set out the key changes since the 2016 FSS was published following consultation with employers.

Mr Green and Ms McInroy were thanked for the in-depth presentation and in welcoming the report, RESOLVED:

- i) that the progress on the 2019 Triennial Valuation be noted.
- ii) that the Whole Fund results be noted;
- iii) that the current draft of the Funding Strategy Statement (FSS) be agreed;
- iv) to note that that the draft FSS will be consulted with employers, as required by LGPS Regulations, and reported to the Sub-Committee in February 2020 for formal ratification.

The meeting closed at 8.10 pm

S CHOUDHARY
Chair

Brent Pension Fund Sub-Committee Meeting

Keith Bray, Forum Officer
25 February 2020

Agenda

- What LAPFF does for the fund and the LGPS
- Page 10 Work done by LAPFF on ESG issues (with a particular focus on climate change)
- Some outcomes achieved by funds acting together

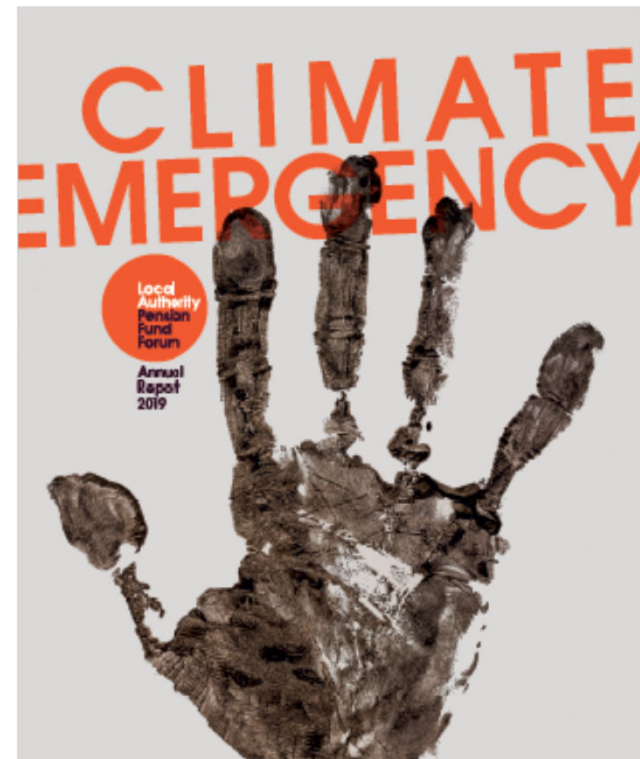
Who we are and what we do

- The LAPFF has 82 LGPS fund members and six pool companies with combined assets of just over £300 billion
- We provide an unparalleled resource for funds to develop their approach to stewardship and responsible investment and maximise influence as shareholders

What LAPFF does

The Forum engages over a wide range of topics, including environmental and carbon risk, social and governance risk and reliable accounts

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Engagement activities and outcomes

Company engagement

ArcelorMittal announces aim to be carbon neutral in Europe by 2050, more recently setting targets for 2030

Ford and other car makers agree a deal with California on fuel efficiency standards after collaborative engagement

Ryanair: after LAPFF proposes a shareholder resolution for a new chair, company states chair and senior independent director will step down by the 2020 AGM.

Engagement activities and outcomes

Policy engagement

After long advocating the ineffective regulator the Financial
Report Council be disbanded, it is now to be replaced by
the Audit, Reporting and Governance Authority (ARGA)

ARGA now monitoring holding company and group balance
sheet discrepancies, as flagged up by LAPFF/PIRC and
Thomas Cook/Carillion's capital maintenance problem

Engagement activities and outcomes

Stakeholder engagement

Investors are increasingly understanding the value of community perspectives, both to protect the interests of those affected most by corporate activities and to gain an understanding of how corporate actions are affecting the potential for shareholder value creation'

Cllr Rob Chapman, LAPFF vice-chair




lapfforum.org.uk

Acting together - achieving more

Protecting shareholder value



	Pensions Fund Sub-Committee 25 February 2020
	Report from the Director of Finance
Abatement of Local Government Pension on re-employment	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	1. Summary of Abatement Policies across London in 2018 2. Current policy and proposed change
Background Papers:	<ul style="list-style-type: none"> N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 This report provides the Committee with information regarding the reduction or suspension of a Local Government Pension on account of further employment within Local Government after an individual has retired (Abatement).
- 1.2 The report explains the background to the “Abatement” rules and the current statutory provisions for doing so.
- 1.3 Information about the abatement practices of other Local Authorities is set out in Appendix 1 while further explanation of the current policy and proposed change is set out in Appendix 2.

2.0 Recommendation(s)

- 2.1 The Committee is asked to approve the report for consultation with employers for agreement. Any material changes arising from consultation will be reported back to the Committee.

3.0 Detail

Background

- 3.1 Abatement is a technical term regarding the reduction or suspension of a Local Government Pension Scheme (LGPS) pension where a pensioner has entered into further local government employment. If the annual salary in the second local government employment plus the pension in payment exceeded the annual salary at the initial retirement, then the pension would be reduced or potentially suspended for the duration of the subsequent local government employment.
- 3.2 When formulating an abatement policy, the pension regulations require that the Administering Authority has regard to:
- The level of potential financial gain at which it wishes abatement to apply;
 - To the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and
 - To the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.
- 3.3 Until 31 March 1998 abatement was mandatory, but from 1 April 1998 to 31 March 2014 abatement was discretionary. With effect from the introduction of the 2014 LGPS career average pension, abatement ceased to be applicable for service after 1 April 2014. Accordingly, a scheme member who only has LGPS membership from 1 April 2014 will not be subject to abatement.
- 3.4 Abatement cannot apply if a pension recipient obtains further local government work as an agency worker, nor if a person is engaged as a contractor or a consultant. A pension payable to the spouse or partner of a former local government employee, cannot be abated if the spouse/partner enters local government employment.
- 3.5 In respect of an LGPS pension recipient, a further employment in the wider public sector such as teaching or in the NHS does not require assessment for abatement.
- 3.6 Under the terms for 'flexible' retirement, a scheme member aged 55 or over may, with the agreement of the employer, reduce working hours or take a pay grade reduction and receive the LGPS pension including salary without abatement.
- 3.7 At present there are 7 Brent Council pension recipients whose pensions are being abated due to re-employment. Pensioners are also being contacted on a regular basis to enquire if they have commenced further local government employment, which places an administrative burden on collecting, collating and implementing abatement. Currently, there are also 17 pension recipients being

assessed regularly in respect of earnings in further local government employment.

- 3.8 A survey of London Boroughs in 2018 has shown that 15 Councils currently do not abate pensions in payments. There are 4 Councils which offer a limited abatement and 18 currently abate pensions in payments.
- 3.9 The abolition of post 1998 abatement will allow for fairer treatment for all pensioners, as pensioners with only post 2014 scheme membership are not subject to abatement.
- 3.10 The change in pensions rationale over the last few years, seen with the introduction of “Pension Freedoms”, has allowed active and deferred scheme members to access reduced pensions at a date of their choosing, but the continued use of abatement seems to be working against this shift in policy.
- 3.11 The proposal is that the London Borough of Brent, consults with our employees as per the regulations and if there are no major objections, then we will cease to abate pensions for staff who ceased employment after 1 April 1998 from 1 April 2020.
- 3.12 For those pensioners who are currently abated and their Brent employment ended after 1 April 1998, they will cease to have their pensions abated and will be reinstated to the current values from 1 April 2020.

4.0 Financial Implications

- 4.1 The cost of administering abatements is chargeable to the Pension Fund and places a strain on the Fund and the Council’s resources.
- 4.2 By ceasing abatement the cost of administering the scheme will be reduced through less time and resource being spent on checking and monitoring pensioners who may be drawing a pension from the Local Government Scheme, for example the cost of reducing and increasing pensions from payroll and LPP running regular employment checks on Brent pensioners as well as the cost of auditing and handling of complaints from abated pensioners.

5.0 Legal Implications

- 5.1 There are no abatement provisions in the LGPS Regulations 2013. Therefore if an employee leaves on or after the 1st April 2014, draws their pension benefits and are then is subsequently re-employed in local government, the Council may not abate their post 1st April 2014 pension.
- 5.2 However, the abatement provisions in Regulations 70 & 71 of the LGPS (Administration) Regulations 2008 continue to have effect in relation to pensions in payment deriving from the pre 1st April 2014 pension schemes regardless of when payment of those pensions commenced, by virtue of Regulation 3(13) of the LGPS (Transitional) Regulations 2014.

- 5.3 Under Regulation 70, the Council, as its administering authority must keep under review its policy concerning abatement. This includes; the extent, if any, to which the amount of retirement pension payable to a member and applicable to the period prior to 1st April 2014, should be reduced (or whether it should be extinguished) where the member has entered a new employment with a scheme employer within the LGPS.
- 5.4 In formulating its existing policy concerning abatement, the Council would have had regard to:
- the level of potential financial gain at which it wishes abatement to apply;
 - the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and
 - the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.
- 5.5 When reviewing its existing abatement policy, the Council will need to have regard to the matters set out above. If, as a result of reviewing its policy concerning abatement, the Council decides to amend the abatement policy, it must publish a statement of the amended policy before the expiry of the period of one month beginning with the date of its determination.

6.0 Equality Implications

- 6.1 To be advised by Human Resources.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

8.0 Human Resources

- 8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance



Abatements Report November 2018

The abatement policies for 33 London councils from Barking & Dagenham to Westminster have been referred to and the following breakdown produced. We have looked at what other London councils are doing on abatement and it is about 50/50 when you take into account certain criteria some council have adopted when abating pensions.

The following 15 councils have no abatement

- 1 Barking & Dagenham
- 2 Ealing
- 3 Hackney
- 4 Harrow
- 5 Havering
- 6 Islington
- 7 Kingston
- 8 Redbridge
- 9 Richmond upon Thames
- 10 Chelsea
- 11 Sutton
- 12 Tower Hamlets
- 13 Waltham Forest
- 14 Wandsworth
- 15 Westminster

Following 18 councils have abatement

- 1 Barnet
- 2 Bexley
- 3 Brent
- 4 Bromley
- 5 Camden
- 6 City of London
- 7 Croydon
- 8 Enfield
- 9 Greenwich
- 10 Fulham
- 11 Haringey
- 12 Hillingdon
- 13 Hounslow
- 14 Lambeth
- 15 Lewisham
- 16 Merton
- 17 Newham
- 18 Southwark

The following councils apply certain criteria:

Barnet	Abatement if enhanced ill health Pension
City of London	Pension benefits of those individuals that retire after 31st March 2014 and are subsequently re-employed are not subject to abatement
Croydon	Abatement if was an early retirement with a pension strain cost
Enfield	Only abate old pre 97 additional years cases

DRAFT

ADMINISTERING AUTHORITY DISCRETION - Abatement

Summary

Under the provisions of the Local Government Pension Scheme (LGPS) the Administering Authority is required to maintain a policy on how it will apply the various discretions given under the Scheme.

The current policy was approved by the General Purposes Committee on 16 January 2007.

It is proposed that this policy is changed in regard to the policy of re-employed pensioners

The proposed amendments are shown below, and apply to the three distinct member groups, each of which is relevant to the date of active membership, or when active membership ceased. Although the relevant regulations to each category differ, the proposed policy intention is the same.

Discretions from 01.04.14 in relation to post 31.03.14 active members and post 31.03.14 leavers

Regulation

TP3(13) & A70(1) & A71(4(c))

Description of discretion	Current Policy Decision	Proposed Amendment
Decide policy on abatement of pre April 2014 elements of pensions in payment following re-employment	Abatement has been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated. All pensioners who retired with membership before 1 April 2014 will be subject to abatement. Abatement can be waived at the discretion of the Council up to £5000 per annum, if the pensioner notifies the Council of re-employment prior to commencement of re-employment and the pay earned in the second employment is less than £25000 per annum and the pensioner can demonstrate special circumstances such as extreme financial hardship or medical reasons.	Abatement will cease to apply in all cases.

Discretions in relation to scheme members who ceased active membership on or after 01.04.08 and before 01.04.14

Regulation

TP3(13) & A70(1) & A71(4(c)) & T12


Description of discretion	Current Policy Decision	Proposed Amendment
<p>Decide policy on abatement of pensions following re-employment.</p> <p>Abatement reduces a member's pension during a period of reemployment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement.</p>	<p>Abatement has been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated.</p> <p>All pensioners who retired with membership before 1 April 2014 will be subject to abatement. Abatement can be waived at the discretion of the Council up to £5000 per annum, if the pensioner notifies the Council of re-employment prior to commencement of re-employment and the pay earned in the second employment is less than £25000 per annum and the pensioner can demonstrate special circumstances such as extreme financial hardship or medical reasons.</p>	<p>Abatement will cease to apply in all cases</p>

Discretions under the Local Government Pension Scheme Regulations for active or ceased scheme members before 01.04.08

Regulation

109 & 110(4)(b) Abatement

Description of discretion	Current Policy Decision	Proposed Amendment
<p>Abatement of pensions following re-employment pre 1 April 2008 leavers</p> <p>Abatement reduces a member's pension during a period of reemployment where a pensioner has re-entered local government employment which is subject to the LGPS and whose total pension and new salary together exceed the salary at retirement</p>	<p>Abatement has been removed from LGPS 2014 and so only pre 01/04/2014 benefits can be abated.</p> <p>All pensioners who retired with membership before 1 April 2014 will be subject to abatement. Abatement can be waived at the discretion of the Council up to £5000 per annum, if the pensioner notifies the Council of re-employment prior to commencement of re-employment and the pay earned in the second employment is less than £25000 per annum and the pensioner can demonstrate special circumstances such as extreme financial hardship or medical reasons.</p>	<p>Abatement will cease to apply in all cases</p>

	Pensions Fund Sub-Committee 25 February 2020
	Report from the Director of Finance
Review of Investment Strategy	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	One 1. Investment Strategy Review – February 2020
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

- 1.1 This report presents the analysis and results of the investment review carried out by Hymans Robertson. This review follows on from the 2018 strategic investment review and the Fund's 2019 Actuarial Valuation. The purpose of the review was to review the current investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives.

2.0 Recommendation(s)

- 2.1 The Committee should discuss and agree the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson, available in Appendix 1. The following proposals should be taken into consideration:
- That the committee's current investment beliefs are fit for purpose but expands on its Responsible Investment beliefs in light of the increased focus on, and importance of, this area.
 - The current long term strategy is fit for purpose from a returns perspective as it is expected to return in excess of the required return.

- To introduce a global low carbon mandate as part of the Fund's equity allocation and to delegate authority to the Director of Finance to agree the size and fund in question and to put into effect this investment following discussions at the committee meeting.
- The Fund's actual investment arrangements will deviate from their target over time and therefore a degree of rebalancing should take place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

3.0 Detail

- 3.1 Following the 2019 valuation and agreed at the last committee meeting, the Fund commissioned an investment strategy review. The full report is available in Appendix 1.

4.0 Financial Implications

- 4.1 These are included in Appendix 1.

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:

Minesh Patel
Director of Finance

London Borough of Brent Pension Fund

Investment strategy review

February 2020

William Marshall, Partner
Kameel Kapitan, Associate Consultant
Dave Gilmour, Investment Analyst

For and on behalf of Hymans Robertson LLP

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Appendices

- Appendix 1 – Current Investment Beliefs
- Appendix 2 – 2018 Investment Strategy Review mapping
- Appendix 3 – ESS Assumptions

Executive Summary

Addressee

This report is addressed to the Officers and Pension Fund Sub Committee (the “Committee”) of the London Borough of Brent (“Brent”) as administering authority to the London Borough of Brent Pension Fund (the “Fund”). In line with the agreed scope, the report sets out the results and commentary of the quantitative and qualitative analysis undertaken as part of the review of the investment strategy of the Fund and provides high-level comments on the Fund’s investment structure.

Summary of report

We have summarised our findings and recommended next steps below:

- The Committee’s current investment beliefs, which were formally signed off in November 2018, are still fit for purpose. We recommend that the Committee expands its Responsible Investment beliefs in light of the increased focus on, and importance of, this area.
- Inputting the current long-term target asset allocation into Hymans Robertson’s Structure model gives a best estimate long term expected return of **5.40% p.a.** with a corresponding volatility of **9.77% p.a.** over 1 year.
- The current long-term strategy is therefore fit for purpose from a “returns” perspective, as it is expected to return in excess of the “required” return of **4.40% p.a.** used by the Actuary in the funding valuation.
- After assessing alternative investment strategies, we recommend a 5% increase in the allocation to equities, and a 5% allocation to private debt, both funded from “diversifiers”. This change to the strategy increases the Fund’s expected return to **5.52% p.a.** and only marginally increases the level of investment risk. Given the Fund’s strong positive cashflow, we are comfortable with this change.
- We recommend that global low carbon mandate forms part of the Fund’s equity allocation. The size of this allocation and the precise fund in question will be discussed with you further. We anticipate this being funded from a portion of the Fund’s existing equities.
- The Fund’s actual investment arrangements will deviate from their target over time and therefore we strongly recommend a degree of rebalancing takes place on a regular basis to try and prevent too much deviation from the desired strategic allocation. Further thoughts are set out in the final section of this report.

Prepared by:

William Marshall, Partner
Kameel Kapitan, Associate Consultant
Dave Gilmour, Investment Analyst

For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

1 Introduction

Addressee

This report is addressed to the Officers and Pension Fund Sub Committee (the “Committee”) of the London Borough of Brent (“Brent”) as administering authority to the London Borough of Brent Pension Fund (the “Fund”). The report sets out the results and commentary of the quantitative and qualitative analysis undertaken as part of the review of the investment strategy of the Fund. It has not been prepared for use for any other purpose and should not be so used. We also provide some high level comment on the Fund’s investment structure.

This report has not been prepared for any other purpose. This report should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Background

2018

A strategic review took place in 2018, which was based on the member date from the 2016 triennial actuarial valuation. The 2018 review looked at:

- Establishing a set of Investment beliefs to support the long-term strategic approach;
- Setting the high-level allocation to growth, income (diversifiers) and protections assets; and
- The diversification opportunities available within the portfolio.

Following this review and subsequent discussions, the Fund agreed to restructure its equity exposure to take on more of a global focus, increase its allocation to income diversifiers (property and infrastructure) and restructure its protection allocation to include a 5% allocation to multi-asset credit (“MAC”).

2019/2020 review

The 2019 actuarial valuation revealed the Fund remains with a funding gap (i.e. assets falling short of the current assumed value of future benefits) on the Fund’s reported ongoing funding basis. Following on from the 31 March 2019 valuation. Hymans Robertson in our role as investment advisor to the Fund, have undertaken a review of the existing investment strategy.

Given the in-depth asset liability modelling carried out in 2018 (relatively recently), this paper focus more on the risk and return profiles of various strategies using more compact analysis, Hymans Robertson’s proprietary “Structure Lite” model. This “lighter touch” approach was agreed with Officers on the basis of the membership profile of the 2019 valuation remaining broadly consistent with that previously modelled and the funding strategy also remaining materially unchanged.

This report will:

- Provide a detailed recap of the 2018 strategy review;
- Review the existing investment beliefs with a view to expanding those focussed on responsible investment;
- Evaluate the risk/return profile of the existing investment strategy against set criteria;
- Analyse a range of alternative investment strategies to determine whether or not they more effectively meet the set criteria; and
- Assess the structures of the growth and income portions of the strategy.

2 Recap of 2018 Investment strategy review

In 2018 a review of the Fund's investment arrangements was carried out using asset liability modelling to help inform decisions about the investment strategy. The review focussed on the high-level investment strategy in terms of the allocation to higher return seeking "growth" assets such as equities, diversifying "income" focussed assets such as property and infrastructure, and lower risk "matching" assets such as bonds. As part of the strategic review, asset liability modelling was carried out using information from the 2016 valuation and market conditions as at 31 March 2017. The analysis gave us the ability to test the impact of different contribution and investment strategies on the possible outcomes for the Fund. Objective metrics were adopted during the review as a means to assess the potential impact of changes to the investment and funding strategy. The metrics were as follows:

Long term

- The strategy should have at least a 2/3rds chance of achieving full funding on the Fund's ongoing funding basis in 20 years' time.
- The probability of the Fund being less than 90% funded after 20 years should be less than 10%.

Short term

- The increase in deficit in the worst 5% of outcomes over the next 3 years must be no more than 2 times.
- The probability of being less than 70% funded after 3 years should be less than 10%.

Conclusions of review

The analysis considered the impact of restructuring the allocation to growth assets and the potential impact of introducing greater diversification within the income ("diversifier") allocation. As a reminder, the main conclusions of the review included:

- The current strategy provided a good chance of meeting long term funding objectives, but alternative strategies existed that could more efficiently deliver on these;
- Based on the contribution strategy that was in place, it was possible to reduce the growth allocation (including DGF) within the investment strategy to be 60% over the longer-term; and
- There was scope to increase diversification and maintain the ability to meet the Fund's long-term objectives through increased allocations to diversifiers. This was due to the diversification benefits and the level of expected returns for equities and certain yielding assets.

Outcomes of review

Based on the conclusions of the review we recommended the Fund seek to reduce risk and diversify the strategy in two stages. This resulted in the following interim and long-term targets being agreed. Full details of the propose mapping to these strategies is included in Appendix 2.

Table 1: Asset allocation summary - 2018

	Interim Target	Long-term Target
Growth (including DGFs)	68%	60%
Income (Diversifiers)	17%	25%
Protection	15%	15%

However, it was also noted that moving from the current allocations to these new targets will take time e.g. as the London CIV launches sub funds and as private market allocations are built up over time; and during this process a degree of pragmatism is likely to be required on the Fund's allocations e.g. holding diversified growth funds as a proxy for Income assets. We discuss this further in this paper.

3 Strategic goals, objectives and beliefs

Strategic goals and objectives

The strategic goals of the Fund are to **pay benefits as they fall due, and to have a stable (and affordable over the long-term) contribution rate.** These goals are further expanded in the strategic objectives.

- The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a DB basis.
- The investment objective is to maximise returns over the long term within specified risk tolerances.

In order to achieve these objectives, the Officers must set a clear investment strategy. The approach to setting this strategy is set depend, in part, on the Fund's investment beliefs, and therefore it is important that the investment beliefs are reviewed and adjusted as necessary.

Investment beliefs

The current investment beliefs were formally signed off in November 2018. We believe that, for the most part, they are still appropriate and relevant for the Fund. However, we understand the Officer and Committee are committed to further developing the beliefs with respect to the Responsible Investment ("RI"). Responsible investment has moved up the agenda in recent times at both a macro and micro level. The Fund's current RI beliefs are listed below, and the complete list of beliefs can be found in the Appendices.

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.

In light of the Fund's increased focus and importance of responsible investment, we believe that there is scope to add to these existing beliefs. Our proposed additional beliefs to consider are set out below.

Proposed additional beliefs

Ongoing engagement is preferable to divestment

The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement maybe via our managers or alongside other investors (e.g. LAPFF). Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, we believe that divestment should be actively considered.

We must act as responsible owners

As asset owners in the 21st Century, we believe it is our responsibility to support the transition to a low carbon global economy, consistent with the aims of the Paris 2016 Climate Change agreement to limit temperature increases by 2050 to a maximum of 2°C.

The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision-making Investment managers are responsible for implementing the Fund's strategy. In this role, the managers should reflect the Fund's desire for achieving long-term sustainable returns and improve corporate behaviour.

4 Investment strategy

Current investment strategy

The Fund's current strategic long-term target strategy and current allocation are shown below.

Table 2: 2018 outcomes summary

Asset Class	Current Allocation ^[1]	Interim Target	Long-term Target
Global Equity	37%	35%	35%
UK Equity	13%	5%	5%
EM Equity	3%	5%	5%
Private Equity	5%	5%	0%
DGFs	19%	18%	15%
Infrastructure	4% ^[2]	12%	15%
Property	0%	5%	10%
Multi Credit	4%	5%	5%
Gilts	9%	10%	10%
Cash	6%	0%	0%

[1] As at 31/12/19. [2] Note a further 5% of capital has been committed to the LCIV Infrastructure fund which has not yet been drawn.

As shown, the Fund's current allocation deviates from both the agreed interim and long-term targets. This partly reflects market moves, with equities having performed strongly, but also assets being held in DGF to help fund the agreed investments in property and infrastructure (LCIV infrastructure and property offerings have taken much longer to launch than anticipated). This raises the question about whether the Fund should wait for the LCIV or look to address this imbalance within the portfolio sooner. This is discussed in a later section.

Target return

As previously noted, the purpose of the investment strategy is to help deliver on the Fund's long-term objectives alongside the agreed funding strategy. The funding strategy is developed by the Fund's actuaries, also Hymans Robertson, at formal valuations, the most recent being 31 March 2019. We therefore need to ensure that the investment strategy is consistent with the assumptions adopted as part of this valuation.

As part of the 2019 formal valuation, the actuaries adopted a future investment return assumption (a "discount rate") of 4.4% when reporting the funding level for the Fund. However, when doing so the actuary is required to make a prudent assumption of future investment returns. Thus, we use this only as a guide for evaluating the investment strategy i.e. we would expect each strategy to achieve this as a minimum with a view to achieving excess return in the most efficient manner.

4.4% p.a. is therefore the minimum return the Fund should be seeking to achieve on its investment strategy and what we use as very much the lower bound to assess the current and alternative investment strategies considered in this section.

Risk and return profile – current long-term target

Inputting the long-term target asset allocation (shaded column, table 2) into Hymans Robertson's Structure model gives a best estimate long term expected return of **5.40%** p.a. with a corresponding volatility of **9.77%** p.a. over 1 year.

This is in excess of the “required” return used by the Actuary in the funding valuation i.e. continuing with the current investment strategy is consistent with the funding objectives and therefore fit for purpose from a pure return front.

The volatility measure captures risk in the form of the potential variance in expected return over a 1 year period. The 9.77% p.a. figure for the current portfolio therefore implies that over a 1 year period expected return could vary by +/- 9.77% in any two years out of three. Equity risk is the largest contributor to both return and risk when measured on an absolute basis.

The expected risk and return figures are based on projected returns from Hymans Robertson's proprietary stochastic asset model, Economic Scenario Service (ESS). The assumptions underlying this model are provided in the Appendix 3 and are as at 31 December 2019.

Alternative investment strategies

This section seeks to determine the extent to which changes to the current long-term target could take to still meet the Fund's return objectives. We have modelled potential alternative portfolios which show what effect different asset allocations have on expected risk and return. This modelling helps give an indication of the implications of changing the Fund's investment strategy, most notably in terms of taking more investment risk, or seeking more diversification.

Table 3: Modelled investment strategies

Asset Class	Current Long-term Target	Current – Restructured	Diversifier Focussed	Growth Focussed
<i>Global Equity</i>	35%	40%	30%	45%
<i>UK Equity</i>	5%	5%	2.5%	7.5%
<i>EM Equity</i>	5%	5%	2.5%	7.5%
<i>Private Equity</i>	0%	0%	0%	0%
Total equities	45%	50%	35%	60%
<i>Multi Asset</i>	15%	5%	15%	13%
<i>Infrastructure</i>	15%	15%	15%	12%
<i>Property</i>	10%	10%	10%	0%
<i>Private Debt</i>	0%	5%	10%	0%
Total diversifiers	40%	35%	50%	25%
<i>Multi Credit</i>	5%	5%	5%	5%
<i>Gilts</i>	10%	10%	10%	10%
Total protection	15%	15%	15%	15%
Return (p.a. over 20 yr)	5.40%	5.52%	5.38%	5.50%
Risk (vol, over 1 yr)	9.77%	9.88%	9.39%	10.18%

From the quantitative analysis above we can see the following points from a strategic perspective:

- Two of the alternative strategies, with the exception of the “Diversifier-Focussed” one, achieve a higher per annum expected return than the current long-term target
- Increasing the allocation to equities increases the overall risk and return levels
- Adopting a more Diversifier focussed strategy marginally reduces the expected return but reduces the risk more noticeably.

Summary and conclusions for investment strategy

The above results suggest that there is scope for the Fund to increase its long-term target exposure to equities to c50% of total assets, as it increases expected return and only marginally increases the level of investment risk (as shown by column “Current- Restructured”). Given the Fund’s strong positive cashflow, we are comfortable with this move and believe the impact of the risk change is marginal.

This represents a 5% increase in the strategic equity target, compared the 2018 targets, with this allocation funded by reducing the allocation to “diversifiers”

Asset Class	Current Long-term Target	Revised long-term target	Change
Total equities	45%	50%	+5%
Total diversifiers (including DGFs)	40%	35%	-5%
Total protection	15%	15%	0%
Total assets	100%	100%	-

In the following section we talk about the Investment structure i.e. the mandates that sit within the investment strategy and the approach to implementation.

5 Investment structure

There are number of aspects that fit within this Section.

Governance and implementation

Diversified Growth classification

The Fund has mandates with Ruffer and Baillie Gifford that invest across a range of asset classes, collectively these mandates are called Diversified Growth (“DGF”) mandates. For the purpose of this paper, we define these assets in the “Diversifiers”, as we believe this reflects the role these assets perform in the Fund’s overall arrangements. This classification represents a different approach to the 2018 review, when the DGFs were in the “Growth” asset grouping. Please note, this is purely a presentational change, it had no impact on the 2018 or 2020 results, as the modelling is carried out on a mandate specific basis.

London CIV

The CIV continues to experience considerable turnover and change e.g. most recently the departure of the Head of Fixed Income. This ongoing change seems to be having implications on the time it is taking the CIV to launch certain sub-funds and draw money for those sub-funds that are launched e.g. the Fund has committed money to the CIV’s infrastructure fund but this has not been drawn yet. We are taking the CIV’s current position seriously and are meeting them on a number of occasions over the coming months, which we will keep you updated on.

In terms of this paper, this lack of sub-fund offering/time to get money invested raises questions for the Fund e.g. is there scope/willingness for the Fund to invest outside the Pool? How should money, expected to be invested with the CIV, be held in the interim e.g. the money earmarked for property and infrastructure.

Asset classes

Equities

We continue to support the Fund having a diverse allocation to equities (including global emerging markets). With the majority of this exposure accessed via index-tracking mandates.

One area that is worth further discussion is Responsible Investment. Over recent years, there has been notable evolution in the investment strategies being offered by investment managers (index-tracking and active). Given the Fund’s large index-tracking exposure, we strongly recommend that you consider such mandates, at least for a proportion of the Fund’s index-tracking exposure. The main index-tracking offerings tend to look to offer similar levels of investment returns than the broad market, but with a notably lower carbon exposure. We will provide further comments at the Pre-Committee training session. Following this session, we can agree next steps with you.

Protection assets

We continue to be comfortable with the Fund’s current arrangements, with the gilts offering low cost exposure to nominal protection assets and the MAC mandate offering low duration exposure to credit markets.

Diversifiers

We continue to support notable allocations to property and infrastructure.

We also believe there is merit in including an allocation to Private Debt in the Fund's investment strategy. Private debt is an income focussed asset with a shorter-term focus than infrastructure, so would provide natural diversification within the "diversifier" bracket whilst adding wider diversification within the portfolio. The aim of allocating to assets in this category is to deliver an absolute return, meaningfully higher than might currently be achieved investing in cash or short-term high-quality bonds, but with a degree of reasonable predictability. To deliver the predictability in returns, a large part of the return will be derived through identifiable sources of income rather than relying on the uncertainty of capital gains.

Private Debt mandates tend to focus on sub-investment grade credit ratings, therefore a core skill of the underlying investment manager is to assess the credit worthiness of the underlying debt issuer. The LCIV plans to offer a Private Debt vehicle although the development of this remains at a very early stage with no set date for launch available.

Implementation

CIV

As stated previously, the issue over getting access via the CIV is real one and affects a number of assets classes. The Fund has already committed £50m to the CIVs infrastructure offering, albeit none of this money has been called yet. No money has been committed to the CIV for Private Debt or Property (due to the lack of vehicle available).

For all the asset classes, there is scope to access these outside the pool e.g. buy secondary property units or commit further money to your existing infrastructure manager Alinda, or make other infrastructure investments e.g. JP Morgan/IFM. This is in part depends on the Committee's comfort for investing outside the Pool. We will discuss this with you at your February meeting. You may wish to raise this with the CIV and also other London Boroughs who are facing similar challenges.

Time to invest

In addition, to the above point, the nature of a number of these asset classes means that it can take considerable time to get access e.g. infrastructure you commit money, with this money then gradually drawn by the manager as they find investments. This means that you typically gradually work towards the target allocation. Given this, you may have to invest these monies elsewhere, until it is ready to be drawn. Another feature of these less liquid asset classes is the challenge of rebalancing i.e. you can't buy or sell to rebalance to target allocations. Again, this means a degree of pragmatism needs to be required in any rebalancing process.

Recommended strategy

Taking the above points into account we propose the following approach to implementation (see table below).

Asset Class	Previous			Recommended	
	Current Allocation	Interim Target	Long-term Target	Interim Target	Long-term Target
Global Equity ex UK	37%	35%	35%	40%	40%
UK Equity	13%	5%	5%	5%	5%
Global Low carbon	0%	0%	0%	To be discussed with Committee	
EM Equity	3%	5%	5%	5%	5%
Private Equity	5%	5%	0%	5%	0%
Total equities	58%	50%	45%	55%	50%
DGF	19%	18%	15%	20%	5%
Infrastructure	4%*	12%	15%	10%	15%
Property	0%	5%	10%	0%	10%
Private Debt	0%	0%	0%	0%	5%
Total diversifiers	23%	35%	40%	30%	35%
Multi Credit	4%	5%	5%	5%	5%
Gilts	9%	10%	10%	10%	10%
Cash	6%	0%	0%	0%	0%
Total protection	19%	15%	15%	15%	15%
Total	100.0	100.0	100.0	100.0	100.0

Points to note include:

- We continue to support a phased approach to working towards the long-term target allocations, with an interim allocation in place.
- We anticipate a global low carbon mandate forming part of the Fund's equity allocation. The size of this allocation and the fund in question will be discussed with you further. We anticipate this being funded from a portion of the Fund's existing equities.
- Private equity will run off over time. However, this will take time, hence it continues to justify a place in the Fund's interim strategy.
- Until there is a decision on potential routes of investment, we do not propose any interim allocations to property and private debt. We have set the interim infrastructure allocation to 10% (reflecting the current allocation and the future commitment), albeit in reality the Fund will struggle to reach this allocation in the absence of further commitments.
- The Fund's DGF mandates provide a low governance diverse approach to investment markets. We remain comfortable with DGF, performing a role in the Fund's investment strategy at this time.
- We do not propose any changes to the Fund's protection assets at this time.

Rebalancing

For a range of reasons, the Fund's actual investment arrangements will deviate from the target over time e.g. market movements, manager performance etc. We strongly recommend a degree of rebalancing takes place on a regular basis e.g. quarterly, to try and prevent too much deviation from the desired strategic allocation (also rebalancing has proven to add value over the long-term).

For the Fund, we propose the following key principles:

- At a high level, the important rebalancing is between Equities, Diversifiers and Protection assets groupings. **We recommend rebalancing ranges of $\pm 5\%$ at each of these grouping levels e.g. for protection assets a range of 10%-20%.**
- Pragmatism is applied. When rebalancing, we propose it is not all the way to the target allocation, instead just moving to half way between central and outer range. This reduces the transaction costs associated with such rebalancing.
- Rebalancing between mandates within these groupings is also relevant, albeit we view it as lower priority. For the underlying equity mandates, we propose ranges of $\pm 3\%$ at each fund level. We note that these ranges are large for the smaller allocations, but we believe this is acceptable in terms of total Fund risk.
- For Diversifiers, the DGFs will be used to help balance the total allocation, this may mean that at times, the actual allocation deviates notably from the target. We remain supportive of both of the Fund's managers. We will discuss this with you in more detail at your February meeting.
- For Protection assets, we propose ranges of $\pm 3\%$ at each mandate. We also recommend any unallocated cash holdings are included in the Fund's Protection asset allocation

We look forward to discussing this paper with you in February. Once there is agreement we recommend it is turned into a formal investment policy

A summary of key points are included in the first section of this report.

Prepared by:-

William Marshall, Partner
Kameel Kapitan, Associate Consultant
Dave Gilmour, Investment Analyst

10 February 2020

For and on behalf of Hymans Robertson LLP

Appendices

Appendix 1 – Current 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. There preferred route is to implement their investment strategy via the London CIV, subject to carrying out suitable due diligence on the CIV's investment offering.

Appendix 2 – 2018 Investment Strategy Review mapping

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Proposed Target Asset Allocation (%)	Comment
Private Equity	Fund of Funds	Capital Dynamics	64.5	7.8	10.0	5.0	0.0	Allocation gradually being unwound. No further commitments to be made. Further work to get indication of timescale for run-off. Continue to include exposure in total equity allocation.
	Fund of Funds	Yorkshire	0.5	0.1				
Equities	UK Passive	LGIM (CIV)	108.4	13.1	45.0	45.0	45.0	Adjust the benchmark to have lower UK allocation and add a proportion of emerging markets. Redeem small cap equities and proceeds invested into passive mandate
	Overseas Passive	LGIM (CIV)	274.3	33.0				
	Small-Cap	Henderson	31.6	3.8				
Diversified Growth	Multi-asset	Baillie Gifford (CIV)	75.5	9.1	21.0	18.0	15.0	Although DGFs are part of Fund's growth exposure they also provide a degree of exposure to income and protection assets. They can act as "balancing" item for strategic allocation during the period as the income exposure is being built up.
	Multi-asset	Ruffer (CIV)	48.8	5.9				
Total growth	-	-	603.6	72.8	76.0	68.0	60.0	

	Style	Manager	31/03/2018 Value (£m)	31/03/2018 Actual allocation (%)	Current Target Asset Allocation (%)	Interim Asset Allocation (%)	Final Proposed Target Asset Allocation (%)	Comment
Infrastructure	Direct	Alinda	24.9	3.0	8.0	12.0	15.0	Priority is to work towards current target. Investigate scope to commit additional monies e.g. working with existing managers and CIV. Also potential use of secondary market.
	Funds+ Direct	Capital Dynamics	8.4	1.0				
Property	Europe fund-of- funds	Aviva	2.1	0.2	0.0	0.0	0.0	Being wound down. No further commitments
New income mandate	One or more	TBC	0.0	0.0	0.0	5.0	10.0	Potential to add core UK property or other additional income fund via secondary market as initial step
Total income	-	-	35.4	4.2	8.0	17.0	25.0	
Fixed Income	Active	Henderson – Total Return	94.1	11.3	15.0	0.0	0.0	Redeem Henderson Fund, not going to be part of CIV.
Fixed Income	Active/ Passive	Recommend LGIM/CIV	-	-	-	15.0	15.0	Recommendation is for proportion c.10% in passive longer duration bonds plus c 5% allocation to multi-asset credit
Cash	Short-dated	In-house	97.0	11.7	1.0	-	-	Remove 1% strategic allocation to cash
Protection	-	-	191.1	23.0	16.0	15.0	15.0	-
TOTAL	-	-	830.2	100.0	100.0	100.0	100.0	-

Appendix 3 – ESS Assumptions

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset, the volatility of equity returns and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected liability and bond returns. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns. The impact of the yield reversion assumption is illustrated in the standard results charts that we produce using the model output.


While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we have not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.

The returns presented here are time weighted returns over the specified period and are unaffected by the timing of any contributions received or pensions paid over that period. Such returns are, in general, a poor estimator of money weighted returns, which are sensitive to the timing of cashflows.

The probability that a specific asset return will be exceeded will not usually equate to the probability that some funding plan based on this return will be sufficient to meet all the pension payments. Complex interactions between the assets, yields and cashflow timings can mean that the two probabilities are materially different, especially for more mature schemes.

We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

	Pensions Fund Sub-Committee 25 February 2020
	Report from the Director of Finance
Update on Responsible Investment, Climate Change Risk and Environmental, Social and Governance (ESG) issues	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART 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)"
No. of Appendices:	Three <ol style="list-style-type: none"> 1. Carbon footprinting scopes 2. Climate Change Funding Analysis 3. ESG-oriented Equity funds (Exempt)
Background Papers:	<ul style="list-style-type: none"> ▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

- 1.1 This report provides an update on Environmental, Social and Governance (ESG) considerations with regards to strategic investment decisions, in particular how the fund is continuing to manage the risks of climate change.

2.0 Recommendation(s)

That the committee:

- 2.1 Note the overall report with regards to the position on Responsible Investment and Environmental, Social and Governance matters (ESG).

- 2.2 Note the work carried out in relation to scenario analysis of the impact of climate change and agree the actions arising.
- 2.3 Note the research carried out on low carbon (or ESG orientated) index tracking funds and delegate authority to the Director of Finance to put into effect this investment as part of the wider investment strategy review.
- 2.4 Agree to conduct a carbon footprint of the Fund at an estimated cost of between £10k and £20k and to delegate authority to the Director of Finance to finalise the terms of the exercise as set out in section 5.9 of this report.
- 2.5 Note the collaborative work being undertaken by London Boroughs and the London CIV to bring forward new ESG orientated investments.

3.0 Background

- 3.1 LGPS funds face increasing pressure from various stakeholders to ensure that Environmental, Social and Governance (ESG) issues are considered in the course of managing the fund and in its investment decision making. This has been driven by an increased focus in this area from lobby groups and regulators, and from greater public scrutiny.
- 3.2 Environmental, Social and Governance (ESG) is a term that is used to describe a set of factors within responsible investing (RI) that can be a source of financial risk within different assets. The below table shows some examples of ESG factors.

Environmental factors	Social factors	Governance Factors
Climate change	Diversity	Board Structure
Resource Scarcity	Human rights	Executive Remuneration
Water Stress	Health & Safety	Transparency
Pollution	Data Protection	Shareholders Rights
Waste Management	Community Relations	Auditing and Accounts

- 3.3 LGPS Guidance on Preparing and Maintaining an Investment Strategy Statement requires that responsible investment and ESG issues are considered in investment decisions:
- 3.4 When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, 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.

- 3.5 Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.
- 3.6 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, and over the long term, dependent on the time horizon over which their liabilities arise.
- 3.7 Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

4.0 Scenario Analysis

- 4.1 The Brent Fund Pension Fund has engaged with its actuary to model the impact of three climate change scenarios. These are:
- **Green Revolution:** Rapid policy response from government creates the absolute necessity for change which is matched by the deployment of green technologies and ongoing investment in adaptation;
 - **Challenging times:** Challenging times reflects delayed policy action. Change is likely to be intermittent at first but is assumed to become more severe in response to growing environmental feedbacks;
 - **Head in the Sand:** Policy responses do not prioritise environmental change with corporates largely continuing business as usual type approaches.
- 4.2 This analysis isolates different market outcomes which are associated with these three climate scenarios and examines the long term funding impacts on the fund. The modelling combines the impact of markets (which generally affects asset values) and the longevity impact (which affects the Fund's liabilities). The full report is available in Appendix 2.
- 4.3 The results of this analysis show that, both, the head in the sand and the challenging times scenarios are likely to give poorer funding outcomes than the current funding plan anticipates. Under both of these scenarios, the reduction in longevity lead to a reduction in liabilities. All other things being equal, this would improve the funding position. Therefore, the poorer funding outcome can be attributed to reduction in GDP growth and equity returns.
- 4.4 The Green Revolution scenario provides the most optimistic outcomes in the medium to long term. These are similar funding outcomes to those that are

anticipated in the current funding plan. However, even some of the projections in this most optimistic scenario provide negative funding outcomes in the short term.

- 4.5 The Fund's current investment strategy reflects that the Brent Pension is poorly funded compared to other LGPS pension funds and strikes an 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.
- 4.6 Nevertheless, the report proposes a set of next steps including:
- A review of investment beliefs and asset allocation,
 - A review of carbon exposure of existing investments,
 - Engagement programmes with fund managers and
 - Improved reporting and disclosures on ESG using industry best practice guidance.

The Fund has considered many of these actions in this report.

5.0 Fund Manager Research and Measuring Climate Risk

- 5.1 Within ESG issues, it is clear that climate change and its effect on the planet is a key challenge. To minimise the consequences, world leaders agreed to limit global temperature rise this century to below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius in the Paris agreement. Furthermore, the UK government has committed to bring all greenhouse gas emissions to net zero by 2050. It is clear that that Climate Change poses a significant risk to long-term investors such as the Brent Pension Fund however there remains considerable uncertainty as to what the exact impact will be.
- 5.2 With an increasing focus on climate risk, investment managers are also adapting to investors' concerns. Therefore, it is important to understand the Fund's current position, both, in terms of engagement and activity already carried out by investment managers, and to understand the Fund's exposure to climate change.
- 5.3 Officers have asked each active fund manager for further information on the extent to which they are taking account of climate risk within their portfolios and how they are managing this risk. They have also been asked on engagement activity they have conducted on assets owned.
- 5.4 It is also proposed to undertake a carbon footprint exercise for the Fund in order to improve its understanding of the Fund's holdings. The exercise will use the latest data on greenhouse gas emissions attributable to global companies.
- 5.5 An initial carbon footprinting exercise on the Fund's assets would:

- Provide base data to better understand the impact of the Fund's current investments on emissions and climate risks.
 - Allow the committee to assess the impact of future investment decisions on environmental factors and to monitor progress over time.
- 5.6 Carbon footprinting is a measure of carbon emissions that can be attributed to the Fund's investment portfolio. This is based on the total carbon emissions data of the individual company and then calculating the ownership of the organisation by the Fund. The Fund would then receive a carbon intensity score measured in tonnes/\$m invested. This is then typically compared to the footprint of the benchmark (e.g. the portfolio benchmark or FTSE All-world)
- 5.7 It is important to note that there are several limitations of carbon footprinting and therefore carbon footprinting can only be seen as a tool to aid analysis. However, these limitations are expected to improve over time. In summary:
- 5.7.1 There are caveats around data quality. The main source of information is through publically available information such as annual reports. Furthermore, the data can sometimes be quite old.
- 5.7.2 In many countries, carbon reporting is voluntary and is not always audited. Where data is not available carbon footprinting uses estimation techniques to fill gaps.
- 5.7.3 Assumptions are made as to whether emissions fall into scopes 1, 2 or 3. Carbon footprinting tools focus on scopes 1 and 2, data for scope 3 is not widely reported. Further information on scopes is available in appendix 1.
- 5.7.4 Data is generally not available for private equity and other private markets.
- 5.8 Other methods of analysis in this area include: carbon risk ratings which score companies on how susceptible they are to climate change, % portfolio invested in fossil fuel production companies and % of portfolio invested in green transport and renewable energy.
- 5.9 Officers will work with our investment advisors, Hymans to agree the exact terms of the exercise and to appoint a contactor to conduct a carbon footprint of the Fund. This is estimated to cost between £10k and £20k and the exact cost will depend on the fund's holdings at the measurement date. The results of this exercise will be reported to the committee later this year.

6.0 Investment Strategy

- 6.1 The Fund's Investment Strategy Statement (ISS) describes its overarching approach to dealing with environmental, social and governance (ESG) issues, these are reflected in its investment beliefs which were formally agreed in November 2018:

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.

- 6.2 Following the 2019 valuation and agreed at the last committee meeting, the Fund commissioned an investment strategy review, which is to be considered as a separate report on this agenda. This report recommends that the committee's current investment beliefs are fit for purpose but expands on its Responsible Investment beliefs in light of the increased focus on, and importance of, this area.
- 6.3 The Fund holds a large proportion of its equity investments in passive tracker funds, these are funds that seek to replicate the performance of a market index. This is a practice encouraged by government due to the low fees paid to investment managers. The government has also encouraged Funds to pool their assets to further benefit from fee savings.
- 6.4 As at 31 December 2019, 54% of the Fund's total assets were invested in listed equities with 50% of the Fund's assets in passive tracker funds. The Fund has conducted research into ESG-oriented equity tracker funds that are available for investment by the pension fund. This is shown in appendix 3.
- 6.5 It is important to recognise that there are costs to moving from the Fund's current passive tracker funds to more ESG focussed funds from additional management expenses. The exact cost will depend on which mandate is sold and the new investment entered into. Where the Fund achieves a lower rate of return of return due to increased investment management expenses, this will have a negative impact on the overall funding level of the Brent Pension Fund (which is already low in comparison to other funds) as well increase the employer contribution rate for the Council and other employers in the Fund.
- 6.6 The investment strategy review has recommended that a global low carbon mandate forms part of the Fund's equity allocation, which is to be funded by selling some of the Fund's existing equity holdings and using cash available. The size of the holding and next steps will be discussed further at the committee meeting.
- 6.7 The Fund's pool, London CIV (LCIV), currently does not offer sufficient products with an ESG focus however, the Fund is aware that there is now an increased focus in this area from the LCIV. It is therefore important for the Fund to

collaborate with other local authorities to work to reduce the costs for investments in this area.

6.8 At the February 2019 committee meeting, the sub-committee agreed to commit £50m to the London CIV's infrastructure fund. The Fund had a successful first close of £399m in total on 31st October 2019. At least 25% of the Fund's investment will be invested in renewable projects. The initial infrastructure investment has been made into the "Macquarie GIG Renewable Energy Fund 2". This fund will be 100% focussed on renewable energy with the majority of investments being in wind and solar assets.

6.9 London CIV are also currently working on a 100% renewable infrastructure fund and an active exclusion equity fund due to demand from a number of London Boroughs. Brent will conduct the necessary due diligence on these products as further details are revealed during the year and provided they fit within the scope of the investment strategy will be brought forward to the committee for consideration.

7.0 Financial Implications

7.1 These are discussed throughout the report.

8.0 Legal Implications

8.1 Not applicable.

9.0 Equality Implications

9.1 Not applicable.

10.0 Consultation with Ward Members and Stakeholders

10.1 Not applicable.

11.0 Human Resources

11.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

Appendix 1 - Carbon footprinting scopes

DEFINING THE SCOPE: DIRECT VS INDIRECT EMISSIONS

MSCI's carbon footprint calculations are based on Scope 1 + Scope 2 carbon emissions:

➤ **Scope 1:** All direct GHG emissions from sources owned or controlled by the company. Some examples include emissions from fossil fuels burned on site, emissions from entity-owned or leased vehicles.

As of 21 Sept 2015, Scope 1 emissions comprised 81% of total emissions of the MSCI ACWI Index.

➤ **Scope 2:** Indirect GHG emissions from consumption of purchased electricity, heat, or steam, and the transmission and distribution (T&D) losses associated with some purchased utilities.

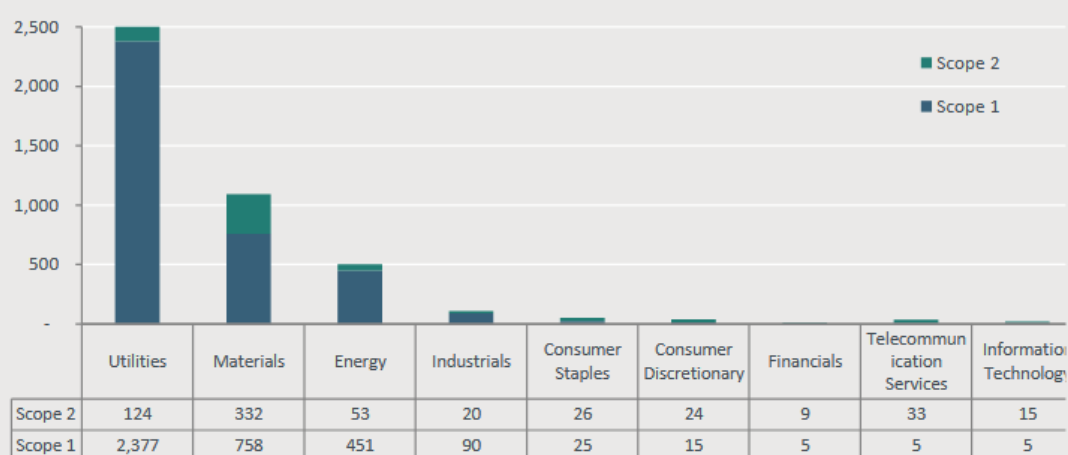
As of 21 Sept 2015, Scope 2 emissions comprised 19% of total emissions of the MSCI ACWI Index.

➤ **Scope 3:** Other indirect emissions that occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

Since Scope 3 emissions occur from sources not owned or controlled by the company, and the boundaries to measure scope 3 emissions are not well-defined, it is not consistently calculated or disclosed by companies.

The inconsistency of scope 3 emissions data makes it difficult to perform any meaningful comparative analysis across companies or industries. Further, due to lack of control of the emission sources and boundaries, it is difficult to estimate such emissions comprehensively.

Figure 8 – Scope 1 vs. Scope 2 Emissions by Sector



Source of definitions: GHG Protocol

Source: MSCI – Carbon Footprinting 101

London Borough of Brent Pension Fund

Climate change risk analysis

Douglas Green FFA
Laura McInroy FFA

16 December 2019

Background

- This paper is addressed to the London Borough of Brent in its capacity as Administering Authority (in effect the trustee) to the London Borough of Brent Pension Fund (“the Fund”). The Fund is part of the Local Government Pension Scheme (“LGPS”), and its assets are held separately from the Council;
- The Fund has obligations under LGPS Regulations to pay benefits to members as and when they retire, and to their dependants as and when members die, details being defined in those Regulations;
- The Fund holds assets to pay those benefits, although the benefits are not affected by market movements. The assets are derived from contributions paid in by the employers (mainly the Council) and members (set by Regulations), plus investment returns achieved;
- A shortfall in the assets available (i.e. a funding level below 100%) means that, all other things being equal, the employer will need to pay more into the Fund to ensure the Fund can pay the benefits;
- Hymans Robertson is the actuary to the Fund, and one of our Regulatory responsibilities is to advise how much employers need to pay in to the Fund to ensure there are sufficient assets available in the future to pay benefits.

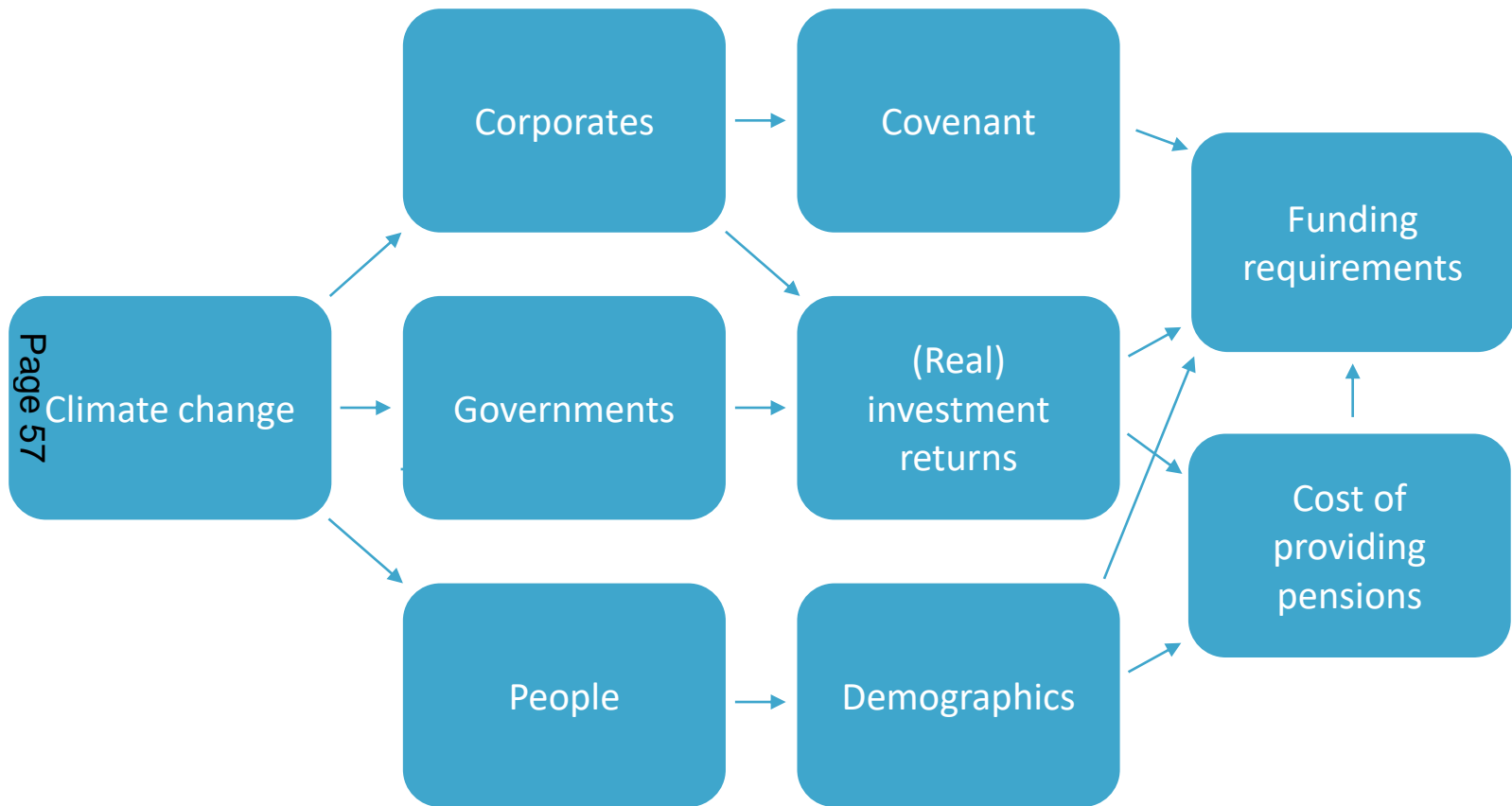
Climate change: a hot topic

- Climate change has the potential to affect the benefits which the Fund needs to pay:
 - if it affects the longevity of members in retirement, then it needs to pay more if members live longer, and less if members die sooner;
 - if it affects price inflation, then members' pensions in payment will rise faster (meaning higher pay-out needed) or slower (meaning lower pay-out needed).
- Climate change also has the potential to affect the assets available to meet these benefits, if it affects:
 - economic growth and inflation,
 - shares & property values,
 - interest rates,then this can speed up or slow down the growth in the Fund's asset values (or even reduce the Fund's asset values).
- See slide 10 for details of some of these potential impacts, which we have modelled.
- We have measured how some of these potential impacts might affect the Fund in the short, medium and long term.

Professional notes

- This paper is addressed to, and has been requested by, the London Borough of Brent in its capacity as Administering Authority (in effect, trustee) to the Fund. The paper may be made publicly available;
- The paper is not formally addressed to, or intended to be taken as advice by, any other party such as Fund employers, members of the Fund, or Council tax-payers;
- The purpose of the paper is to identify to the Fund some of the potential long term funding impacts of different climate change scenarios. It is not intended to be part of the contribution-setting decisions in the 31 March 2019 formal funding valuation;
- Hymans Robertson does not accept responsibility for, nor can be held liable for, this paper being used by any other party than the Administering Authority or for any other purpose.

Climate, economy and pension funds are linked

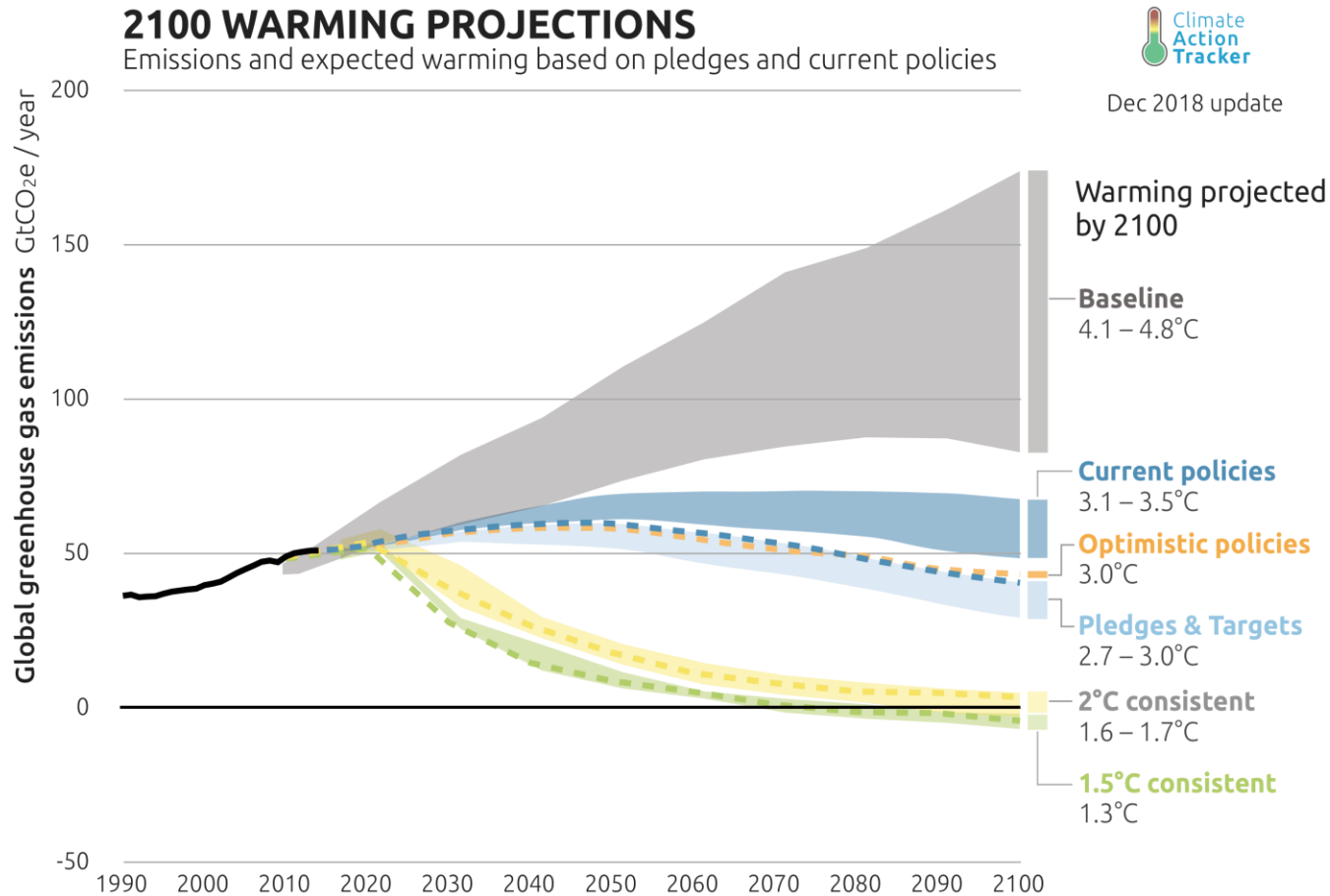


Policy and market responses controlled by Corporates and Governments

Scenarios modelled

Page 58

Measuring climate change risk



Pension impact will depend more on Government policy and market reactions,
rather than on degree of warming

Building on longevity impacts

Head in the sand



A range of disastrous outcomes resulting from a total lack of response to climate risk.

Global crop failures, influx of new diseases, severe temperature fluctuations resulting in harsh flu epidemics. Antibiotic resistance rises as new discoveries are limited.

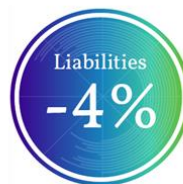


Challenging times



Some adaptation achieved. "Peak oil flow" is reached constraining economies of the future.

Increasing fuel prices, constrained government finances, difficulty obtaining access to imported foods. More/less severe for lower/higher socio-economic groups.



Green revolution



Rapid technological advances leading to positive adaptation to climate change.

Healthier lifestyles prevail (walking, cycling etc), diets improve with less processed food consumption, homes protected against extreme temperatures.



Club Vita analysed the impact on longevity (and hence on liability values: reduced longevity means higher liabilities and vice versa) under these three scenarios

Source: Club Vita- Hot and Bothered?: https://www.hymans.co.uk/media/uploads/ClubVita_Booklet_UpdatedStats.pdf

Economic, financial and longevity impacts

Markets impact

Longevity impact



Source for longevity impact:
[Club Vita- Hot and Bothered?](#)

GDP growth & equity returns continue to rise in short term but then fall significantly.
Inflation stable in short term then rises.
Gilt yields rise short term then fall significantly.
Credit spreads widen significantly.

GDP growth & equity returns flat in short term then fall (especially in medium term).
Inflation stable in short term then rises.
Gilt yields fall significantly in medium term.
Credit spreads widen significantly (especially in medium term).

GDP growth & equity returns fall in short term but then improve.
Inflation continues to rise then stabilises long term.
Gilt yields rise short term then stabilise long term.
Credit spreads widen significantly then stabilise long term.

Modelling shows **combined impact of markets and longevity changes**



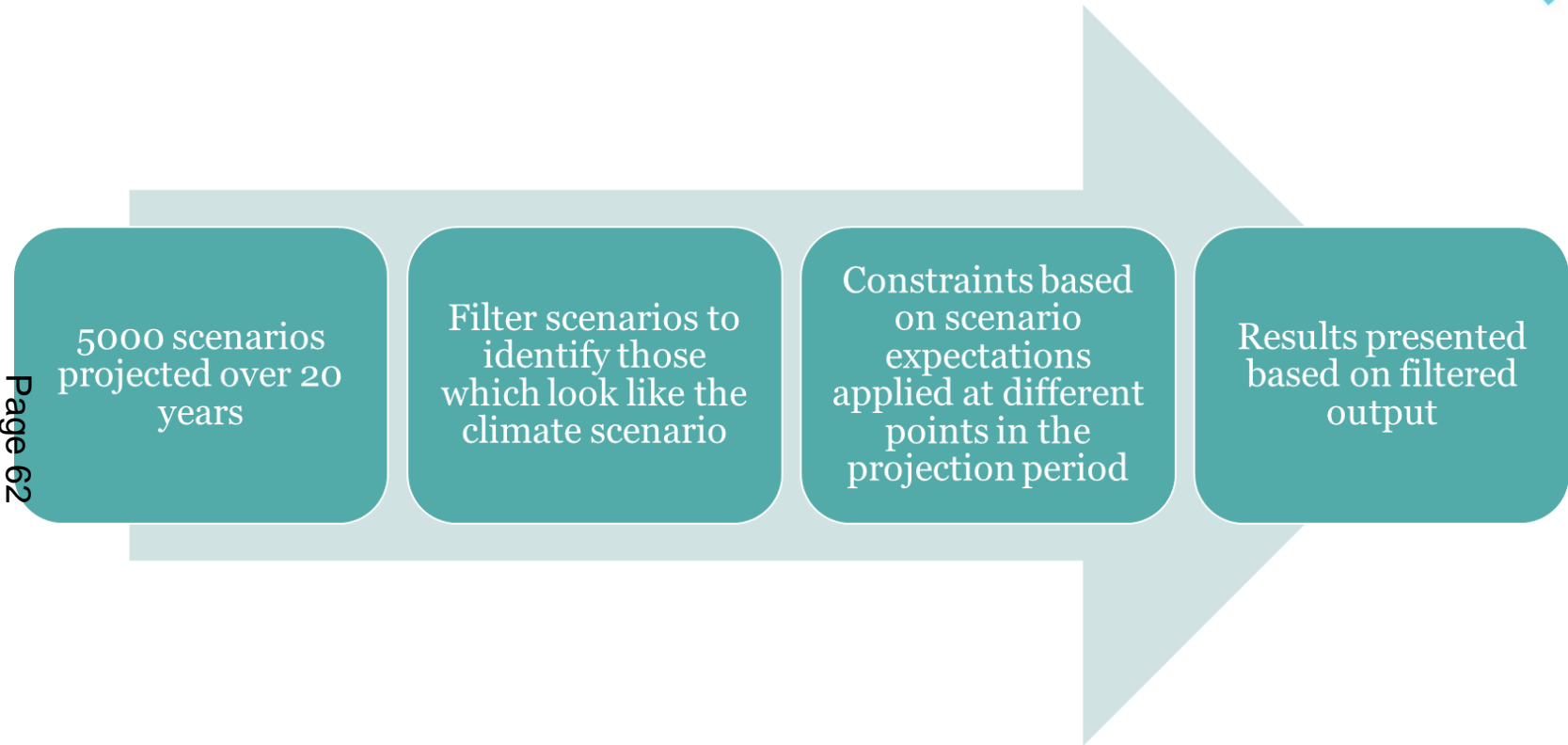
Head in the sand

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Challenging times

Green revolution

Modelling approach

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Outcomes filtered by each scenario's parameters

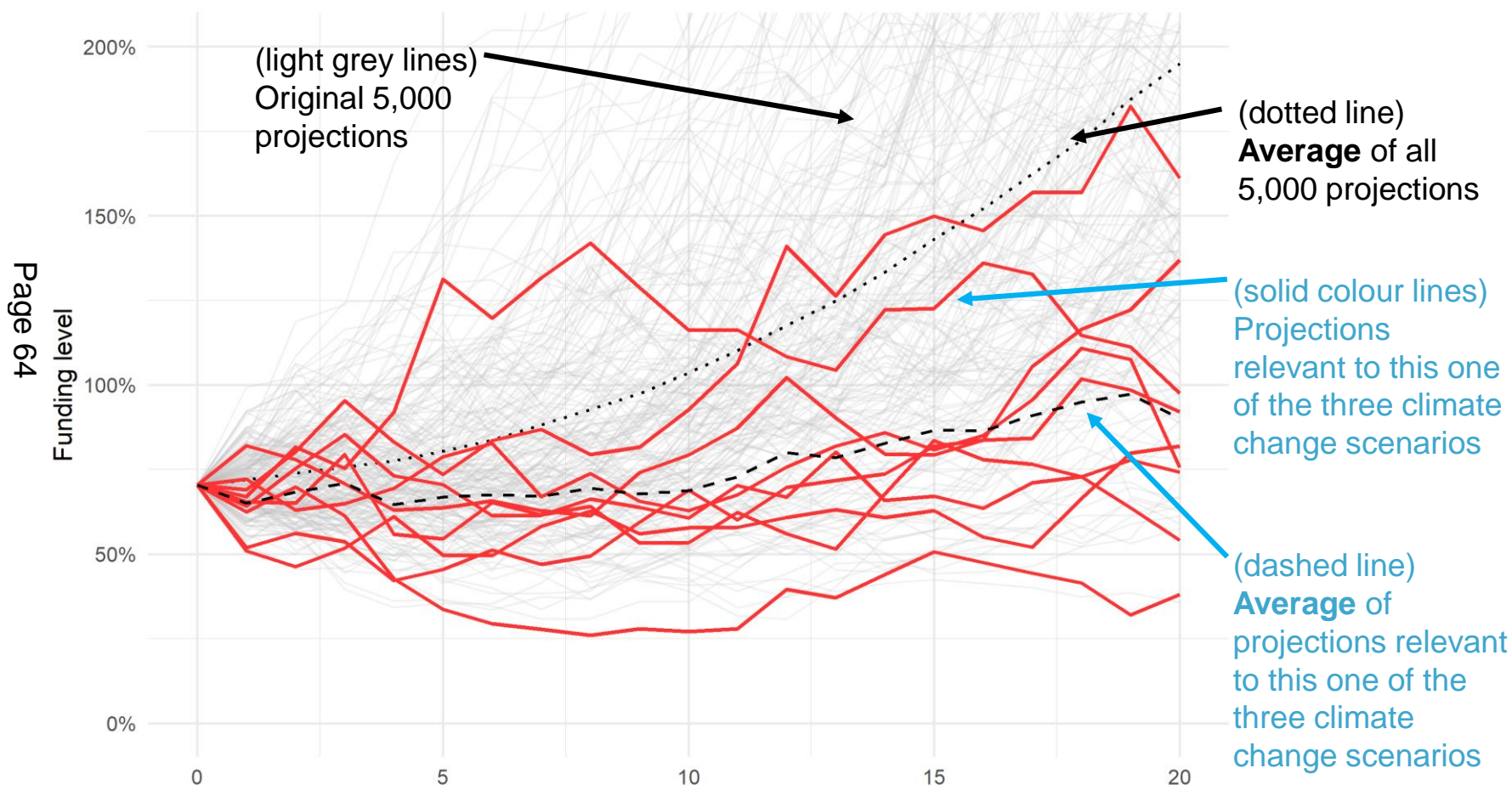
We have used the existing modelling data/parameters for the Council

Modelling results

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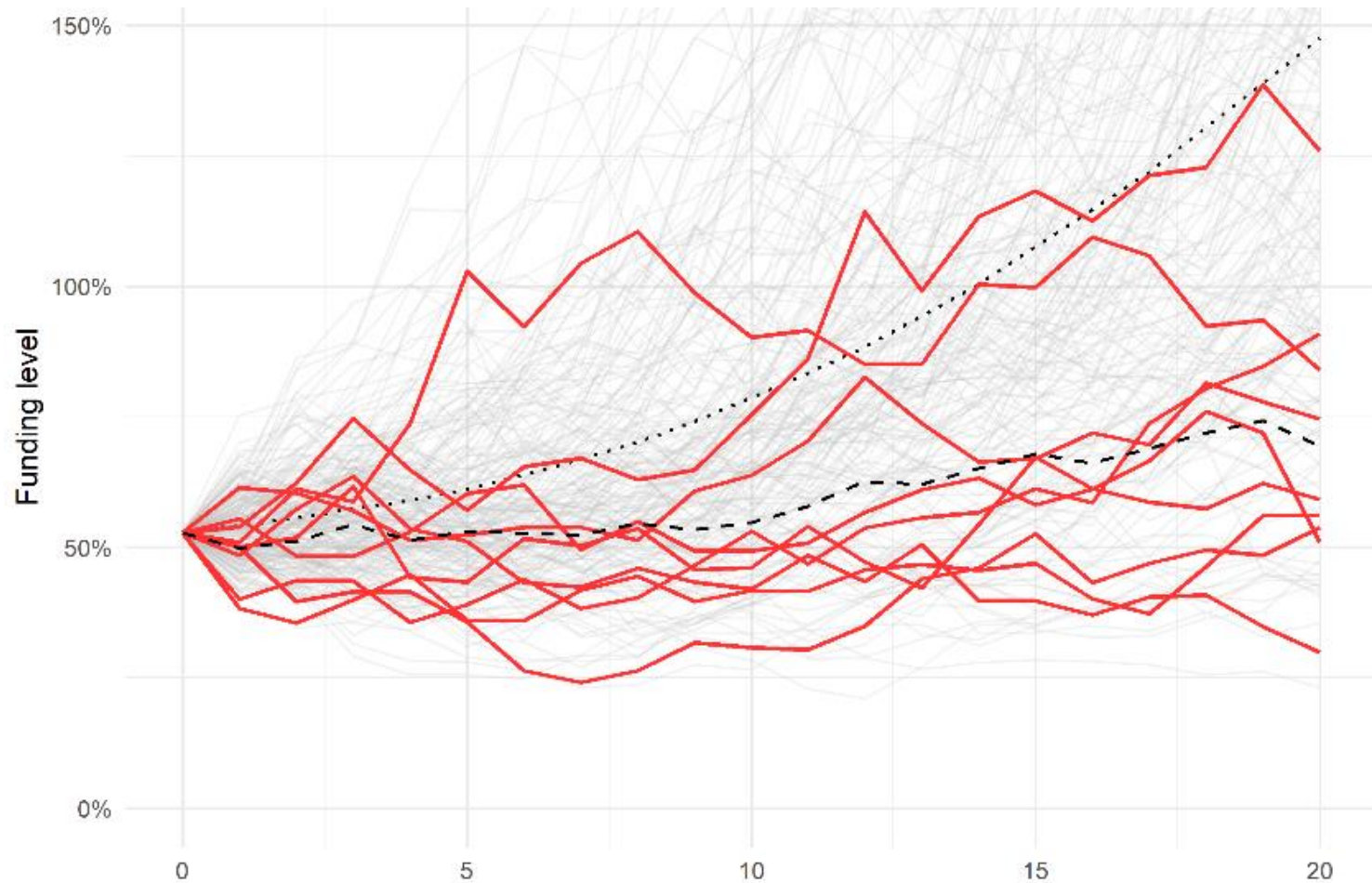
Format of results:

(shown separately per scenario on next three slides)



All figures relate to funding level
(based on discount rate of prevailing gilt yields + 1.6%)

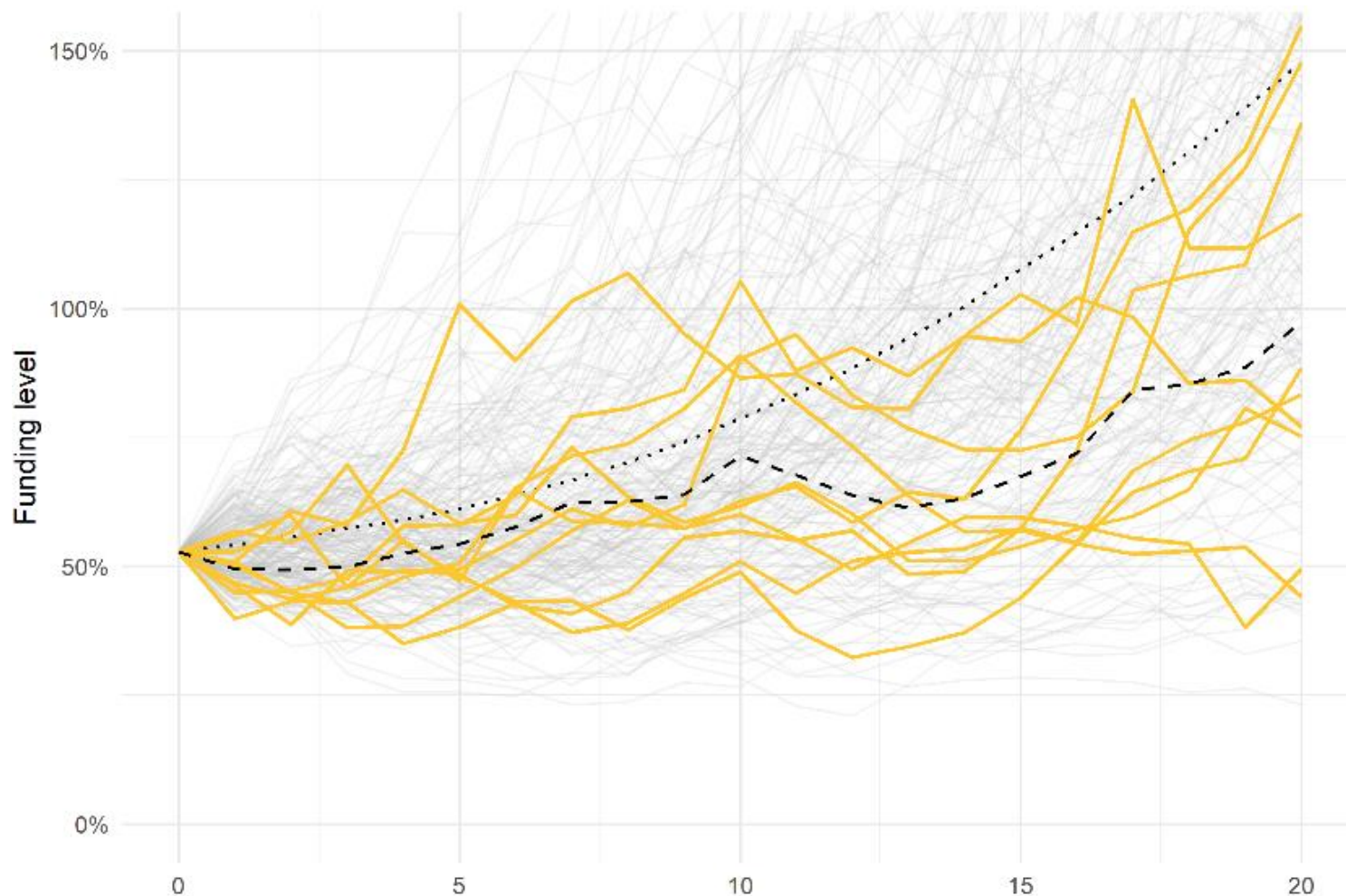
Results: Head in the sand



Expected to give poorer funding outcomes than
current funding plan anticipates

Results:

Challenging times



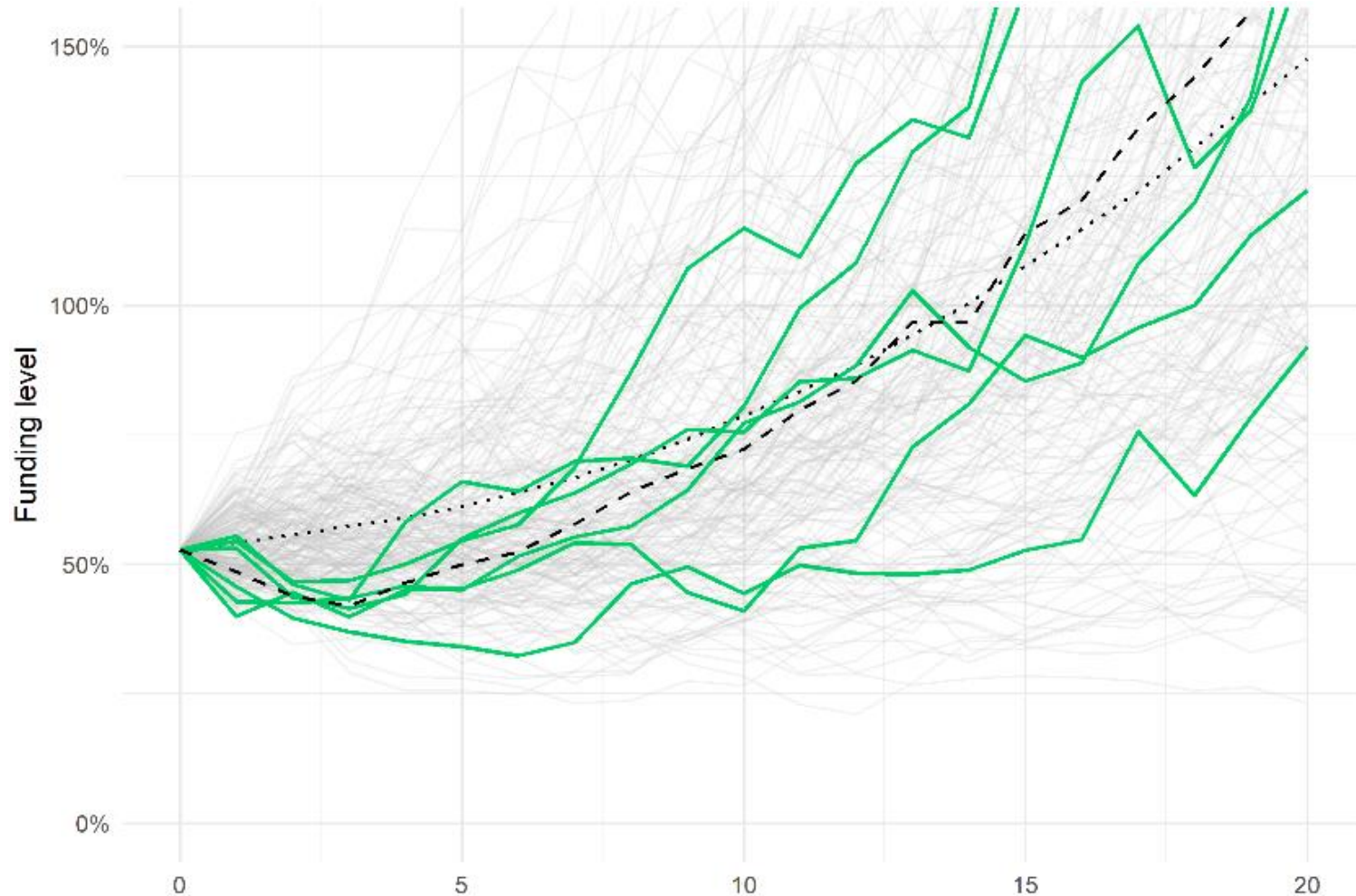
Still likely to give poorer funding outcomes than
current funding plan anticipates

Results:

Green revolution



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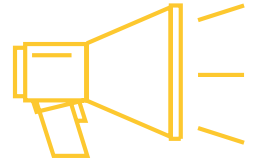
Expected to give similar funding outcomes as the
current funding plan anticipates

High level comments

- The Fund is exposed to climate risk on the asset and liability side
- This modelling illustrates the range of future funding outcomes we might see as a direct result of government/business action and inaction
- Some of these outcomes are very negative

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What could be done to reduce the impact on the Fund?

Lobby government to take action against adverse scenarios
But may not want to take credit for this in funding plans



Ask employers to pay higher contributions
But affordable increases may be not make much of a difference



Reduce exposure to investments at risk
Or invest more in assets expected to perform well in adverse climate scenarios



Next steps – becoming climate friendly

Action	Requirements
Beliefs	<ul style="list-style-type: none">• Review your current investment beliefs
Governance	<ul style="list-style-type: none">• Consider your climate risk policy
Asset allocation	<ul style="list-style-type: none">• Can you bias towards prevailing opportunities?
Carbon risk exposure	<ul style="list-style-type: none">• Review your equity portfolio and frame appropriate targets
Manager benchmarks	<ul style="list-style-type: none">• Look at different types of index benchmark
Engagement programmes	<ul style="list-style-type: none">• Speak to your fund manager/pool about actions they are taking to drive change
Reporting	<ul style="list-style-type: none">• Think about summary reports including objectives, actions taken and results achieved

Draw up a plan of action and speak to your advisors

Appendix - Technical & Professional Notes

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Technical & professional notes (1)

Climate change scenarios – purpose

The purpose behind the modelling is to show the impact of three preconceived climate change scenarios and to promote engagement and discussion around the possible outcomes and impacts for the Fund around these scenarios. The modelling does not provide a framework for testing different courses of action by the Fund (via its funding and investment strategy) to mitigate against the risks discussed in this paper, due to the way in which the analysis has been constructed.

Climate change scenarios – method

We have used the Fund's ComPASS modelling (see paper entitled Contribution Rate Modelling, dated 5 April 2019) to explore the impact on the Fund's solvency in the event that three pre-specified climate change scenarios occur. The assumptions and Limitations that apply to the Fund's ComPASS modelling also apply here.

The climate change scenario modelling assumes that economic and financial relationships are not broken and that climate outcomes exist within the extremes of the 5000 scenarios modelled for ComPASS (as generated by our Economic Scenario Service (ESS)). Although the ESS captures a wide range of future financial conditions, it has not been calibrated to allow for climate change explicitly. **Importantly, this modelling does not place a likelihood of each of these scenarios occurring and the number of simulations captured under each scenario shouldn't be used as such.**

The longevity impact has been included approximately by scaling the liabilities linearly such that by time 20 the full impact is realised. In each year of the projection, this means that the liabilities are being adjusted to reflect updated beliefs about future longevity but the projected cashflows being paid out are not being modified away from the base ALM scenario. The longevity impacts are assumed to be the same in 20 years' time as they are today.

Technical & professional notes (2)

Data – Cashflows

In projecting forward the evolution of the Scheme, we have used estimated cash flows generated using our actuarial valuation system, based on information provided as at 31 March 2019 by the Fund.

Data – ESS

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Technical & professional notes (3)

Assumptions

We have used the whole Fund's membership (actives, deferred and pensioner) and assets in the Pension Fund, all as at 31 March 2019, as the starting point for our modelling. We assume continued payment of the current Council contribution rate of 35% of pay indefinitely, to enable like-for-like comparison between different projections and scenarios; this is not to assume that contributions will follow that pattern in practice.

For calculation of the funding level under each of the 5,000 future projections we assume:

- Discount rate based on prevailing gilt yield plus 1.6% (i.e. this is not as per the presentation as at 31 March 2019, but is adopted consistently throughout the 20 year projection for ease of consideration);
- Other financial assumptions (e.g. salary growth, CPI inflation of benefits in payment) as per 31 March 2019 actuarial formal valuation;
- Demographic assumptions other than longevity (e.g. rates of withdrawal and ill-health early retirement) as per 31 March 2019 actuarial formal valuation;
- Longevity assumptions in retirement as per 31 March 2019 actuarial formal valuation but adjusted for the each scenario as identified earlier in this paper.

We have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement).

There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at State Pension Age, which is a much simplified set of assumptions compared with the modelling of existing members

A judgement always has to be made as the most appropriate assets from the ESS to model the strategy under consideration. We have agreed this with yourselves during the scoping stage and further details are in the appendices.

TAS Compliance

The models used to carry out this modelling, and this presentation, comply with Technical Actuarial Standards 100 (Principles for Technical Actuarial Work) and 300 (Pensions).

General risk warning

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London Borough of Brent Pension Fund

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Q4 2019 Investment Monitoring Report

William Marshall, Partner
Kameel Kapital, Associate Consultant
Dave Gilmour, Investment Analyst

Agenda Item 9

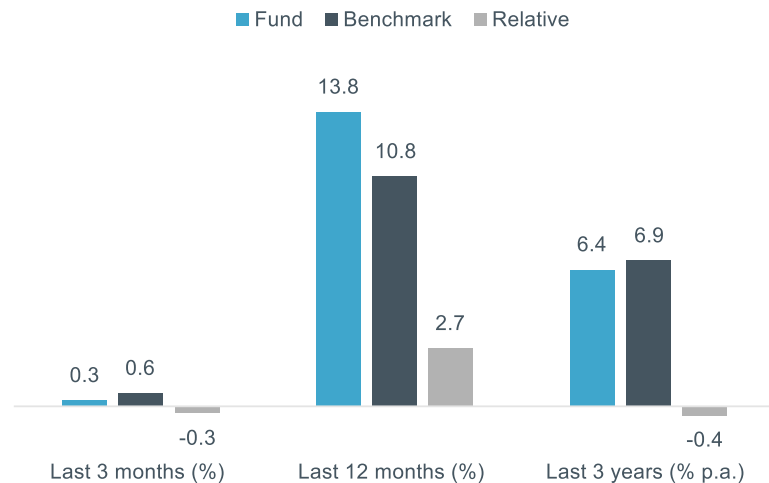
Executive Summary

The value of the Fund's assets rose by £7.3m over the quarter, from £927.5m to £934.8m.

The Fund returned 0.3% over the quarter, underperforming its benchmark by 0.3%. Performance over 2019 has been strong, with the Fund returning 13.8% outperforming its benchmark by 2.7%.

Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund, and the LCIV Emerging Markets fund was transferred from Janus Henderson to JP Morgan.

Fund performance vs benchmark/target



High Level Asset Allocation

GRIIP	Actual	Benchmark	Relative	Rebalancing Range***
Growth (Equity, DGF)	77.9%**	73.0%	4.9%	60.0% - 73.0%
Income Diversifiers (Property, Infrastructure)	3.6%	12.0%	-8.4%	15.0% - 19.0%
Protection (Bonds)	18.4%*	15.0%	3.4%	15.0% - 18.0%

*Includes 5.6% 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.

***Rebalancing is discussed further in the strategy review.

Fund Asset Allocation

The value of the Fund's assets rose by £7.3m over the quarter, from £927.5m to £934.8m.

Over the quarter, the LCIV Janus Henderson Emerging Markets fund transitioned to JP Morgan.

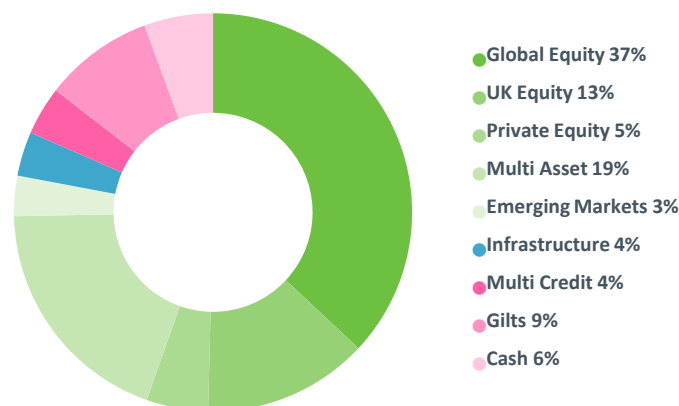
We note that the Baillie Gifford mandate remains overweight.

The Fund has a £50m commitment to the LCIV Infrastructure fund.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q3 2019	Q4 2019			
LGIM Global Equity	341.5	345.4	37.0%	30.0%	7.0%
LGIM UK Equity	120.6	125.6	13.4%	10.0%	3.4%
Capital Dynamics Private Equity	54.0	46.8	5.0%	5.0%	0.0%
Baillie Gifford Multi Asset	125.4	128.9	13.8%	11.5%	2.3%
Ruffer Multi Asset	50.8	51.3	5.5%	11.5%	-6.0%
JP Morgan Emerging Markets	30.5	30.6	3.3%	5.0%	-1.7%
Total Growth	722.9	728.7	77.9%	73.0%	4.9%
Alinda Infrastructure	25.0	23.0	2.5%	6.0%	-3.5%
Capital Dynamics Infrastructure	12.0	10.6	1.1%	6.0%	-4.9%
Aviva Property	0.2	0.1	0.0%	0.0%	0.0%
Total Income	37.2	33.7	3.6%	12.0%	-8.4%
CQS Multi Credit	36.3	36.8	3.9%	5.0%	-1.1%
BlackRock UK Gilts Over 15 yrs	89.1	83.2	8.9%	10.0%	-1.1%
Total Protection	125.4	120.1	12.8%	15.0%	-2.2%
Cash	42.0	52.3	5.6%	0.0%	5.6%
Total Scheme	927.5	934.8	100.0%	100.0%	

Asset class exposures



UK Equities were the strongest performer over Q4, as investors responded positively to the news of the Conservative majority in the December election.

Both Baillie Gifford and Ruffer outperformed their benchmarks over 3 months and over the year.

The performance shown for the JP Morgan Emerging Markets fund is predominately from the previous manager Henderson, and shows disappointing performance relative to benchmark. Over the quarter, returns were hampered by the cost of transitioning to JP Morgan.

The Infrastructure mandates have lagged behind their benchmark over all time periods although we note that some of these funds are predominantly still in ramp-up.

The CQS mandate has outperformed its benchmark, while the Fund's gilt holdings fell over the quarter as yields rose.

Manager 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	1.1	1.1	0.0	23.3	23.4	0.0	10.8	10.9	0.0
LGIM UK Equity	4.2	4.2	0.0	19.2	19.2	0.0	7.0	6.9	0.2
Capital Dynamics Private Equity	-4.4	1.3	-5.6	1.0	7.8	-6.3	11.2	7.9	3.0
Baillie Gifford Multi Asset	2.7	0.7	2.1	12.6	3.8	8.5	4.7	3.9	0.8
Ruffer Multi Asset	1.0	0.7	0.3	8.9	3.8	5.0			
JP Morgan Emerging Markets	0.2	4.0	-3.7	5.3	13.8	-7.5			
Income									
Alinda Infrastructure				-4.2	6.1	-9.7	-8.8	7.4	-15.1
Capital Dynamics Infrastructure				-9.0	6.1	-14.2	-2.1	7.4	-8.8
Protection									
CQS Multi Credit	1.3	0.7	0.6	6.5	4.7	1.8			
BlackRock UK Gilts Over 15 yrs	-6.6	-6.6	0.0						
Total	0.3	0.6	-0.3	13.8	10.8	2.7	6.4	6.9	-0.4

Over the quarter, as discussed previously, the London CIV changed its active emerging markets manager from Janus Henderson to JP Morgan.

The JP Morgan fund is a pure bottom-up strategy, focussing on individual stock performance rather than placing an emphasis on broader macroeconomic conditions. We rate the management team and overall research platform at JP Morgan as strong and believe the fund to be highly credible.

Manager ratings

Mandate	Mandate	Hymans Rating
LGIM	Global Equity	Preferred
LGIM	UK Equity	Preferred
Capital Dynamics	Private Equity	Suitable
Baillie Gifford	Multi Asset (LCIV)	Preferred - On-watch
Ruffer	Multi Asset (LCIV)	Positive
JP Morgan	Emerging Markets (LCIV)	Suitable
CQS	Multi Credit (LCIV)	Suitable
Alinda	Infrastructure	Not Rated
Capital Dynamics	Infrastructure	Not Rated
BlackRock	BlackRock UK Gilts Over 15Yrs	Preferred

LGIM business update

LGIM has announced that Margaret Ammon will join as Chief Risk Officer in February. Ammon joins from M&G where she held a similar role and replaces Teresa Poy who has retired. In addition, Camille Blackburn has joined as Chief Compliance Officer and joins from Aviva investors.

Ruffer business update

Ruffer has announced that Jos North has been added as a named fund manager of the Absolute Return Fund, Ruffer's institutional pooled fund. North joined the firm in 2012 as a graduate and joins David Ballance and Steve Russell in managing the fund. This news is significant as it represents evidence of long-term succession planning, with more junior fund managers added to a number of Ruffer's pooled funds and some of the more experienced fund managers stepping back, although we do not expect any reduction in involvement from Ballance and Russell in the short to medium-term. We are therefore comfortable with this news.

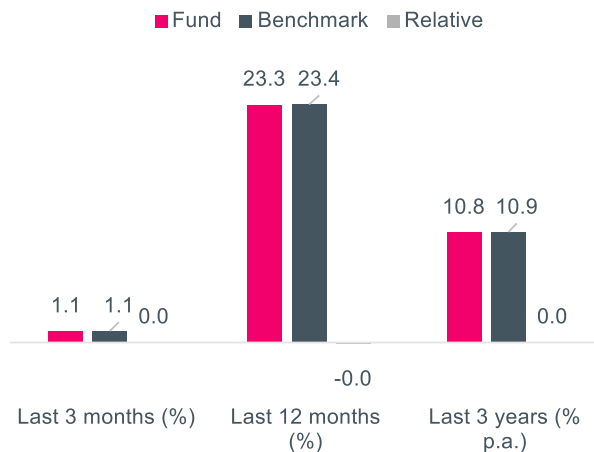
LGIM Global Equity

The fund returned 1.1% over the quarter, matching its benchmark. It has matched its benchmark over all time periods.

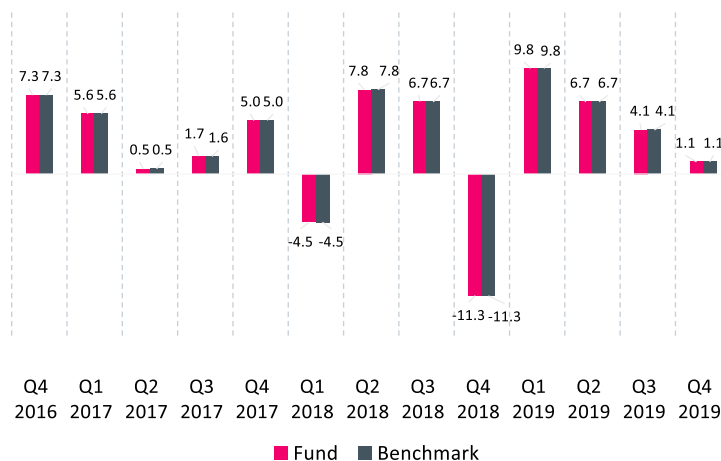
Returns over the fourth quarter were positive, capping off a strong year for global equities. The "Phase 1" trade deal agreed between the US and China and supportive monetary policy from Central Banks helped to increase investor optimism through the quarter.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund Performance vs benchmark/target



Historical Performance/Benchmark



LGIM UK Equity

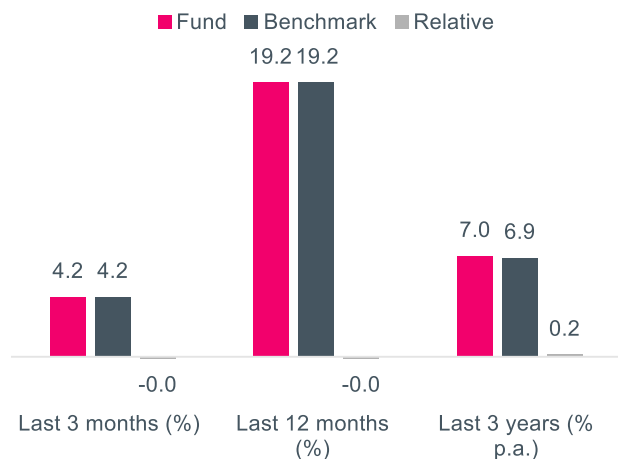
The fund returned 4.2% over the quarter, as investors responded positively to the Conservative majority at the December election.

Returns over 2019 have been strong, albeit behind global equities as the uncertainty surrounding Brexit caused some hesitancy from investors over the year.

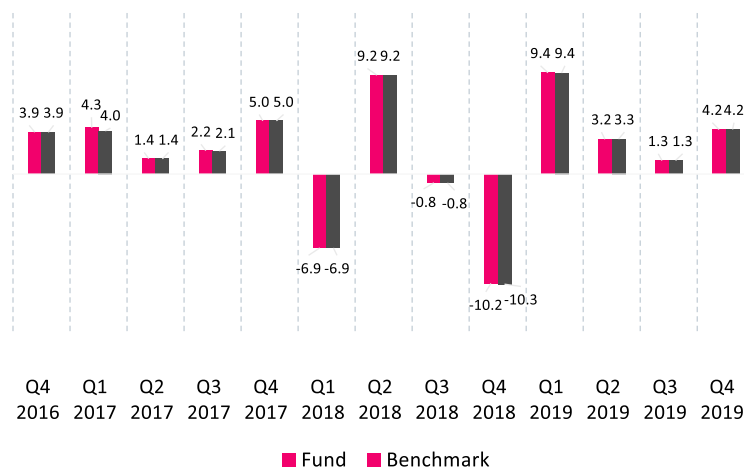
The fund has broadly matched its benchmark over all time periods.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund Performance vs benchmark/target



Historical Performance/Benchmark



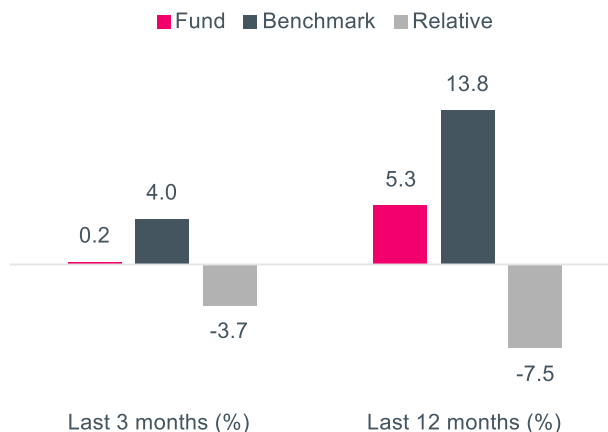
JP Morgan Emerging Markets

The fund returned 0.2% over the quarter, underperforming its benchmark by 3.7%. Performance was impacted by the cost of transitioning the fund from Henderson to JP Morgan.

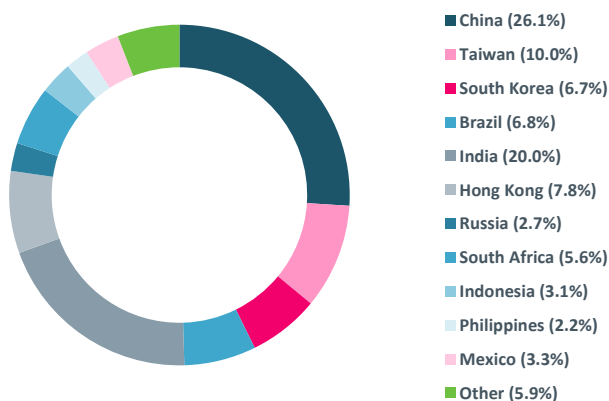
The bottom two charts show the difference in country allocation between the Henderson and JP Morgan EM equity funds. The most significant regional difference is the greater weighting to Indian equities. JP Morgan's strategy has a much larger size emphasis than Henderson's strategy.

We rate JP Morgan's Emerging Market equity fund as 'Suitable'.

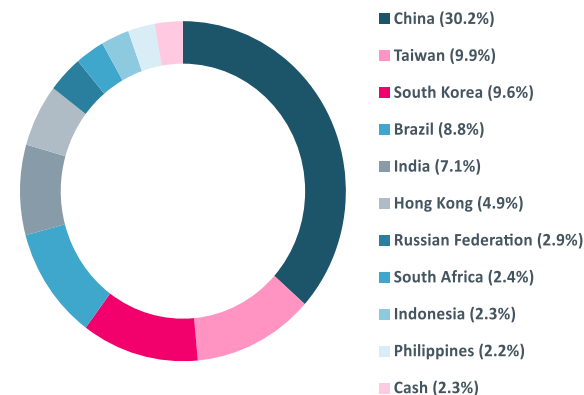
Fund performance vs benchmark/target



JP Morgan Country allocation



Henderson Country allocation



Fund Performance

Capital Dynamics Private Equity

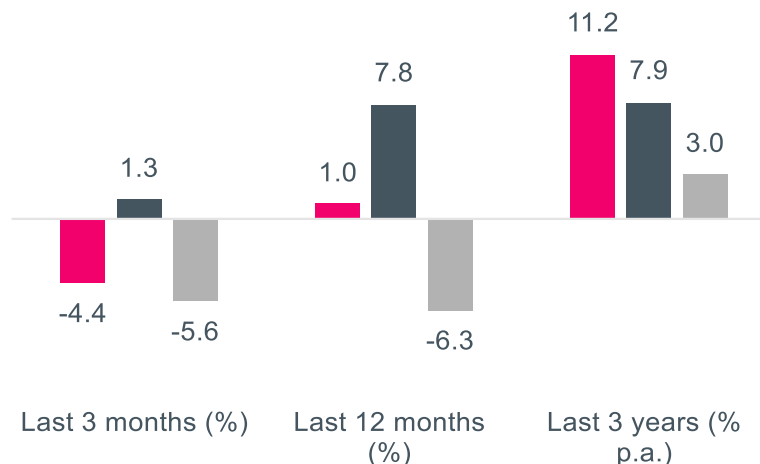
The Capital Dynamics Private Equity fund has underperformed over the quarter and the year, although remains comfortably ahead of benchmark over 3 years.

At time of writing, fund activity over Q4 was unavailable.

Over Q3, the fund made one distribution of \$2.7m representing 9.3% of committed capital.

Target: Absolute return of 8.0% p.a.

■ Fund ■ Benchmark ■ Relative



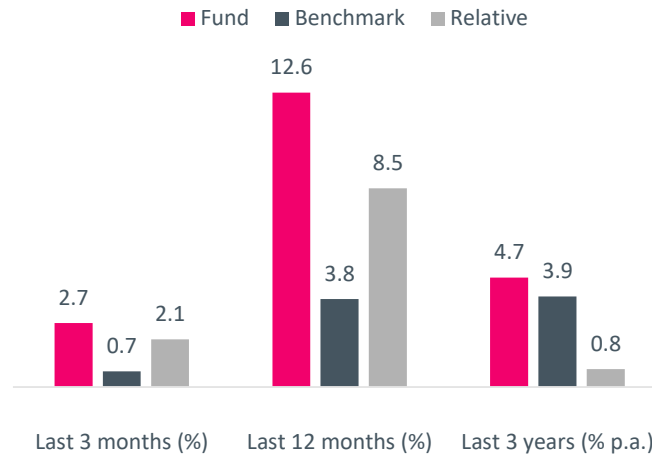
Baillie Gifford Multi-asset

The Baillie Gifford Multi-Asset fund has continued its impressive outperformance relative to benchmark over all time periods.

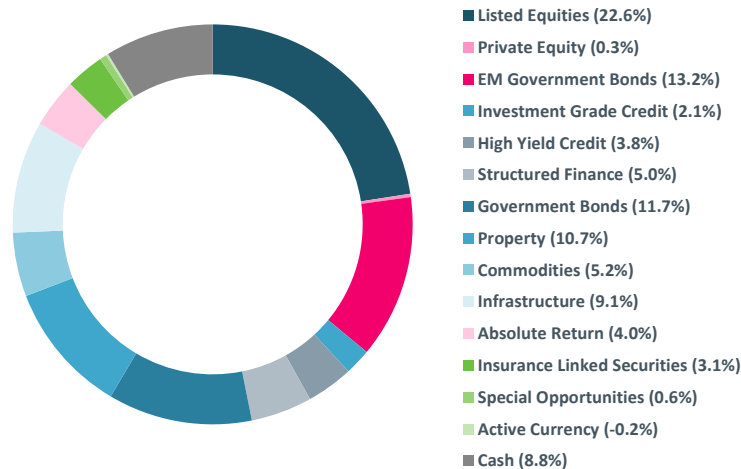
Positive performance was predominantly driven by listed equities, property and infrastructure.

The manager believes that they are suitably positioned to perform well in a period of moderate growth and inflation and have positioned the fund accordingly.

Fund Performance



Asset Allocation



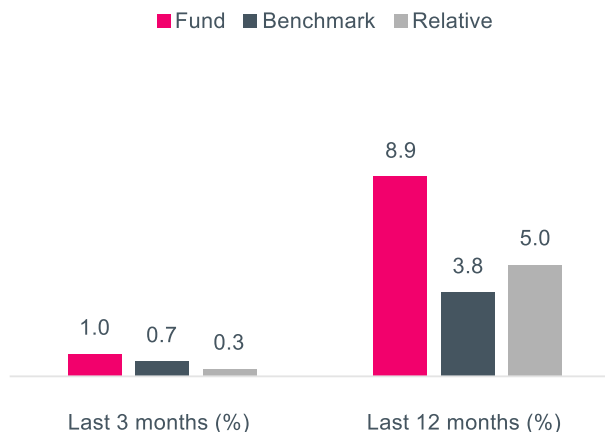
Ruffer Multi-asset

The Ruffer Multi-Asset fund outperformed its benchmark by 0.3% over the quarter, and returned a strong 8.9% over 2019, beating its benchmark by 5%.

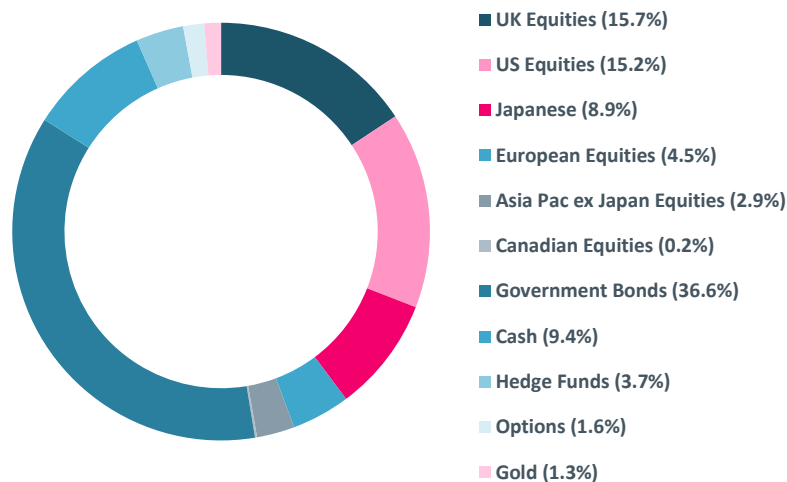
The strong performance over the past year has been pleasing, following the underperformance through 2018.

The manager continues to hold a large allocation to index linked gilts, as part of its approach to protecting the portfolio from increasing inflation.

Fund Performance



Fund Asset Allocation



Alinda Infrastructure

The Alinda Infrastructure fund's poor performance relative to benchmark has occurred as the fund is in ramp-up stage, drawing down and deploying capital. It is expected to improve over the longer term.

At time of writing, fund information for Q4 was unavailable. The following information is as at Q3:

The remaining capital commitments are as follows:

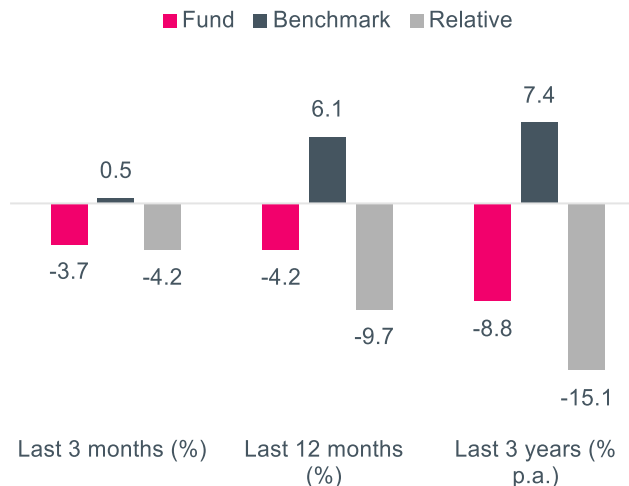
Alinda II: \$3,816,363
Alinda III: \$11,623,816

The following net distributions were made over the quarter:

Alinda II: \$2,573,072
Alinda III: \$737,785

Private markets should be calculated based on a long-term basis. There are a range of methodologies that can be applied when it comes to assessing private markets' performance.

Fund performance vs benchmark/target



Capital Dynamics Infrastructure

The Fund's holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

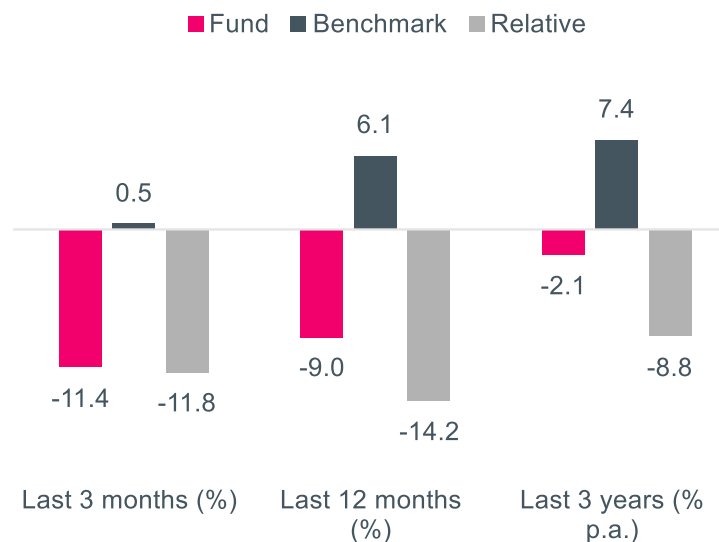
Target: Absolute return of 8.0% p.a.

The Capital Dynamics Infrastructure fund fell sharply over Q4, driving down returns across longer time periods.

We note that infrastructure is a long-term investment and therefore short-term deviation from benchmark can be expected, particularly when capital is drawn-down at the start of a programme.

Private markets should be calculated based on a long-term basis. There are a range of methodologies that can be applied when it comes to assessing private markets' performance.

Fund performance vs benchmark/target



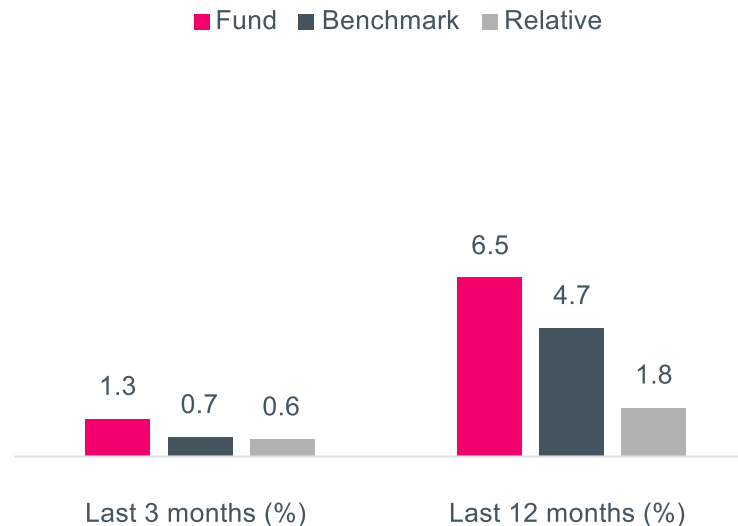
CQS Multi Credit

The CQS Multi-Credit protection assets outperformed their benchmark over the quarter returning 1.3%. The fund is also ahead of benchmark over 12 months, having returned 6.5%.

The manager has reduced its allocation to Loans, increasing its High Yield portfolio mainly through the US market.

Following the UK election, the manager sold positions in UK financials to capture the strong returns over Q4.

Fund performance vs benchmark/target



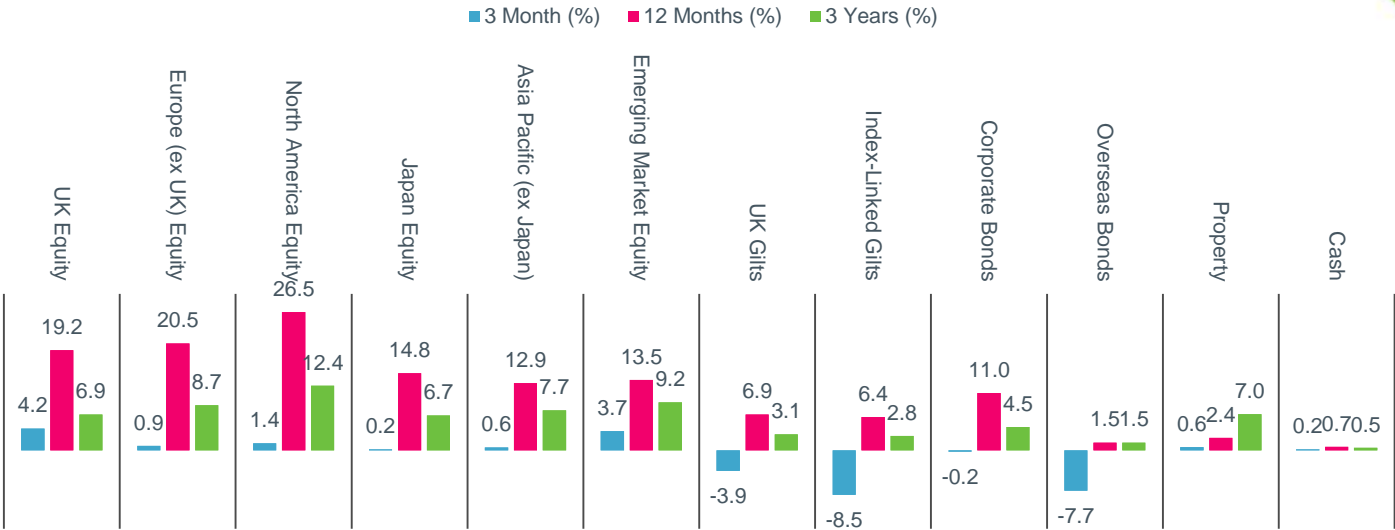
A “phase 1” trade deal, signed on January 15th, between the US and China, prevented a further increase in tariffs in December and reduced the level of some existing tariffs. US GDP growth continued to outperform developed market peers and Q3 expectations but has slowed on last year’s robust pace. Eurozone growth also beat Q3 expectations as Germany narrowly avoided recession.

UK GDP growth achieved a modest recovery in Q3, following a contraction in Q2, however growth forecasts have slumped as slower global growth and Brexit uncertainty has weighed heavily on business investment. December’s manufacturing Purchasing Managers Indices in the US, Eurozone, Japan and UK remained at a level consistent with a contraction in the manufacturing sector. However, service sector surveys in the US and Europe improved in the fourth quarter, and US jobs gains remained resilient.

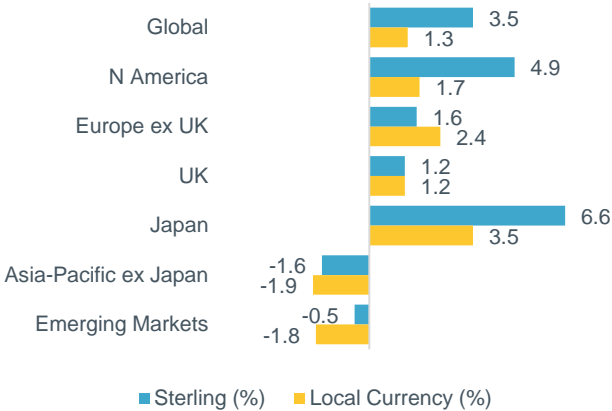
The Federal Reserve cut rates for the third time in three months in October, due to slowing global growth and weak inflation. The ECB cut rates to -0.5% and announced the restart of QE in November.

Sovereign bond yields rose across developed economies on trade progress and some improvements in economic data across various regions. In-line with Sterling strength, near-term UK implied inflation has fallen – UK 10-year spot gilt-implied inflation has fallen 0.21% p.a., as real yields rose more than nominal counterparts.

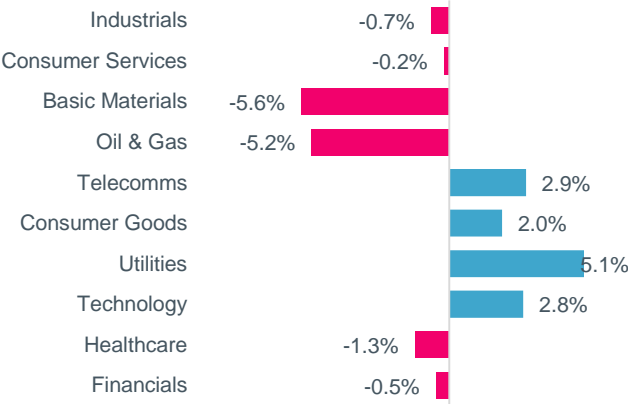
Historic returns for world markets ¹



Regional equity returns



Global sector performance



¹All 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. ²FTSE All World Indices. ³Relative to FTSE All-World Index

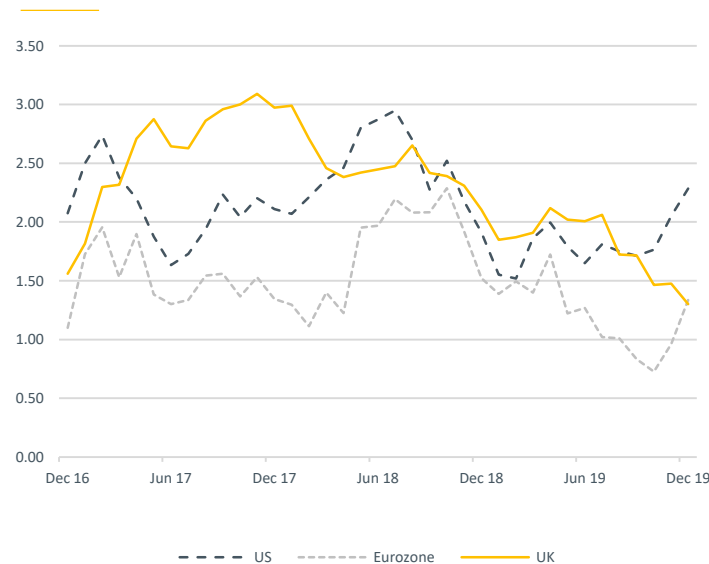
Investment-grade credit spreads tightened while rising underlying government bond yields weighed on returns in fixed rate markets. Speculative-grade markets outperformed investment-grade counterparts and high yield bonds outperformed leveraged loans, though loan spreads retraced some 2019's widening.

Global equity markets rose on the improved outlook and corporate earnings reports, which came in ahead of (albeit downgraded) consensus forecasts. A strong Q4 saw global equities deliver returns of 27% for 2019 in local currency term. Sterling strengthened against major currencies as a lower perceived chance of a no-deal Brexit and the Conservative election victory removed some Brexit uncertainty. The rebound in sterling negatively impacted unhedged overseas equity returns for sterling-based investors.

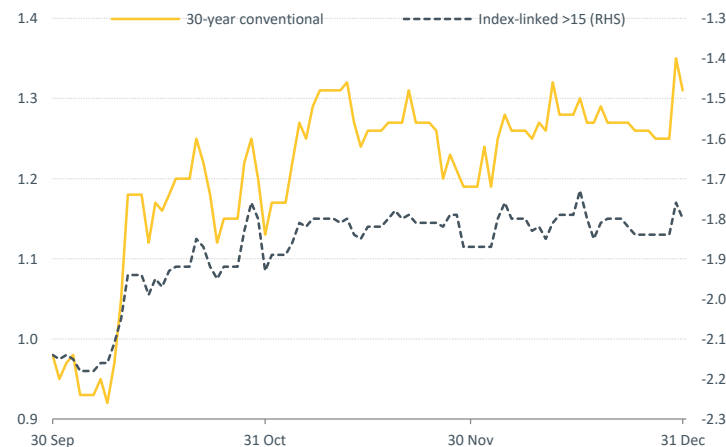
Emerging markets was the best performing region in Q4, given their greater sensitivity to the global trade environment. The UK was the laggard in local currency terms as the sharp rebound in Sterling weighed on the market's larger cap globally-exposed companies.

UK commercial property market returns continued to slow on a rolling annual basis, returning 2.1% in the 12 months to 31 December 2019, reflecting a sharp drop in comparison to recent years.

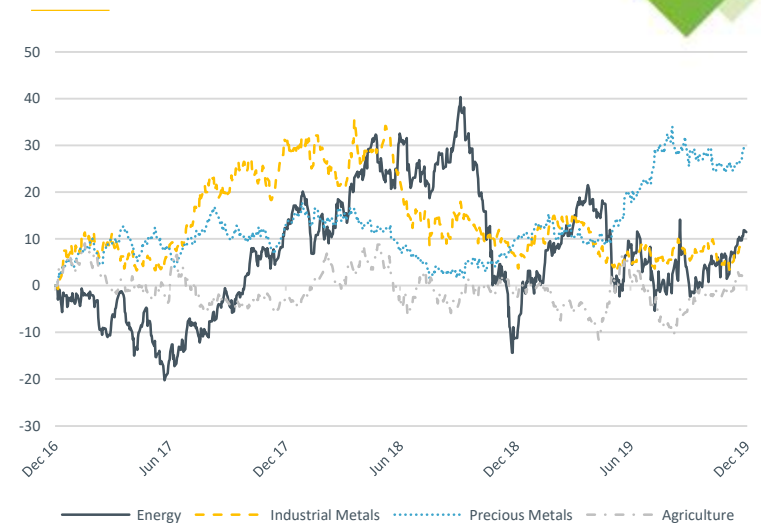
Annual CPI Inflation (% p.a.)



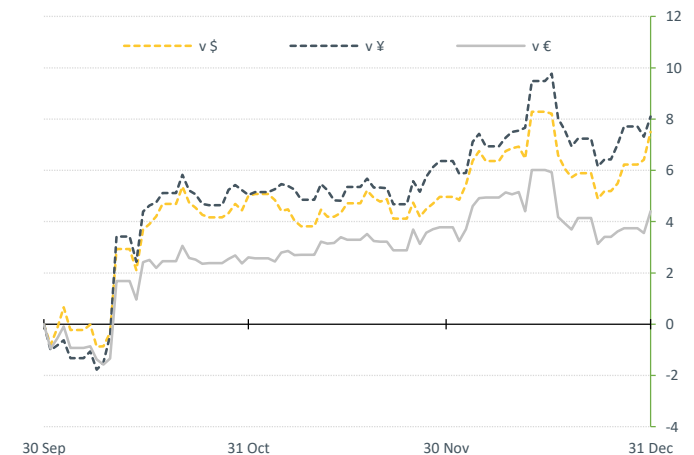
Gilt yields chart



Commodity Prices



Sterling trend chart (% change)



Hymans Rating

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 Investment

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.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, 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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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:


$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

	Pensions Fund Sub-Committee 25 February 2020
	Report from the Director of Finance
LGPS Update	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	1. Good Governance – Hymans Robertson Phase I Summary 2. Good Governance – Hymans Robertson Phase II Summary 3. Good Governance – Action Plan 4. UK Stewardship Code – Hymans Robertson Summary
Background Papers:	<ul style="list-style-type: none"> N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance 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 any recent consultations issued by the Ministry of Housing, Communities and Local Government (MHCLG) 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

McCloud Case

- 3.1 On 21 December 2018, it was reported that the Court of Appeal ruled 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'.

- 3.2 The Supreme Court denied the Government leave to appeal the McCloud and other associated cases on 27 June 2019 confirming that as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment will need to be remedied across all those schemes including LGPS. As the remedy will involve 'levelling up' member benefits, it is expected that any agreed outcome will increase the cost of LGPS pensions, however there is no certainty about how much this additional cost will be. Further information on the McCloud case has been provided in previous LGPS updates to the committee.
- 3.3 Given that no remedy had been agreed by 31st August 2019, Funds have been left to consider locally how best to manage the uncertainty and risk. The Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations. The Fund has also elected to make an approximate allowance for the potential impact of McCloud in the 2019 valuation in the assessment of employer contribution rates by including a slightly higher required likelihood of reaching funding target.
- 3.4 As part of the external audit of the Pension Fund accounts, the auditors requested an estimate of the potential impact of McCloud, and if material, reflect the changes in the accounts. This was estimated at £3m at whole fund level in 2018/19. Depending on the liability profiles on different employers, the impact will vary across different employers.
- 3.5 It is understood that the LGPS will be treated separately from the rest of the public sector in respect of the McCloud remedy and that the remedy will involve the extension of some form of underpin to members in scope who are not currently offered protection.
- 3.6 It is expected that decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospection and the inclusion of ancillary benefits (transfers, survivors etc) will be determined centrally by the LGPS. No remedy will be implemented before the end of financial year 2020/21. Therefore an estimate of the potential impact of McCloud will have to be included in the 2019/20 accounts.
- 3.7 Once the final remedy is known, it is expected that LGPS Funds will be required to identify affected cohorts, liaise with employers to obtain retrospective data, amend records, revisit calculations, uplift pensions in payment, communicate with the affected members while ensuring throughout, that the project has the appropriate level of governance.

4.0 Good Governance

- 4.1 As a result of significant cuts to local government funding over the last decade, the pooling of LGPS Investments and the increasing complexity in scheme benefits and administration, the Scheme Advisory Board (SAB) commissioned

Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance going forwards.

- 4.2 Hymans Robertson undertook a process of engaging extensively with stakeholder groups and fund types to consider four governance models, each of which would be assessed against set criteria. The process undertaken enabled identification of best practices within current governance arrangements as well as identification of additional ideas to strengthen governance within the current regulatory framework.
- 4.3 Results found that there was a majority preference in adopting a governance model which combined improved practice with greater ring fencing of the LGPS within existing structures. This involved the introduction of guidance or amendments to LGPS Regulations to enhance existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas. In addition to this, results found there was a preference for clearer ring-fencing of Pension Fund management from the host authority, including budgets, resourcing and pay policies.
- 4.4 Following the analysis of these results, Hymans Robertson proposed that an outcome based approach to LGPS governance, with minimum standards, should be adopted rather than a prescribed governance model. In addition to this, Hymans Robertson proposed updating of relevant guidance and training requirements.
- 4.5 Following the approval of the good governance 'Phase I' report, the Scheme Advisory Board (SAB) asked Hymans Robertson to assist with the next phase of this project, which involved the defining of good governance outcomes and options for assessment of these outcomes. Further details of the initial results and analysis undertaken by Hymans Robertson are set out in Appendix 1.
- 4.6 Phase II of the good governance review was concluded by Hymans Robertson in November 2019 and several proposals were made regarding the production of further guidance and outcomes to be undertaken by administering authorities. These proposals were split into six main areas covering:
 - General
 - Conflicts of interest
 - Fund representation
 - Knowledge and understanding of the LGPS
 - Service Delivery of the LGPS function
 - Compliance and Improvement
- 4.7 In summary, key proposals involved the publishing of an annual governance compliance statement to set out how compliant administering authorities have been with governance requirements within the LGPS. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. In addition to this, a proposal was made for guidance to be introduced for key individuals within

the LGPS such as officers and pension committee members to have the appropriate level of knowledge and understanding to carry out their duties effectively. Hymans Robertson concluded by proposing that all administering authorities undergo a biennial independent governance review to be assessed by a SAB panel of experts. Further details of the proposals outlined by Hymans Robertson are set out in appendix 2.

- 4.8 Hymans Robertson have recommended that 'Phase III' of the good governance review contain draft changes to the current set of LGPS guidance produced by MHCLG. Next steps will also include SAB working in conjunction with the National Framework on establishing an independent governance review framework while also producing ten to fifteen KPIs for administering authorities to report the Fund's performance against.
- 4.9 Overall, the Fund supports these recommendations and in advance of this becoming part of formal regulations, the Fund has produced an action plan, to assess its compliance levels against each of the proposals made. This is set out in appendix 3.

5.0 UK Stewardship Code

- 5.1 The Financial Reporting Council (FRC) has published an updated UK Stewardship Code, which has taken effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike.
- 5.2 The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to a clearer and more elaborate set of reporting requirements. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners, and six Principles for service providers, including investment consultants.
- 5.3 Notable amendments to the UK Stewardship Code include the requirement for signatories to explain their organisation's purpose, investment beliefs, strategy and culture, and how these enable them to practice stewardship. Signatories are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives. In addition to this, signatories are expected to take ESG factors, including climate change, into account and to ensure investment decisions are aligned with the needs of clients. Appendix 4 outlines further details to the key changes in the Code.

6.0 Financial Implications

- 7.1 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.

7.0 Legal Implications

7.1 Not applicable.

8.0 Equality Implications

8.1 Not applicable.

9.0 Consultation with Ward Members and Stakeholders

9.1 Not applicable.

10.0 Human Resources

10.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

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Good governance in the LGPS

July 2019



Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

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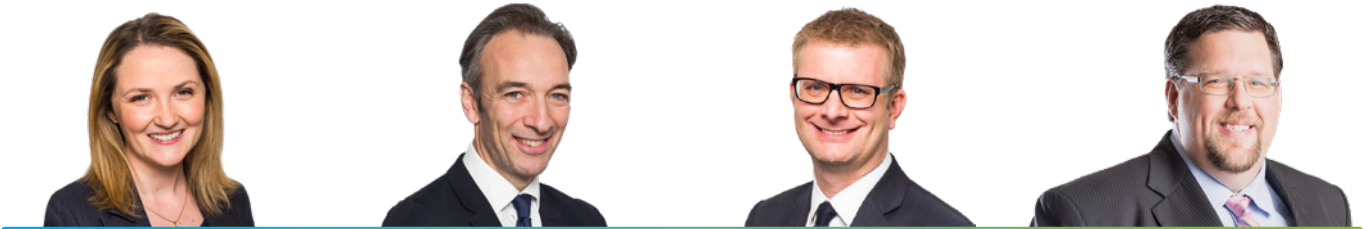
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Authors



Catherine McFadyen

Head of LGPS Actuarial,
Benefits and Governance
catherine.mcfadyen@hymans.co.uk

John Wright

Head of Public Sector
john.wright@hymans.co.uk

Ian Colvin

Head of Benefits Consulting
ian.colvin@hymans.co.uk

Steven Law

Actuary
steven.law@hymans.co.uk

Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »



140 respondents
to our online survey



one-to-one
conversations



153 attendees at
interviews and seminars



discussions with
CIPFA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this value was outweighed by concern about weakening relationships with councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences. This process enabled us to identify

- i. Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS; and
- ii. Additional ideas for further strengthening governance within the current regulatory framework.

We have included these in the report.

Conclusions

- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

Key proposals

- 1 **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.
- 2 **Critical features of the 'outcomes-based' model** should include:
 - (a) robust conflict management including clarity on roles and responsibilities for decision-making;
 - (b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
 - (c) explanation of policy on employer and scheme member engagement and representation in governance; and
 - (d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
- 3 **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
- 4 **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.



Governance in the LGPS is evolving to accommodate developments in the last decade...

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

- 1. Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
- 2. Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
- 3. Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
- 4. Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.



Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.

- Three seminars were held with open invitations to collate feedback from larger group.

There are 87¹ funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

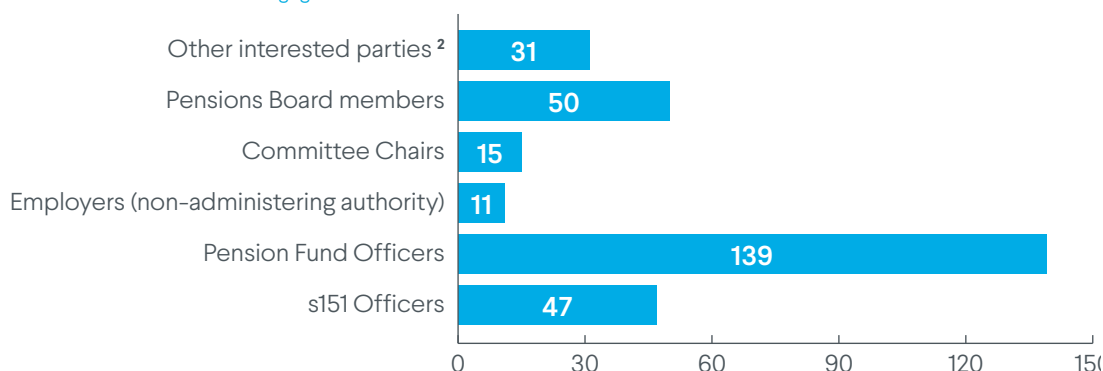
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

	Universe	Responses	Interaction through	
			Survey	Interview
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	87	76	140	153

Chart 1: Stakeholders we engaged



¹ Excluding admission body funds, passenger transport funds and the environment agency closed fund.

² Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **Model 1 (Improved practice)**
Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- **Model 2 (Greater ringfencing)**
Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
- **Model 3 (Joint committee)** Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
- **Model 4 (New Local Authority Body)**
An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

1	Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2	Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
3	Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4	Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5	Representation	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6	Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.



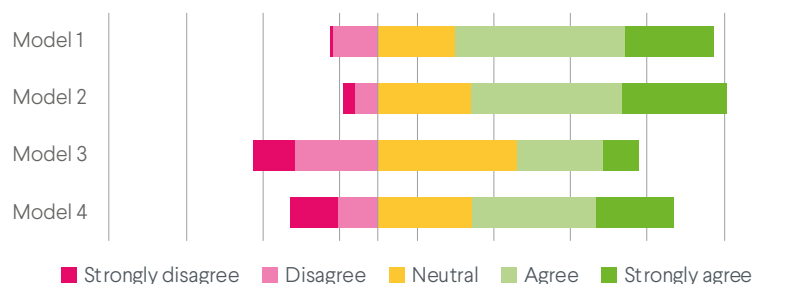
2. Survey results (continued)

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

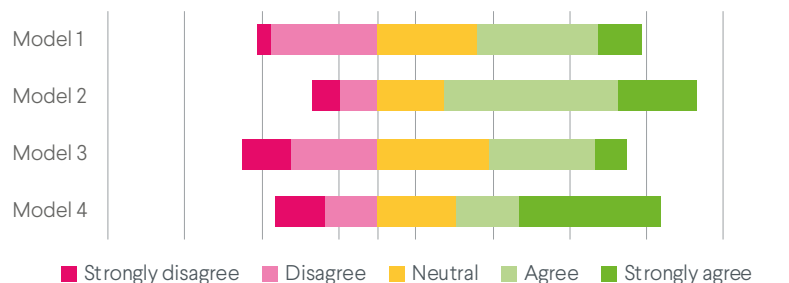
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

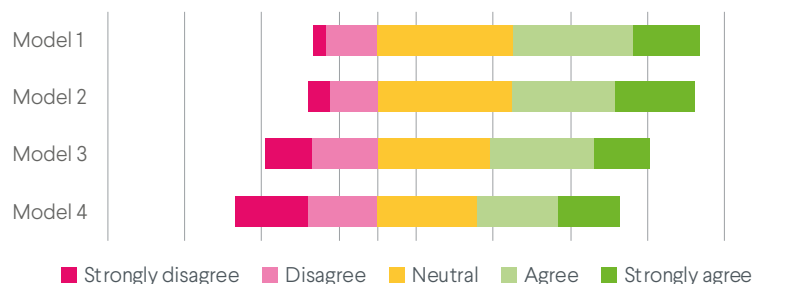
The model enables funds to meet the required standards



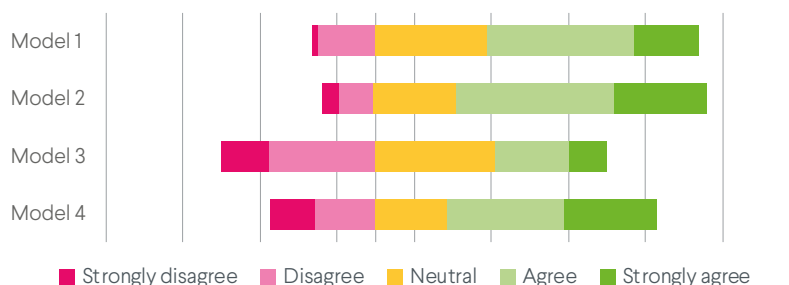
The model minimises conflicts between the pension function and the host local authority



The model allows for appropriate involvement in decision-making for key stakeholder

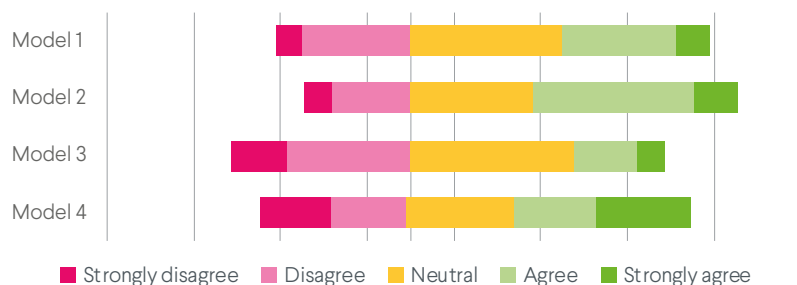


The model delivers clarity of accountability and responsibility for each relevant role

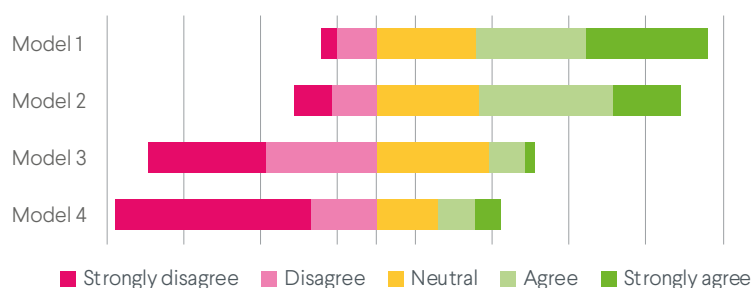


2. Survey results (continued)

The model minimises dependence on professionalism and relationships to deliver statutory responsibilities



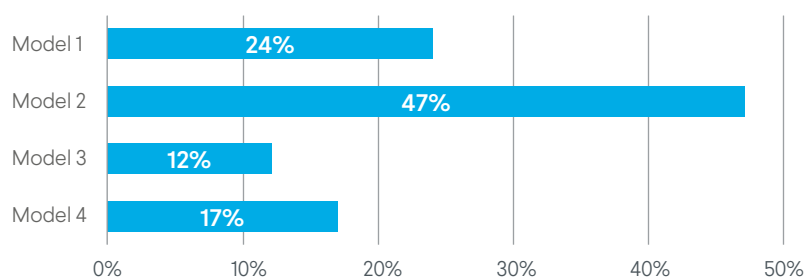
The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.

PLSA

Which structural governance model do you prefer from the four models discussed?



Additional survey data

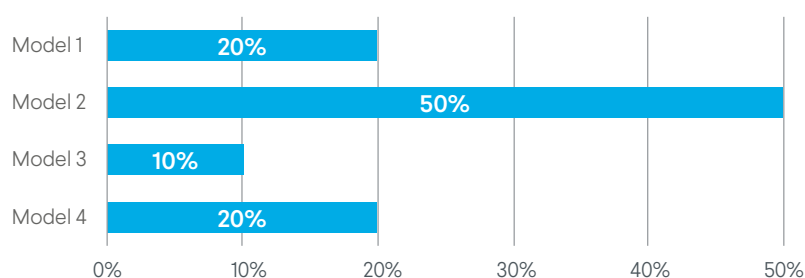
In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

Webinar

Which structural governance model do you prefer from the four models discussed?



4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union



Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.
2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.
3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.
4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.
5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

"It is a perversion that LPB members require a higher degree of training than elected members."

Officer, LB

"[The] biggest issue is stability at elected member level. Too much turnover."

Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

"Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc."

Officer, CC

"[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't."

Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.
2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?
3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.
4. Greater clarity around decision-making is a good idea: **"Some decision-making conventions are lost in the mists of time."**

Officer, CC



Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.
2. There was strong support for the professionalism of s151 officers and the role they play.
3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

"My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

Officer, CC

"Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."



Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.
2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

“No one in the council understands the difference between the ‘council’ function and the ‘pension’ function.”

Officer, LB

“The make-up of panel/committees is not working – too much political interference.”

LPB Chair

On conflicts:

“I don’t see abuses. The ability is there for there to be abuse but it doesn’t happen.”

Officer, CC

“LGPS is full of conflict, s101 committees are beholden to the council who are mainly focused on council tax-payers.”

TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

“[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

s151 CC

“[s151] role involves tensions, not conflicts. Tension can’t always be seen as a bad thing.”

Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority’s s151 was ‘kept informed’.

“It hadn’t occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good.”

Officer, LB

“Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF.”

LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

“[There should be] resourcing such that there is the quality and competence to deliver their statutory duties”

s151, CC

One s151 expressed **“disbelief that blanket hiring bans and pay policies affected the pensions section. s151’s should be flexible enough to understand how to ‘spend’ resources. If they need to pay differently for pensions to get the right experience/quality.”**

s151, CC

When it comes to budgeting and workplans

“...the s101 committee decides including requests for extra resource if required.”

Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees. although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

“Less than 50% of our members are in a union.”

s151, CC

“Representation is key – members must have a say”

TU

“Other employers reps and member reps should have voting rights [on the committee]. That’s right and should happen.”

Chair of Committee, CC

“We are warm towards the idea of an independent advisor/trustee who sits on committees.”

s151, CC

“We want to improve things for our members in terms of governance, transparency and representation.”

TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund’s governance arrangements.

“I welcome the involvement of the Pension Board it adds value, second opinion.”

Chair Committee, CC

One respondent believed that joint committee and local pension boards **“give scheme members and other employers a voice and avoids duplication.”**

s151, CC

“Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control.”

Chair of LPB

3. There were a range of practices in how funds engaged with employers:

“As s151 of a non-admin authority, I didn’t feel engaged in the pension fund, it was something that was dictated to me every few years.”

s151 speaking of their time in a non administering authority

“Employer liaison is tricky as your participating employers often don’t see it as a priority.”

s151, CC



5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	'Outcomes-based' approach to LGPS governance with minimum standards rather than a prescribed governance structure.
2	Critical features of the 'outcomes-based' model to include: <ul style="list-style-type: none"> a. Robust conflict management including clarity on roles and responsibilities for decision making. b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	Enhanced training requirements for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	Update relevant guidance and better sign-posting.

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	'Outcomes-based' approach to LGPS governance rather than a prescribed governance structure.	<p>We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure.</p> <p>Further, we do not believe it is appropriate to impose a 'one size fits all' approach.</p>	<ul style="list-style-type: none"> i. SAB should consult on: <ul style="list-style-type: none"> • Desirable features and attributes of LGPS governance arrangements; • The outcomes governance arrangements should be expected to deliver; and • How each administering authority might evidence that its own governance model displays the required attributes. ii. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	<p>Critical features of the 'outcomes-based' model</p> <p>to include:</p> <ol style="list-style-type: none"> Robust conflict management. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. Explanation of policy on employer and scheme member engagement and representation in governance. Regular independent review of governance. 	<p>The detailed specification of the desirable features and expected outcomes of an 'outcomes-based' model are beyond the scope of this project and should be determined in a second stage of work and through consultation.</p> <p>However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>
2a	<p>Robust conflict management.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> Published conflicts policy. Protocols for setting and managing budgets. Schemes of delegation. Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers. 	<p>Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts.</p> <p>Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	<p>Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.</p> <p>This will require a transparent approach to setting and managing budgets.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. <p>Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.</p>	<p>The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers.</p> <p>At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions.</p> <p>It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems.</p> <p>This aim must be supported by transparent processes for setting appropriate budgets.</p> <p>Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff.</p> <p>Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>
2c	<p>Explain policy on employer and member engagement and representation in governance.</p> <p>At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.</p>	<p>Most administering authorities have non-administering authority employer and scheme member representatives.</p> <p>Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations).</p> <p>In some cases, scheme member representatives have voting rights.</p> <p>»</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		<p>Many survey respondents support greater encouragement to include scheme member reps on s101 committees.</p> <p>However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.</p>	
2d	<p>Regular independent review of governance to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.</p> <p>Guidance should not prescribe the approach but could set out acceptable methods which may include:</p> <ul style="list-style-type: none"> i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process. 	<p>It is important that any 'outcomes-based' approach is policed.</p> <p>Self-assessment is insufficient. Independent review is required for a more objective assessment.</p> <p>We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
3	<p>Enhanced training requirements for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.</p>	<p>s151s: Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts.</p> <p>s101 committees: Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those for s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.</p>	<ol style="list-style-type: none"> CIPFA to develop a CPD module for s151 practitioners in the LGPS. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	<p>Update relevant guidance and provide better sign-posting.</p> <p>It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations.</p> <p>As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)</p>	<p>The main guidance relevant to governance includes:</p> <ol style="list-style-type: none"> CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and CLG's statutory guidance on governance of governance compliance statements (2008). <p>Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling.</p> <p>Both must be updated.</p>	<ol style="list-style-type: none"> CIPFA to review and update guidance for s151s in respect of LGPS governance. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	Separate s151 for pension fund.	<ul style="list-style-type: none"> • A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	Compulsory benchmarking.	<ul style="list-style-type: none"> • Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	Legal separation of pension fund accounts.	<ul style="list-style-type: none"> • Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts from administering authority/council.
4	Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.	<ul style="list-style-type: none"> • Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	Removing s151 from decisions around admin budgeting due to conflicts.	<ul style="list-style-type: none"> • s151 has statutory responsibility.
6	Merger of funds to facilitate different governance models.	<ul style="list-style-type: none"> • Weakened link to local democratic accountability. • Outside of the scope of the project.



Table 4: Suggested follow up work beyond the scope of this report

	Suggested follow up work	Why
1	SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.	<ul style="list-style-type: none"> • Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	CIPFA and MHCLG to update existing guidance.	<ul style="list-style-type: none"> • Existing guidance is out of date.
3	Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).	<ul style="list-style-type: none"> • Statutory responsibilities take precedence. • Currently unclear.
4	SAB to consider a 'Good Administration' review.	<ul style="list-style-type: none"> • Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	SAB to consider a review of the role of Pension Boards in LGPS.	<ul style="list-style-type: none"> • Very mixed reports on the role and success in working with Pension Boards in the LGPS.



Table 5: 'Outcomes-based' model – concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	Robust conflict management.	<ul style="list-style-type: none"> Conflicts policy. Scheme of delegation or decision matrix setting out who makes what decisions. Transparent process for approving budgets. Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.	<ul style="list-style-type: none"> Benchmarking. External expert advice. Internal or external audit. Review by LPB with appropriate expert advice. Process for setting administration budget. Policies in respect of recruitment and market supplements to attract and retain staff.
3	Explain policy on employer and member engagement and representation in governance.	<ul style="list-style-type: none"> Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	Regular independent assessment of governance arrangements.	<p>State method e.g.</p> <ul style="list-style-type: none"> Internal or external audit assessment; or Scrutiny by Local Pension Board; or External expert / consultant; or Peer review process. <p>Describe scope and approach e.g.</p> <ul style="list-style-type: none"> Reviewing policies, meeting minutes. Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey

The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.



The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.



Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 – Greater ring fencing of the LGPS within existing structures: Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 – New local authority body – an alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).



Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid through the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but policies over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.



Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.



Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator



A full-page background image of a forest. The foreground is filled with a dense carpet of small, purple crocuses. Tall, slender tree trunks rise from the flowers, and the upper part of the image is filled with a thick canopy of green leaves, with sunlight filtering through in dappled patterns.

Good governance in the LGPS

Phase II report from Working Groups to SAB

November 2019

Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

Thanks to contributors

Thank you to the following who contributed to the working groups and this report.

Euan Miller Assistant Director of Pensions
(Funding and Business Development),
Greater Manchester Pension Fund

Peter Moore Chair of CIPFA's Pensions Panel

Mark Wynn Director of Corporate Services
at Cheshire West and Chester Council, SCT

Nick Gannon TPR

Con Hargrave MHCLG

Jenny Poole Head of Finance & Audit/GO Shared
Services at Cotswold District Council

John Raisin Independent Advisor

Joe Dabrowski Head of DB, LGPS and Standards,
PLSA

Karen McWilliam Consultant, Aon

Jeffrey Dong Chief Treasury Officer at
City & County of Swansea, SWT

Caroline Holland Director of Corporate Services
at London Borough of Merton, SLT

Nicola Mark Head of the Norfolk Pension Fund,
Practitioner representative to SAB

Annemarie Allen Consultant, Barnet Waddingham

Chris Moore Director of Corporate Services and
Section 151 Officer, Carmarthenshire County Council

Rachel Brothwood Director of Pensions,
West Midlands Pension Fund

Robert Holloway SAB secretariat, LGA

Jeff Houston SAB secretariat, LGA

Jon Richards Unison

David Aldous National Audit Office

Yvonne Johnson Chair of the Pension Fund Panel,
London Borough of Ealing, Scheme Employer
Representative, SAB.

Hymans Robertson facilitators:

Catherine McFadyen, John Wright, Ian Colvin, Steven Law

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Terminology

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

Committee. A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”

Workstream 1: Standards and outcomes

Proposals and background

A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.



B. Conflicts of interest

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.

C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.



D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.
3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.

E.2 Each administering authority must publish an administration strategy.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

Workstream 2: Compliance and improvement

F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
 - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
 - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
 - c. It is critical that the IGR should be conducted by appropriate persons who:
 - properly understand the LGPS;
 - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
 - are in some way “accredited” to ensure consistent standards of review.
 - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
 - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
 - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
 - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
 - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
 - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
 - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
 - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
 - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
 - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
 - n. Failure to submit an IGR report by the required date will result in automatic referral.
 - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
 - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

IGR reports to be assessed by a SAB panel of experts.

F.2 LGA to consider establishing a peer review process for LGPS Funds.

Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG


Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

1. MHCLG to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 KPIs referred to within proposal E.3.
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.





Appendix A

Summary of recommendations

Area	Proposal
A. General	A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
B. Conflicts of interest	B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
D. Knowledge and understanding	D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
	D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
E. Service delivery for the LGPS function	E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.
	E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
	E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
F. Compliance and improvement	F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Area	
	A.1
	A.2
	A.3
A. General	
	B.1
	B.2
B. Conflicts of Interest	
	C.1
	D.1
	D.2
	D.3
	D.4
D. Knowledge and Understanding	
	E.1
	E.2
	E.3

	E.4
E. Service Delivery for the LGPS Function	E.5
F. Compliance and Improvement	
	F.1
	F.2

Proposal
MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("The Guidance")
Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer")
Each administering authority must publish an annual governance compliance statement that sets out how they comply with governance requirements for LGPS Funds set out in "The Guidance". This statement must be signed by the LGPS Senior Officer and, where different, co-signed by the S151 officer.
Each Fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.
The Guidance should refer to all those involved in the management of LGPS, and in particular those on decision making committees, to guide the statutory and fiduciary duty which will be produced by the SAB.
Each Fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS Officers and Pensions committee members, to have an appropriate level of knowledge and understanding to carry out their duties effectively.
Introduce a requirement for S151 Officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
CIPFA and other relevant professional bodies should be asked to produce guidance and training modules for S151 Officers and to consider LGPS training within the qualification of their syllabus.
Each administering authority must document key roles and responsibilities relating to its LGPS Fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
Each administering authority must produce an administration strategy.
Each administering authority must report the Fund's performance against an agreed set of indicators designed to measure standards of service.

Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS Senior Officer must be satisfied with the resource and budget allocated to deliver the LGPS Service over the next year.

Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general staffing policies such as recruitment freezes to the pensions function.

Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR Reports to be assessed by SAB panel of experts.

LGA to consider establishing a peer review process for LGPS Funds.

Brent Pension Fund Comments
N/A
Compliant
<p>Brent Pension Fund produces an annual governance compliance statement as part of its annual report. However, following approval of this proposal, Brent Pension Fund officers will use the guidance set to be produced by MHCLG in order to refine its annual governance compliance statement.</p>
<p>Following production of the guidance by MHCLG, Brent Pension Fund officers will use this in order to produce a conflicts of interest policy.</p>
N/A
<p>Compliant. Brent Pension Fund produces details on representation and voting rights as part of its annual report.</p>
<p>MHCLG are to introduce this requirement. Nonetheless, Brent Pension Fund introduces training at each Sub Committee and Board meeting to ensure that all relevant stakeholders have an appropriate level of knowledge and understanding to carry out their duties effectively.</p>
<p>Brent Pension Fund will review training courses provided by CIPFA and other professional bodies as outlined in D4 in order to ensure that requirements are met.</p>
<p>Following approval of this proposal, Brent Pension Fund officers will look to introduce and implement a training plan setting out key details such as its delivery, assessment and recording.</p>
N/A
<p>Brent Pension Fund officers are to review requirement E.1 and carry out initial work with a view to producing a roles and responsibilities matrix setting out how key decisions are reached.</p>
Compliant
Compliant

Brent Pension Fund officers are to review requirement E.4 in order to ensure full compliance.

Currently, Brent Pension Fund are applying a staffing policy aligned to Brent Council as a whole. However, officers will undertake initial work to produce a policy specific to the pension fund in order to ensure full compliance.

Brent Pension Fund to co-operate with the Independent Review and looks forward to receiving further details on implementation of this proposal.

N/A

Sixty second summary

UK Stewardship Code and the LGPS

Key messages

- The FRC has published the updated UK Stewardship Code which takes effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike.
- Funds who want to remain or become signatories must publish a Stewardship Report, demonstrating compliance with the 12 principles of the Code by 31 March 2021.
- LGPS Funds should use the Code in conjunction with forthcoming SAB guidance as a basis for reviewing and strengthening their approach to responsible investment activity.

Background

The FRC last week launched its updated UK Stewardship Code. The Code aims to improve stewardship practices, setting a substantially higher standard which reflects the changing expectations of investors since the Code's last revision in 2012. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements.

The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners, and six Principles for service providers, including investment consultants.

Key changes in the Code

- An **extended focus** that includes asset owners such as pension funds, and service providers including investment consultants and asset managers. The aim is to align the approach of the whole investment community with the interest of end-investors and beneficiaries.
- Annual reporting on stewardship activity and outcomes. Signatories' reports should demonstrate
 - what has been done in the previous year; and
 - what the outcome was;
 - the signatory's engagement with the assets they invest in;
 - the signatory's voting records;
 - how they have protected and enhanced the value of their investments.

This **greater transparency** will allow clients to see how their interests are being served.

- Signatories are expected to take **ESG factors, including climate change**, into account and to ensure their investment decisions are **aligned with the needs of their clients**. Signatories are expected to disclose the issues they prioritise for assessing investments prior to holding, and to monitor through holding and exiting. This should include the ESG issues of importance to them. This update parallels the recent changes to the Investment Regulations for Occupational Pension Schemes.

- Signatories are expected to **explain how stewardship has been exercised across asset classes** beyond listed equity such as fixed income, private equity and infrastructure, and in investments outside the UK.
- Signatories are required to **explain their organisation's purpose, investment beliefs, strategy and culture**, and how these enable them to practice stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
- There is also an expectation within the new Code for signatories to work in a **collaborative** fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they participated.
- Signatories are expected to explain how they **escalate stewardship activities** where necessary.

Next steps for signatories


The new Code takes effect from 1 January 2020. Organisations will remain signatories to the UK Stewardship Code until the first list of signatories to the 2020 Code is published. Existing signatories to the Code will be required to submit a Stewardship Report that meets the FRC's reporting expectations in the 2020 Code by 31 March 2021 to continue to be listed as signatories to the UK Stewardship Code. Reports must be signed off at a Board level, by Chair, Chief Executive or Chief Investment Officer.

Our view

Responsible investment is an area of continually growing importance across our client base and we recognise that minimum standards together with best practice are being driven higher and the changes to the Code certainly achieve this. We believe that best practice in stewardship begins with strong governance structures and clearly defined objectives which are linked to the purpose of the organisation and reinforced through the culture and values of that organisation. The new Code promotes this, particularly in requiring Board level sign-off of reporting.

Current guidance for LGPS funds suggests that Funds should become signatories to the Stewardship Code. The strengthening of the Code will require Funds to increase both their responsible investment activity, but also to focus more clearly on how they report on this activity. Whilst there is currently no compulsion for Funds to act, Funds may want to use the framework of the new Code in conjunction with forthcoming SAB guidance as a basis for reviewing and updating their responsible investment policies.

Please contact your Hymans consultant for more information on how we can help.

	Pensions Fund Sub-Committee 25 February 2020
	Report from the Director of Finance
2019 Triennial Valuation Results and Funding Strategy Statement	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART 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)"
No. of Appendices:	Four <ol style="list-style-type: none"> 1. Draft valuation report (Exempt) 2. Contribution Rate Modelling (Exempt) 3. Brent Council - Contribution Options (Exempt) 4. Funding Strategy Statement (FSS) (Open)
Background Papers:	<ul style="list-style-type: none"> ▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

- 1.1 This report sets out the results of 2019 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

2.0 Recommendation(s)

- 2.1 To note, comment and agree the draft valuation report and that members of the committee delegate authority to the Director of Finance to finalise the report before 31 March 2020.

- 2.2 To approve the contribution rate for the next three financial years for Brent Council, as 35.0% for 2020/21, 2021/22 and 2022/23 as set out in section 3.8 of this report and Appendix 2.
- 2.3 To delegate authority to the Director of Finance to finalise details of the advance payment of Brent Council's employer contributions and the subsequent impact on the rates and adjustment certificate, as set out in section 3.9 of this report and Appendix 3.
- 2.4 To approve the Funding Strategy Statement (FSS) as set out in section 3.13 of this report and Appendix 4.

3.0 Detail

- 3.1 Members of the committee will be aware from previous reports presented to the committee and training sessions that the Fund is required by law to undertake and actuarial every three years. All funds in the England and Wales are required to carry out a valuation as at 31 March 2019.
- 3.2 The purpose of the valuation 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).
- 3.3 Hymans Robertson, the Fund actuary, attended the October 2019 meeting outlining the valuation process, the assumptions used and the initial results.
- 3.4 At the meeting, the committee heard why the assumptions were being used, a presentation of the whole fund results including the funding level, assets, liabilities and the overall deficit level. It was also explained that different employers within the Fund will have different funding levels due to the profile of their members and contribution rates in the past.
- 3.5 Since that meeting draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, have been produced for the Council and for most employers within the Fund. These have been communicated to employers. For a small number of employers where results have not yet been issued, these will be sent out as soon as possible.
- 3.6 The draft valuation report, attached in restricted Appendix 1, summarises the process that has taken place and presents the valuation results, funding position and employer contribution rates for 2020/21 to 2022/23. This report recommends the committee to note, comment and agree the draft valuation report and delegate authority to the Director of Finance to finalise the report.
- 3.7 In line with the valuation process, the council commissioned a contribution rate modelling exercise to allow the officers to consider a long term funding strategy for the stabilised employers within the Fund, that is, Brent Council, academies and local authority schools.

- 3.8 Based on the results of this modelling work and discussions with the fund actuary, officers propose to freeze contribution rate at 35% of pay for next 3 years and stabilised thereafter at +/- 1% per annum because there is an acceptable likelihood of success and downside risk on the 16 or 19 year time horizon. This proposal has been agreed by the Fund actuary. The full contribution rate modelling report is attached in restricted Appendix 2. This report recommends to approve the contribution rate for the next three financial years for Brent Council, as 35.0% for 2020/21, 2021/22 and 2022/23.
- 3.9 As part of the valuation, the council is considering paying a large part of its employer contributions upfront as a lump sum. A report was commissioned by the Fund actuary to model a number of options, set out further in Appendix 3, which concluded that there is an economic benefit to the Council in considering this and there is no negative impact on the pension fund.
- 3.10 This proposal, which is now quite common across a number of LGPS funds, is still under consideration as it requires advance clearance with the Council's auditor and is subject to independent advice. It is envisaged that a decision on the pre-payment will be taken in early March 2020, in order to be reflected in the formal valuation.
- 3.11 The Funding Strategy Statement (FSS) is a document detailing how employer contributions to the Pension Fund are calculated. It is normally updated in line with the triennial valuation to ensure consistency.
- 3.12 The fund needs an FSS because:
- It is a legal requirement under the LGPS Regulations, and also to revise this at each formal valuation;
 - It shows employers how their cash contributions are calculated, and how these might change if the employer's circumstances change.
 - It acts as a valuable policy/reference document for the Fund to help deal with employers who raise issues between valuations.
- 3.13 At the October 2019 committee meeting, the committee agreed the draft FSS for consultation with employers. The consultation has now been completed by officers and the final FSS is provided in Appendix 4 for committee approval.

4.0 Financial Implications

- 4.1 These are discussed throughout the report.

5.0 Legal Implications

- 5.1 The triennial valuation is a statutory process conducted every three years that ensures the Pension Fund is both compliant with LGPS regulations and has a viable long-term funding strategy. The latter is achieved by ensuring it has a robust Funding Strategy Statement (FSS) and Investment Strategy Statement.

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:

Minesh Patel
Director of Finance

London Borough of Brent Pension Fund

Funding Strategy Statement

February 2020

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Funding Strategy Statement

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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 25th February 2020.

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 Statement of Investment Principles / 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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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.

1.6 How do I find my way around this document?

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

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Ravinder Jassar in the first instance at e-mail address Ravinder.jassar@brent.gov.uk or on telephone number 0208 937 1487.

2. Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated 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;
2. 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;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for 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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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 MHCLG 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 calculated 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). 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 the period over which the funding target is achieved. 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 **likelihood 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, then the required likelihood 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](#).

2.5 How is a funding level 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 funding level and deficit/surplus 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, funding levels and deficits are short term high level risk 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 likelihood 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 time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this will be achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

The fund will reassess the employer contribution rates at the next formal valuation of the Fund. If the outcome of the McCloud case is then known, a more accurate allowance for the impact will be made at that time.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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 reserves the right to 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

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- 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 participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	19 years	Future working lifetime of actives	As per letting employer
Secondary rate – Note (d)	% of payroll	% 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
Likelihood of achieving target – Note (e)	70%	75%	70%	75%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangement		3 years	3 years	3 years	None
Review of rates – Note (f)	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	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit 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 calculation principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation assumed to expire at end of contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case low risk basis would apply. Letting employer liable for future deficits and contributions arising. See Note (i) for further details

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. based on the return from long term 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 2020 (see Note (g)).

On the basis of extensive modelling carried out for the 2019 valuation exercise (see [Section 4](#)), the current stabilised rate for the Council Pool is a total contribution rate 35.0%, payable for the three years beginning 1 April 2020.

The stabilisation criteria and limits will be reviewed at the next formal valuation. 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 2020 for the 2019 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 Secondary contributions 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 secondary contributions 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) Likelihood 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 likelihood. A higher required likelihood 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 likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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, for the purpose of setting contribution rates, 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 assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. 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 calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section [3.3](#) above;

- v. The new academy's actual contribution rate will be as per the Council rate, 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 MHCLG and/or DfE guidance or removal of the formal guarantee currently provided to academies by the DfE. 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 greater than expected rise in liabilities;
- 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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

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. Any risk sharing 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.

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, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see [note \(i\)](#) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

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 surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation 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 participation basis or contractor exit 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 or surplus. 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 (b), 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 may 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 on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission 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:

- 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.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

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 2019 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 or receive an exit credit 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 and a cessation deficit 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 Investment Strategy Statement, 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 actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore 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](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 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 MHCLG 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 MHCLG 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, MHCLG 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.

MHCLG 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 October 2019 for comment;
- b) Comments were requested to be received no later than 31st January 2020;
- c) There was an Employers Forum on 13th November 2019 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, in February 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

A full copy included in the annual report and accounts of the Fund;

A copy sent by email to each participating employer in the Fund;

A copy sent to employee representatives;

A summary issued to all Fund members;

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 (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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 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

<https://www.brent.gov.uk/your-council/transparency-in-brent/performance-and-spending/budgets-and-finance/pensions/>

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:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. 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);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. 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;
3. 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;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. 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;
6. MHCLG (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 and contribution rates 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>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of</p>

Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change	Covered in the Fund's Investment Strategy Statement

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:

Risk	Summary of Control Mechanisms
	<p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	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
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Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p>

Risk	Summary of Control Mechanisms
	<p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>
An employer ceasing to exist resulting in an exit credit being payable	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</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.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated 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 likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

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 assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG 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 likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 at the end of the time horizon;
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 likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

In particular, with effect from 1 April 2019, the Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. 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 funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields plus 1.6% (appropriate to the basis used to allocate assets to the employer on joining the Fund)	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of short term restrictions plus longer term increases linked to price inflation; the agreed blended rate is RPI less 0.7% p.a.. This is the same assumption used at the previous valuation.

b) 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.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above) 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

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
Admission Bodies	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 2.3).
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.
Designating Employer	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.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, ie 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 are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

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	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 100 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.
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).
Primary contribution rate	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.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie 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 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 period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . 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.
Valuation	A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.



MINUTES OF THE PENSION BOARD Tuesday 22 October 2019 at 6.00 pm

PRESENT: Mr Ewart (Chair) and Councillor Crane, Councillor Kabir, Ms George and Mr Wheeler

1. **Apologies for absence**

Received from Mr Chris Bala.

2. **Declarations of interests**

None declared.

3. **Minutes of the previous meeting - 13 June 2019**

RESOLVED:

That the minutes of the last meeting held on 13th June 2019 be approved as an accurate record.

4. **Matters arising**

None.

5. **Pensions Administration Update**

This report updated the Pensions Board on various pensions' administration matters as part of its remit to oversee the administration of the Brent Pension Fund. The report also reviewed the performance of the LPP contract against agreed Service Level Agreements (SLA's) during September 2019. Mr Ravinder Jassar (Head of Finance) introduced the report and drew Members' attention to the tables within the report, which showed contract statistics for cases that had been processed, grouped by category and progress by month in the last 6 months.

He continued that the amount of cases carried forward had improved significantly since April, a reflection of all the backlog of cases inherited from the previous administration provider which were being actioned or reviewed by LPP. Members heard that a total of 9 complaints were outstanding in April, 7 of which had been resolved since. He added that complaints were being dealt with as swiftly as possible with lessons learnt from them and processes and procedures updated accordingly.

Mr Jassar gave an update on Annual Benefit Statements (ABS), a statutory responsibility for the scheme manager to issue to all eligible active and deferred members by 31 August each year. By the deadline date, there were a small number of records where queries from year end returns had not been resolved in

time and for those members, an ABS could not be produced as employers had not been forthcoming with the relevant information. The vast majority of those employers were schools that were closed over the summer months and could not respond to LPP's queries in a timely manner. He further updated that 34% of the outstanding queries had been resolved and ABS issued to members and it was expected that all queries would have been resolved by the end of March 2020. Progress was being regularly monitored and tracked as part of the monthly contract management and performance meetings with LPP.

In respect of data cleansing, a separate project commissioned to review, cleanse and fix any errors identified in member data, Members heard that phase 1 of the project was completed ahead of the 2019 triennial valuation. Mr Jassar drew Members' attention to appendix 3 of the report, which provided a status update for all work streams at the completion of phase 1 and added that officers would work closely with the Hymans Roberts (Investment Adviser) on the second phase of the project.

In the discussions that followed, Members expressed a preference to scrutinise the complaints about the service and with that in view, requested a further report on complaints to the next meeting. It was also suggested that in order to improve smaller employers' submissions for the purposes of ABS, consideration should be given to engagement with CVS Brent.

RESOLVED:

- i) That the pensions administration update be noted;
- ii) that a report on complaints on the service be submitted to the next meeting of the Board.

6. **LGPS Update**

This report updated the Board on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government. Mr Sawan Shah (Senior Finance Analyst) introduced the report and informed Members that the HM Treasury (HMT) launched a consultation on draft regulations, guidance and directions to implement the exit payment cap which was set at £95,000. He drew Members' attention to the Local Government Association (LGA) response paper, appended to the report, which raised concerns on the feasibility and consequences of implementing the Policy in the manner set out in HM Treasury's Consultation Document.

Mr Shah then gave an update on the McCloud case; transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015. Members heard that 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. He then outlined the key points from the Advice Note and added that the Fund Actuary had produced a summary regarding the various approaches in which the McCloud risk can be managed. Given that no remedy had been agreed by 31st August 2019, it would leave Funds to consider locally, how best to manage the uncertainty and risk.

In respect of Governance, Mr Shah informed Members that the Scheme Advisory Board (SAB) commissioned Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance, going forwards. Hymans Robertson undertook a process of engaging extensively with stakeholder groups and fund types to consider four governance models, each of which would be assessed against set criteria. The results found that there was a majority preference in adopting a governance model which combined improved practice with greater ring fencing of the LGPS within existing structures. In addition to this, the results found that there was a preference for clearer ring-fencing of Pension Fund management from the host authority, including budgets, resourcing and pay policies.

Following the analysis of these results, Hymans Robertson proposed that an outcome based approach to LGPS governance, with minimum standards, should be adopted rather than a prescribed governance model. In addition to this, Hymans Robertson proposed updating of relevant guidance and training requirements. Following the approval of the good governance report, the Scheme Advisory Board (SAB) has asked Hymans Robertson to assist with the next stage of this project which will involve the defining of good governance outcomes and options for assessment of these outcomes. Further details of the results and analysis undertaken by Hymans Robertson were set out in Appendix 3 to the report. Overall the Fund supported these recommendations, in particular, clearly clarifying the standards expected in areas of governance and administration.

Members welcomed the report and RESOLVED:

That the report on the recent developments in the LGPS be noted.

7. Brent Risk Register 2019

This report presented the updated Risk Register for the Brent Pension Fund Pensions Administration Service. Mr Saagar Raithatha (Finance Analyst) in introducing the report stated that having a strategy and register in place enabled the scheme manager to identify and manage scheme risks alongside established reporting mechanisms. He added that key elements of the strategy were discussed at a recent working party set up with the scheme manager, administrator and select employers for feedback and comment. The Register and the Risk were attached to this report in Appendices 1 and 2, respectively.

Mr Raithatha drew Members' attention to a new risk that had been added relating to the McCloud judgement which would potentially increase pension fund liabilities.

In welcoming the report, the Chair thanked officers for producing a comprehensive and better formatted register and RESOLVED:

That the Brent Risk Register 2019 be noted.

8. The Pensions Regulator (TPR)

This report presented the outcome of The Pensions Regulator's (TPR) engagement sessions with Local Authorities. Mr Ravinder Jassar (Head of Finance) informed the

Board that the sessions were started as TPR identified a slowdown in improvements across LGPS funds and wanted to gain a better understanding of the reasons for this. The reviews and meetings with TPR, based on the Code of Practice 14: Governance and administration of public service pension schemes, covered various risk areas including the following:

Administration, data and communication
Internal controls and complaint handling
Contributions, employer compliance and funding affordability
Pension Board knowledge and understanding, relationship between Board and Scheme manager and conflicts of interest
Fraud, mitigation of scams and cyber security

The meetings gave TPR a strong insight into current governance and administration practice and standards of LGPS funds as a result of which a number of recommendations were made across each element. He drew Members' attention to the key points as set out within the report and added that the recommendations made by TPR were agreed. He continued that the cyber security policy including penetration testing had been submitted to TPR. In response to Members' request, Mr Jassar undertook to re-send the link to the TPR on-line pensions training.

In welcoming the report, members RESOLVED:

That the outcome of the Pension Regulator's engagement sessions be noted.

9. Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues

This report set out the Fund's proposed approach to further integrating Environmental, Social and Governance (ESG) considerations into its strategic decision making, in particular how the Fund intended to take in the short and medium term to manage the risk of climate change. Mr Ravinder Jassar introduced the report and highlighted that the Brent Pension Fund Committee took Responsible Investment ("RI") seriously, aware that ESG factors can influence the Fund's ability to achieve long term sustainable returns. The Fund's RI commitment is reflected in the Fund's Investment Strategy Statement.

He continued that ESG criteria of its existing investments were assessed on an ongoing basis, including regular interaction and challenge of the Fund's investment managers (including the Fund's asset pool, London CIV). ESG also remained a key consideration when assessing the relative merits of any potential new Fund investments, in addition to ongoing education programme to increase overall knowledge.

The Fund's policy on RI is informed by its fiduciary duty to its members and employers, rather than by purely ethical considerations. Accordingly, the Fund did not disinvest from companies for purely non-financial reasons, not least because this could lead to legal challenge. He outlined different climate related scenarios which Hymans, the Fund's actuary and investment advisors, would model to help funds explore any challenging questions. To that end, it was proposed to undertake a carbon footprint exercise for the Fund in order to improve its understanding of the Fund's holdings. Officers would work with our investment

advisors, Hymans, to scope out this project further and report back to the committee. Following this, recommendations on the measurement of and actions related to carbon emissions would then be presented to the committee for approval. Mr Jassar then referenced collaboration with other investors and groups including the Local Authority Pension Fund Forum (LAPFF) which had the potential to help influence and improve market best practice standards, as well as strengthening the voice of pension funds.

Members welcomed the report and RESOLVED:

- (i) To note the overall report with regards to position on responsible investment and climate change;
- (ii) To note the further work proposed with regards to scenario analysis, carbon footprint analysis and consideration of alternative index-tracking funds.

10. Investment Monitoring report on Fund Activity for Q2, 2019

This report updated members on the Fund's activity for quarter 2, 2019. Mr Ravinder Jassar (Head of Finance) introduced the report and informed Members that the Fund returned ahead of benchmark in the Q2 2019, continuing the strong start to 2019 and over the quarter the fund grew from just over £856m to almost £897m. He anticipated an increasing trend in Q3 which will be reported to the next meeting. Mr Jassar clarified manager ratings and provided business updates as set out in the report.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

That the investment monitoring report for Q2 be noted.

11. Brent Pension Fund: Annual Report and Accounts 2018/19

This report presented the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2019. Mr Sawan Shah (Senior Finance Analyst) informed Members that there had been no major changes to the audited Annual Accounts since the submission of the Draft Annual Accounts to the Sub-Committee. He continued that only minor amendments and additional clarifications were made to the draft accounts by Grant Thornton (Council's auditors) and signed off. He highlighted the following main items:

The value of the Fund's investments increased from £831.1m to £856.4m and total contributions received from employers and employees totalled £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, totalled £45.9m, an increase on the previous year's £38.9m. He added that as in 2017/18, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

That the Annual report and accounts for 2018/19 be noted.

12. Review of Fund benchmarks and performance targets

The purpose of this report was to review the Fund's investment benchmarks and performance targets at an individual asset class level. Mr Sagar Raithatha (Finance Analyst) explained that The Fund required benchmarks so that 'gaps' or problems with performance can be identified and performance improvements can be achieved through investigating causes and identifying the best solutions. He drew Members' attention to the recommendations to the Fund's benchmarks and performance targets (attached at appendix 1). Mr Raithatha added that at an individual asset class level, it was proposed to adopt new benchmarks and performance targets set against Capital Dynamics Private Equity, Baillie Gifford Multi Asset, Ruffer Multi Asset, Alinda Infrastructure, Capital Dynamics Infrastructure and LCIV CQS Multi Credit.

In noting that the changes would be incorporated in the next quarterly reporting of Fund activity, Members RESOLVED:

That the proposed changes to the Funds investment benchmarks and performance targets be noted.

13. Equitable Life Proposal

The report outlined proposed changes to the Equitable Life, a legacy Additional Voluntary Contributions (AVC) provider for the Brent Pension Fund. Mr Sawan Shah (Senior Finance Analyst) explained that AVCs were potentially a tax efficient way to save money for retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension. He clarified that the scheme, provided by Equitable Life, affected about 25 members only and was not part of the assets of Brent Pension Fund.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

The Equitable Life proposal as set out within the report be noted.

14. Date of next meeting

It was noted that the next meeting will be held on 25th March 2020.

15. Any other urgent business

Appointment of Employer Representative.

Mr Ravinder Jassar informed the Board that the process for the appointment of Employer representative on the Board to replace Mr Steer had begun. He added that in order to generate greater interest in the appointment, he would give a short presentation at the next meeting of Employers' Forum.

16. Exclusion of Press and Public

RESOLVED:

That the press and public be excluded from the consideration of the following reports as they contain 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)"

17. **London CIV Update**

The purpose of this report was to update the Board on recent developments within the London CIV (LCIV). Mr Sawan Shah (Senior Finance Analyst) provided updates on personnel at the LCIV and the confirmation of the appointment of J.P. Morgan as the new sub-fund manager of the LCIV Emerging Market Equity Fund, subject to the completion of the Investment Management Agreement (IMA). Members also received updates on multi asset credit fund and infrastructure fund and noted that the proposal submitted by the LCIV in August 2019 for the Infrastructure Fund had been granted permission. He referenced MiFID II which reclassified local authorities from professional to retail client status. Members heard that the Fund submitted its application to opt-up to professional client status for alternative asset classes and that the London CIV had confirmed its approval.

In welcoming the update, Members RESOLVED:

- i) That the recent developments with the London CIV be noted;
- i) That the transition arrangements relating to the LCIV Emerging markets fund be noted.

18. **2019 Triennial Valuation**

The purpose of this report was to update members on the progress of the 2019 Triennial Valuation and the next steps. The report had been presented to Brent Pension Fund Sub-Committee meeting at which Members approved the draft FSS (Funding Strategy Statement) for consultation with employers. Mr Ravinder Jassar (Head of Finance) drew Members' attention to the draft FSS attached as appendix 1 to the report and the key changes since the last valuation in 2016. He continued that following consultation with other employers within the Fund, an updated report would be submitted to the Sub-Committee and the Board.

Members welcomed the report which was first presented to the Sub-Committee meeting and RESOLVED:

- i) That the progress on the triennial valuation be noted;
- ii) that the Whole Fund results be noted;
- iii) that the current draft of the Funding Strategy Statement (FSS) be noted;
- iv) to note that the draft FSS will be consulted with employers, as required by LGPS Regulations, and reported to the next meeting in 2020 for formal ratification.

The meeting closed at 8.00 pm

MR. D EWART
Chair

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