



# Brent

## Brent Pension Fund Sub-Committee

**Wednesday 5 October 2022 at 6.00 pm**

Conference Hall – Brent Civic Centre, Engineers Way,  
Wembley, HA9 0FJ

Please note this will be held as a physical meeting which all Committee members will be required to attend in person.

**The meeting will be open for the press and public to attend or alternatively can be followed via the live webcast. The link to follow proceedings via the live webcast is available [here](#)**

### Membership:

#### Members

Councillors:

Johnson (Chair)  
Mitchell (Vice-Chair)  
Kansagra  
Choudry  
Dar  
Hack  
Miller

#### Substitute Members

Councillors

Dixon, Ethapemi, Mahmood and  
Shah

Councillors

Maurice and J Patel

### Non Voting Co-opted Members

Elizabeth Bankole

Brent Unison representative

**For further information contact:** Andrew Phillips, Governance Officer  
Tel: 0208 937 4219; Email: [Andrew.Phillips@brent.gov.uk](mailto:Andrew.Phillips@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](https://democracy.brent.gov.uk)**

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

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

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

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

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

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

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

The business relates to or affects:

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

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

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

or

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

- You yourself;

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

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item	Page
<b>1    Declarations of personal and prejudicial interests</b>	
Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.	
<b>2    Minutes of the previous meeting</b>	1 - 8
To approve the minutes of the previous meeting held on 27 June 2022 as a correct record.	
<b>3    Matters arising</b>	
To consider any matters arising from the minutes of the previous meeting.	
<b>4    Deputations (if any)</b>	
Members are asked to note that the Chair has agreed to receive a deputation from Divest Brent.	
<b>5    Investment Monitoring Report - Q2 2022</b>	9 - 22
To receive the Brent Pension Fund Q2 2022 Investment Monitoring Report.	
<b>6    Net Zero Roadmap Update and Responsible Investment policy</b>	23 - 38
This report presents an update on progress against the Fund's net zero transition roadmap.	

- 7 Brent Pension Fund: Annual Report and Accounts 2021/22** 39 - 240
- To receive the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2022.
- 8 2022 Valuation - Funding Strategy Statement Update** 241 - 294
- This report provides an update from the Fund Actuary to highlight the key changes being considered for the 2022 Funding Strategy Statement (FSS) review.
- 9 Minutes of Pension Board** 295 – 302
- To note the minutes of the Pension Board meeting held on 25 July 2022.
- 10 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 their representative before the meeting in accordance with Standing Order 60.
- 11 Exclusion of the Press and Public**
- The press and public will be excluded from the remainder of the meeting as the reports to be considered 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)”
- 12 2022 Valuation - Whole Fund Results** 303 - 338
- To receive an update on the 2022 valuation – whole fund results.
- 13 2022 Valuation - Employer Contribution Strategy** 339 - 384
- This report presents analysis from the Fund’s actuary regarding the



contribution rate strategy for the Council for the 3 years from 1 April 2023.

#### **14 London CIV Update**

385 - 484

To receive a report from the Director of Finance providing an update on recent developments regarding the Brent Pension Fund Investments held within the London CIV (LCIV).

**Date of the next meeting: Monday 20 February 2023**

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. Alternatively it will be possible to follow proceedings via the live webcast [HERE](#)

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## LONDON BOROUGH OF BRENT

### **MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE** **Held in the Conference Hall, Brent Civic Centre on Monday 27 June 2022 at** **6.00 pm**

**PRESENT:** Councillor Johnson (Chair) and Councillors Choudry, Hack, Miller and Mitchell

**Also Present:** David Ewart (Independent Chair – Pension Board) and Elizabeth Bankole (Independent Co-Opted Member).

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

The following interests were declared at the meeting:

- Councillor Mitchell declared a personal interest in Agenda Item 5 (Quarterly Monitoring Report Q1 2022) and Agenda Item 7 (Net Zero Roadmap) as a result of previous engagement with Divest Brent and in holding a professional consultancy role outside of the Council focussed on Net Zero Transformation.
- Councillor Miller declared a personal interest in Agenda Item 5 (Quarterly Monitoring Report Q1 2022) and Agenda Item 7 (Net Zero Roadmap) as a result of previous engagement with Divest Brent.
- Councillor Johnson declared a personal interest in respect of Agenda Item 5 (Quarterly Monitoring Report Q1 2022) & Agenda Item 6 (Pension Fund Business Plan) as an ex local government member of the Local Government Pension Scheme

#### **2. Deputations**

None.

#### **3. Minutes of the previous meeting**

**RESOLVED:** That the minutes of the previous meeting held on 21 February 2022 be approved as an accurate record of the meeting.

#### **4. Matters Arising**

None.

#### **5. Quarterly Monitoring Report – Q1 2022**

Kameel Kapitan (Hymans Robertson LLP Investment Consultant) introduced a report which outlined the performance of Brent Pension Fund during Q1 2022.

In presenting the report, the following were highlighted as key strategic points:

- The Committee were provided with an initial outline of the monitoring process, which included a breakdown on Fund Performance versus the expected benchmark over the relevant quarter along with forecasts on a short, medium and long-term basis. Additionally, the processes of Hymans Robertson monitoring Manager performance within the Fund was explained to the Committee, as well as new Climate monitoring metrics.
- A high-level summary of the performance of the Fund was then presented to the Committee, with the key points highlighted below:
  - The Fund had posted negative returns over the quarter, ending the period with a valuation of £1,132.7m, down from £1,155.7m at the end of Q4 2021. This was due to a number of global factors, including the Covid-19 pandemic, increasing energy and gas prices and the ensuing inflation and increased interest rates;
  - The majority of assets classes struggled in Q1 2022 amidst the challenging environment. Index-tracking mandates with LGIM (global equities) and BlackRock (gilts) contributed heavily to the negative absolute return whilst the LCIV Baillie Gifford multi-asset fund, the LCIV emerging markets fund and the LCIV multi-asset credit (MAC) fund all drove relative underperformance versus the benchmark;
  - Marginally offsetting returns was the performance of UK equities (LGIM index-tracking fund) and the LCIV Ruffer multi-asset fund. Both delivered positive return with Ruffer in particular demonstrating the value of its more defensive approach to multi-asset investing.
- In Q2 2022 the Fund would seek to complete planned investment in the BlackRock Low Carbon equity fund whilst continuing to explore any attractive secondary market opportunities within the property space consistent with the decision taken at the October 2021 Committee meeting.
- Moving on to talk about asset allocations of the Fund, it was updated that the Fund was positioned well in terms of matching its interim and long-term benchmarks.

An overview was then provided in relation to manager performance of the various funds, with the following noted:

- Members were advised that total Fund return remained strong and positive on both an absolute and relative longer term basis, with Managers performing broadly as expected. The one Manager not performing as expected was the Capital Dynamics and Alinda Funds, though due to their small size this did not have a material impact on the Fund.
- It was noted that UK equity markets had outperformed global markets over the quarter with returns achieved by Ballie Gifford and Ruffer both remaining strong. It was noted, however, that the Ruffer Multi Asset Fund had adopted a more defensive position to deal with market volatility, resulting in a more positive return over the quarter. This was important for the Fund, to ensure diversification of assets.

- An overview was also provided on the 'Hymans rating' for Managers, which provided an evaluation of how different Managers were performing. In Q1, it was updated that there had been no significant changes in Manager performance with confirmation provided that where no rating had been applied, this was not due to performance issues but reflected the limited data available to provide a meaningful rating at this stage.

Members were then provided with a summary of the climate risk analysis and carbon intensity by Fund Managers. Key issues highlighted were as follows:

- The Committee were updated that the Fund was reporting in line with information produced by its Pool, the London CIV. Key metrics were currently focussed around weighted average carbon intensity and Fossil Fuel exposure with the information covered capturing approx. 80% of the Fund's assets, as at 31 March 22. Members were assured this provided an accurate and reliable level of data. In time, the Fund would seek to evolve its climate risk monitoring process by monitoring against further metrics.
- Despite only representing 15% of assets shown within the report, the LCIV Baillie Gifford multi-asset fund was responsible for 28% of the Funds total carbon intensity. It was noted that Baillie Gifford had provided a rationale to officers as to why this was the case, and many businesses they were investing in were committed to transitioning to a low carbon economy going forward.

The Chair thanked Hymans Robertson LLP for their presentation and members were then invited to ask questions, with the responses summarised below:

- It was agreed that further detail would be provided for future meetings on the key criteria applied in relation to the assessment of Manager performance and the ratings applied by Hymans Robertson in relation to their Responsible Investment (RI) rating.
- In terms of a commitment to renewable energy from Managers, it was agreed that more information would be shared at a future meeting.
- Further details were also requested on the breakdown of fees by each Manager and any benchmarking comparisons available. Whilst details of the fees charged were incorporated within the Statement of Accounts it was agreed that further detail could be provided for future meetings.
- In terms of any wider more general benchmarking in relation to performance of the Fund the Committee was advised that yearly benchmarking within the LGPS was undertaken, which included Brent. Once the information for the previous monitoring period was received, this would be presented to the Committee as part of the Funds Annual Report.

Members welcomed the update provided and with no further issues raised thanked Hymans Robertson LLP for their presentation. It was **RESOLVED** to note the report.

## 6. Pension Fund Business Plan

Sawan Shah (Senior Finance Analyst) introduced the report, outlining the business plan for the Fund for the next 12-18 months prepared by the Fund's investment advisors, Hymans Robertson LLP. It was explained that the Fund's principle long-term objective was to provide retirement benefits to its members and the Fund invested its

assets in order to meet this objective. The overarching investment strategy remained to establish a stable and affordable contribution rate alongside maximising return from investments at appropriate risk levels.

The key priorities within the Fund's Business Plan over the next 12-18 months were noted below:

- Strategy and Implementation
- Monitoring and Reporting
- Pooling – including progress and timetable
- Responsible Investment
- Governance
- Training
- Other – cross-practise carried out in financial quarters.

Kenneth Taylor (Hymans Robertson LLP Investment Consultant), then provided further detail on the Pension Fund Business Plan to the Committee, with the key issues noted below:

- It was updated that an actuarial valuation was being carried out this year, and when this was completed the investment strategy would be evaluated. This would involve analysis of how the Fund's investments were allocated. Once this had been completed, there would be a more detailed review of the current investment strategy including the equity allocations towards property and Carbon/ESG tilted Funds.
- The strategy review also sought to build the Fund's property allocation over the next period, which had already begun recently. Additionally, the London CIV was launching a UK Property Fund, specifically within the residential housing sector. This was an opportunity that was being explored, with a view to investment in the future.
- It was stressed that the Plan was a live document, and that progress reports would be provided to the Committee to analyse how the investments within the Fund were balanced.
- Responsible investment (RI) was highlighted as a key issue for the Fund going forward. It was expected that reporting would have to be in line with TCFD (Task Force on Climate-Related Financial Disclosures) regulations, and reporting the carbon metrics of the Fund's investments, in line with the London CIV approach.
- The Committee were updated on the Fund's Net-Zero target, and the prospective dates to reach this. The UK Government had set a target of becoming Net-Zero by 2050, whilst Brent Council had set a target of 2030. The Committee would be required to engage in further consideration and discussion regarding the Fund's Net-Zero date at a future meeting.

The Chair thanked Kenneth Taylor (Hymans Robertson LLP) for their presentation and members were then invited to ask questions, with the responses summarised below:

- It was confirmed that the Committee would have the opportunity to further consider and review the outcome of the Strategic Investment review to be

completed once the actuarial valuation had been finalised with implementation to be undertaken on a transitional basis.

- In terms of future targets to be included as part of the Investment Strategy review, including those relating to the climate metrics and net zero, assurance was provided that these would be matters for review and consideration in order for an informed choice to be made by the Committee prior to them being agreed, with the previous targets having been set in February 2020.

As no further issues were raised the Sub Committee again welcomed the update provided and **RESOLVED** to note and endorse the Business Plan.

## 7. Net Zero Transition Roadmap Update

Sawan Shah (Senior Finance Analyst) introduced the report, which presented an update on progress against the Fund's net zero transition roadmap. Members were updated that the Net Zero framework had been agreed by the previous Sub-Committee under the last Administration and subsequently the opportunity had been taken to present an update to the new Sub Committee membership.

Kenneth Taylor (Hymans Robertson LLP) then presented a more detailed overview, with Members noting the following key issues:

- The outline of the practical roadmap towards net zero which had been agreed by the Sub Committee in October 2021 and progress achieved to date with regard to Responsible Investment (RI) training; introduction of RI focussed investment beliefs and investment in a new low carbon mandate and infrastructure fund with a significant allocation to renewables along with the selection of climate related metrics, which tracked the Fund's progress against its reduction of emissions. This reporting was in line with London CIV metrics.
- The key strategic challenges facing the Fund in terms of decarbonisation and context in relation to current carbon emissions and the levers available to the Fund in terms of capital allocation supported by ongoing engagement.
- The Framework developed to support the Fund's climate ambitions, which included the development of carbon metrics to support to drive towards net zero; reviewing the Funds existing mandates within the context of the net zero target that would need to be agreed upon by the Sub Committee and the process of engagement with the Fund managers in order to challenge and encourage best practice taking account of the Fund beliefs and climate ambitions;
- As part of this process there would also be a need to review and update the Fund's Responsible Investment (RI) beliefs and climate metrics.

The Chair thanked Kenneth Taylor (Hymans Robertson LLP) for the presentation and members were then invited to ask questions, with the responses summarised below:

- It was asked what level of change the Fund would be able to affect in terms of engagement with LCIV and Fund Managers in relation to its climate ambitions. In response members were advised of the opportunities available, with Fund Managers required to take account of the views of their investors which as part of the LGPS pool formed a strong opinion. In addition the potential to engage with

LCIV and managers on voting activity on climate related issues and to agree action on collaboration and public disclosure of activities to encourage change were also identified.

- Regarding the setting of the Fund's Net-Zero target date, members noted the options identified along with considerations to be taken into account and lobbying being undertaken with LCIV in terms of any further reduction in their current target of 2040. Whilst recognising the challenges identified. Members remained keen to push for as early a target date as possible.

As no further issues were raised at this stage it was **RESOLVED** that the Pension Fund Sub-Committee note the update and ongoing work and progress being made on the Net Zero Transition Roadmap as detailed within Appendix 1 of the report.

## 8. Pension Fund year end accounts 2021/22

Rav Jassar (Deputy Director of Finance) introduced the report, which presented the draft Pension Fund Annual Accounts for the year ended 31 March 2022.

In presenting the Annual Accounts it was noted:

- That during 2021/22, the value of the Pension Fund's investments had increased to £1,128m (2020/21 £1,032m). This had been largely due to the performance of growth holdings (global, UK and private equities) over the 12 month period.
- Total contributions received from employers and employees had been £64m for the year, an increase on the previous year's £61m.
- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £47m, an increase on the previous year's £42m.
- As in 2020/21, the pension fund was in a positive cash-flow position as its contributions exceed its outgoings to members.

Members were advised that the formal approval of the accounts rested with the Council's Audit & Standards Committee as part of the Council's financial statements. The accounts had been presented to the Audit and Standards Advisory Committee on 7 June 2022, as attached in Appendix 2 to the report with the external audit to commence once the main council accounts had been published. As a result work would now commence to prepare the Pension Fund annual report for consideration by the Sub Committee.

As no further issues were raised, it was **RESOLVED** to note the contents of the report.

## 9. 2022 Triennial Valuation

Sawan Shah (Senior Finance Analyst) introduced the report, updating the committee on the 2022 Pension Fund Valuation.

In presenting the report the Sub Committee noted:



- By law the Pension Fund was required to complete a valuation every three years. This encompassed the assets and liabilities of the Pension Fund, as well as those of individual employers, including Academy Schools, independent contractors and charities.
- The valuation also served to set employer contribution rates for the period beginning 1 April 2023, as well as providing a check on the Fund's solvency and whether the Fund was meeting its overall targets. The 2022 valuation process had now commenced with the timetable for its completion by 31 March 2023 as detailed within section 3.6 of the report.
- The key financial and demographic assumptions on which the 2022 valuation process would be based, as detailed within section 3.7 of the report.
- Further updates would continue to be provided for the Sub Committee as the valuation process progressed including on the draft Funding Strategy Statement and employer contribution rate proposals.

Having considered the update provided it was **RESOLVED** that the Sub Committee note the report progress and indicative timetable for completion of the valuation process.

#### 10. **Minutes of Pension Board**

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting to give an overview of the Board's last meeting. Members were updated that the Pension Board's role was to assist the Sub Committee in efficient management of the Fund and in monitoring service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers as well as Brent Council. In regards to the March meeting, the Sub Committee were updated on the Pensions Administration Service update which had been provided along with consideration of the Pension Fund Risk Register. In addition the Board had received and considered the reports presented to the previous Pension Fund Sub Committee which had all been welcomed and endorsed.

Mr Ewart was thanked for his explanation of the Pension Board's role, and with no further issues raised it was **RESOLVED** to note the minutes from the Pension Board and update provided at the meeting.

#### 11. **Any other urgent business**

None.

#### 12. **Exclusion of Press and Public**

At this stage in the meeting the Chair advised that the Sub Committee would need to move into closed session to consider the final items on the agenda and it was therefore **RESOLVED** to exclude the press and public from the remainder of the meeting as the reports and appendices to be considered contained the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Access to Information Act 1972, namely:

“Information relating to the financial or business affairs of any particular person (including the Authority holding that information).”

*Having passed the above resolution the live webcast was ended at this stage of the meeting.*

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

Rubia Jalil (Finance Analyst) introduced the report, updating the committee on recent developments regarding Brent Pension Fund investments held within the London CIV (LCIV). The update included (as detailed in Appendix 1) the data, performance of Funds that Brent had invested via London CIV, namely London CIV Diversified Growth Fund, London CIV Absolute Return Fund, Baillie Gifford and Ruffer Multi-Asset Fund. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review which included Brent’s investments in the LCIV Infrastructure fund along with valuation and performance data for the underlying portfolio investments and an update on pipeline investments.

As a final update members attention was drawn to the general updates provided by the London CIV 9as set out in Appendix 3) in relation to investment, fund launches and fund monitoring and operational controls.

Having considered the update provided, the Sub Committee **RESOLVED** to note the reports and updates provided by London CIV.

The meeting closed at 7.19 pm

COUNCILLOR R Johnson  
Chair



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# London Borough of Brent Pension Fund

## Q2 2022 Investment Monitoring Report

Kenneth Taylor, Senior Investment Consultant  
Ahmed Elsaddig, Investment Analyst

Agenda Item 5

Executive Summary

Q2 2022 proved another challenging quarter for markets, with the Funds investments returning - 6.7%, underperforming the Fund's benchmark by 1.0%. However, over a 3-year period, the assets continue to outperform strongly on both an absolute and a relative basis.

Market volatility weighed heavily on markets over the period as inflation and interest rate hikes continued. The persistence of these inflationary pressures has led to a rise in fears of recession, with forecast growth down from the start of Q1.

Global equities as a whole fell 8.7% as a whole in Sterling terms. UK equities fared better, benefitting from the outperforming energy sector which constitutes a material part of the index. Emerging market equities again fell over the period, largely driven by underperformance of the technology sector, due to its increased sensitivity to rising rates.

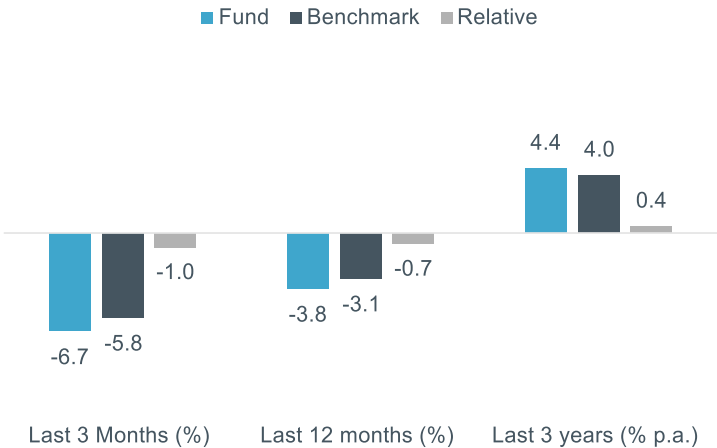
Within fixed income, rising interest rates provided upward pressure on yields and drove significant decrease in value. Speculative grade credit markets also suffered amidst the uncertainty.

Property continued its strong run; however, capital growth has softened over the last few months.

Key points to note

- The Fund posted negative returns over the quarter, ending the period with a valuation of £1,054.3m, down from £1,127.6m at the end of Q1 2022.
- The majority of assets classes struggled in Q2 2022 amidst a challenging environment. Index-tracking mandates with LGIM (global equities) and BlackRock (gilts) contributed heavily to the negative absolute return whilst the LCIV Baillie Gifford multi-asset fund, the LCIV emerging markets fund and the LCIV multi-asset credit (MAC) fund all drove relative underperformance versus the benchmark.
- A positive performer was the Fund's property investment with Fidelity although at c1.5% of assets it has little offsetting effect on overall performance.
- In Q3 2022 the Fund will seek to complete planned investment in the BlackRock Low Carbon equity fund whilst continuing to explore attractive secondary market opportunities within the property space consistent with the decision taken at the October 2021 Committee meeting.

Fund performance vs benchmark/target



High Level Asset Allocation

As part of the investment strategy review carried out in Q2 2020, the Fund's multi-asset mandates were re-categorised as 'Diversifiers' and included within the 'Income' bucket.

GrIP	Actual	Benchmark	Relative
Growth	57.9%	58.0%	-0.1%
Income	29.9%	25.0%	4.9%
Protection	10.1%	15.0%	-4.9%
Cash	2.1%	2.0%	0.1%

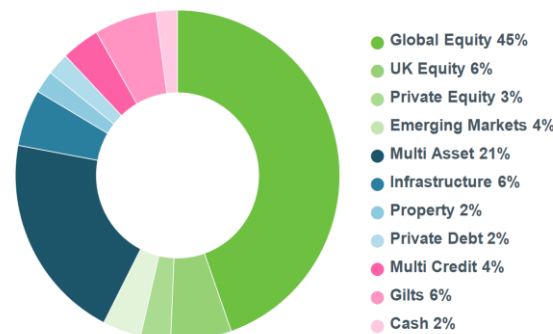
Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold a higher allocation to multi-asset funds.

## Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q1 2022	Q2 2022			
LGIM Global Equity	506.1	459.7	43.6%	40.0%	3.6%
LGIM UK Equity	67.8	64.4	6.1%	5.0%	1.1%
Capital Dynamics Private Equity	30.0	31.7	3.0%	5.0%	-2.0%
LCIV JP Morgan Emerging Markets	43.8	40.6	3.9%	5.0%	-1.1%
Blackrock Acs World Low Crbn	15.4	13.7	1.3%	3.0%	-1.7%
<b>Total Growth</b>	<b>663.1</b>	<b>610.1</b>	<b>57.9%</b>	<b>58.0%</b>	<b>-0.1%</b>
LCIV Baillie Gifford Multi Asset	135.1	123.3	11.7%	6.0%	5.7%
LCIV Ruffer Multi Asset	97.4	93.3	8.8%	6.0%	2.8%
Alinda Infrastructure	23.4	26.5	2.5%	0.0%	2.5%
Capital Dynamics Infrastructure	6.2	6.9	0.7%	0.0%	0.7%
LCIV Infrastructure	21.4	25.6	2.4%	5.0%	-2.6%
Fidelity UK Real Estate	15.7	16.6	1.6%	3.0%	-1.4%
LCIV Private Debt Fund	20.3	23.3	2.2%	5.0%	-2.8%
<b>Total Income</b>	<b>319.5</b>	<b>315.5</b>	<b>29.9%</b>	<b>25.0%</b>	<b>4.9%</b>
LCIV MAC	43.8	40.4	3.8%	5.0%	-1.2%
BlackRock UK Gilts Over 15 yrs	77.1	66.2	6.3%	10.0%	-3.7%
<b>Total Protection</b>	<b>120.9</b>	<b>106.5</b>	<b>10.1%</b>	<b>15.0%</b>	<b>-4.9%</b>
Cash	24.1	22.2	2.1%	2.0%	0.1%
<b>Total Scheme</b>	<b>1127.6</b>	<b>1054.3</b>	<b>100.0%</b>	<b>100.0%</b>	

Figures may not add up due to rounding. The benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

## Asset class exposures



Total Fund return was negative during the period on both an absolute and relative basis. This resulted in performance over the 12 month period falling slightly behind benchmark. However, 3 year relative performance remains positive.

Despite a negative return, UK equities fared better than global markets due to the UK's higher weighting to cyclical sectors such as financials, industrials and basic materials, which performed relatively better over the period.

Capital Dynamics private equity mandate was the only positive performer of the growth assets, returning 7.6% over the quarter, well ahead of the FTSE benchmark although we would note that private equity valuations tend to lag those of listed markets.

Ruffer maintains its strong positive return over the 3 year period, despite Baillie Gifford falling behind in relative terms. Ruffer's defensively positioned strategy and stock selection in the equity component of the portfolio meant it performed better than Baillie Gifford's more "risk-on" approach. This demonstrates the value from adopting a diversified approach to multi-asset investing.

Gilt yields continued to rise over the period, weighing on returns and leading to an decrease in the value of the BlackRock portfolio of c.£11m.

The LCIV MAC fund also suffered amidst rising interest rates and weakening sentiment returning -7.6% over the period.

## 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
<b>Growth</b>									
LGIM Global Equity	-9.2	-9.2	0.0	-3.1	-3.1	0.0	9.3	9.4	0.0
LGIM UK Equity	-5.0	-5.0	0.0	1.8	1.7	0.1	2.5	2.4	0.1
Capital Dynamics Private Equity	7.6	-8.7	17.8	28.1	-1.2	29.7	11.9	9.6	2.1
LCIV JP Morgan Emerging Markets	-7.3	-4.0	-3.5	-19.4	-15.0	-5.1	0.2	2.1	-1.9
Blackrock Acs World Low Crbn	-11.0	-9.1	-2.0	-	-	-	-	-	-
<b>Income</b>									
LCIV Baillie Gifford Multi Asset	-8.8	0.7	-9.4	-10.1	2.6	-12.3	0.2	2.5	-2.3
LCIV Ruffer Multi Asset	-4.2	0.7	-4.9	2.0	2.6	-0.5	8.0	2.5	5.3
Alinda Infrastructure	-	-	-	33.9	11.5	20.1	9.9	6.3	3.4
Capital Dynamics Infrastructure	-	-	-	-21.7	11.5	-29.7	-15.0	6.3	-20.0
LCIV Infrastructure	-	-	-	14.7	11.5	2.9	-	-	-
Fidelity UK Real Estate	5.7	4.4	1.2	-	-	-	-	-	-
<b>Protection</b>									
LCIV MAC	-7.6	0.7	-8.3	-10.6	2.4	-12.7	-1.1	2.6	-3.7
BlackRock UK Gilts Over 15 yrs	-14.2	-14.2	0.0	-22.8	-22.9	0.1	-6.2	-6.3	0.1
<b>Total</b>	-6.7	-5.8	-1.0	-3.8	-3.1	-0.7	4.4	4.0	0.4

This table shows the new performance target measures, implemented from 2020. Please note the 3-year return is on the old benchmark basis.

Performance from Alinda, Capital Dynamics and the LCIV Infrastructure funds is based on information provided by Northern Trust. For such investments, there are alternative measures to assess performance. This is also the case for Private Equity and Private Debt (see below) as asset classes.

The table above excludes an individual line for the performance of the Fund's investment in the London CIV's Private Debt sub-fund. Given initial draw downs only occurred during Q2 2021, it still remains too early to report meaningful performance at this stage. The Fund's commitment will continue to be drawn under this mandate, and as the size of investment increases, performance information will be more readily available from the manager, and it will become more appropriate to report individually. In the meantime, for completeness, the total Fund figures assume a nil return based information provided by the custodian Northern Trust.

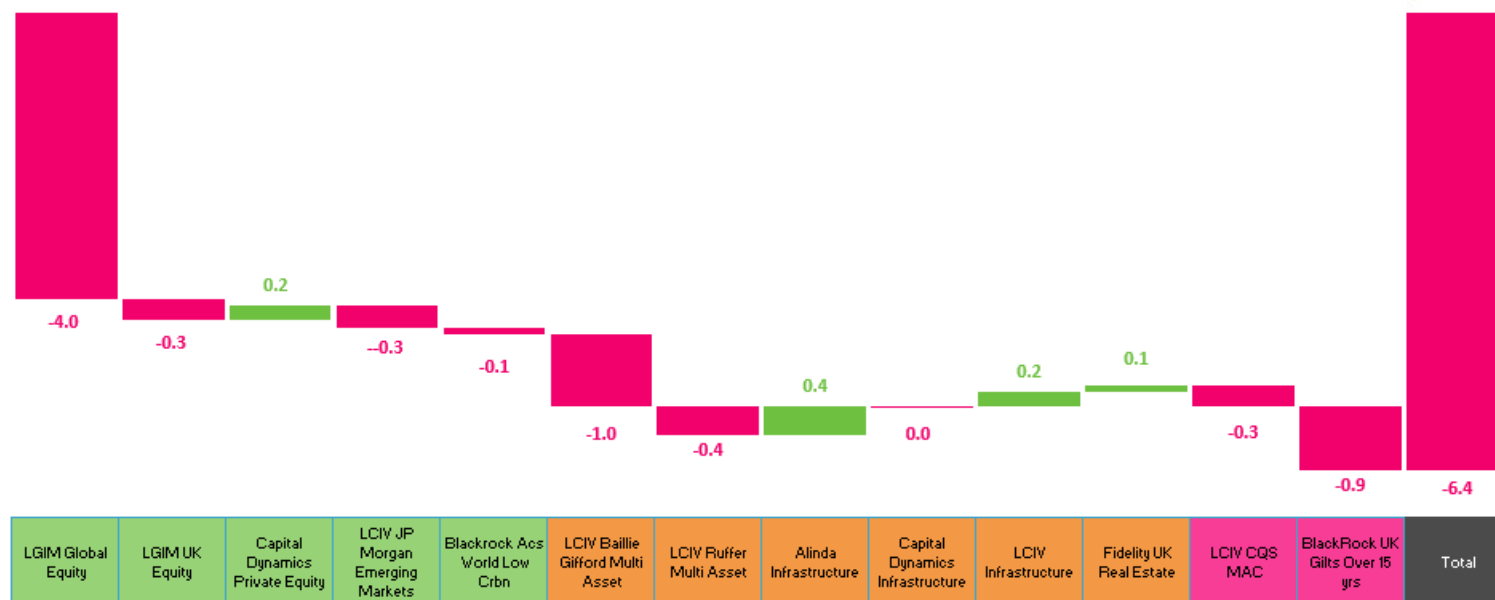
This chart highlights each mandate's contribution to the Fund's absolute performance over the quarter according to their allocation.

The biggest detractor from performance over the second quarter of 2022 was LGIM's Global Equity Fund, given its sizeable allocation of 45% of the Fund's assets and its unfavourable return in both absolute and relative terms.

Despite large negative returns posted by the Capital Dynamics Infrastructure Fund, this mandate has an allocation of <2% of the total Fund, hence did not detract significantly from the Fund's overall performance.

The diversifying nature of the LCIV and Alinda infrastructure funds mean that these sub-funds contributed positively over the quarter.

## Fund performance by manager



The chart above excludes the performance of the Fund's investment in the London CIV's Private Debt sub-fund. Given initial draw downs only occurred during Q2 2021, it still remains too early to report appropriate performance at this stage. As the Fund's commitments continue to be drawn under this mandate, and the size of investments increase, it will become more appropriate to report and consider return measures in percentage terms.

Due to rounding of the individual fund returns and the exclusion of the LCIV private debt fund, the total performance shown above may not add to the total quarterly performance shown on page 3 of this report.



## Manager ratings

Manager/Mandate	Asset Class	Hymans Rating	RI Rating	Performance	Manager Developments
LGIM	Global Equity	Preferred	Strong	●	●
LGIM	UK Equity	Preferred	Strong	●	●
Capital Dynamics	Private Equity	Suitable	Not Rated	●	●
LCIV JP Morgan	Emerging Markets	Suitable	Adequate	●	●
BlackRock	Acs World Low Crbn	Preferred	Adequate	N/A	●
LCIV Baillie Gifford	Multi Asset	Preferred	Good	●	●
LCIV Ruffer	Multi Asset	Positive	Adequate	●	●
Alinda	Infrastructure	Not Rated	Not Rated	●	●
Capital Dynamics	Infrastructure	Not Rated	Not Rated	●	●
LCIV	Infrastructure	Not Rated	Not Rated	N/A	●
LCIV	Private Debt	Not Rated	Not Rated	●	●
Fidelity	UK Real Estate	Preferred	Good	N/A	●
LCIV	Multi Credit	Suitable	Not Rated	●	●
BlackRock	UK Gilts Over 15Yrs	Preferred	Not Rated	●	●

## Baillie Gifford business update

Baillie Gifford announced that their multi-asset funds with now have two formalised lead manager roles. For Diversified Growth and Multi Asset Growth Funds – James Squires and Nicoleta Dumitru will lead and for Sustainable Multi Asset Fund – Scott Lothian and James Squires will lead.



We have included further detail on the following mandates this quarter:

- LCIV Baillie Gifford Multi-Asset
- LCIV Ruffer Multi-Asset
- LCIV JP Morgan Emerging Markets
- LCIV MAC
- Capital Dynamics Infrastructure

## LCIV Ballie Gifford Multi Asset

The fund returned -8.8% over Q2, underperforming its benchmark by 9.4%. However, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period. The fund has fallen behind its longer term targets on a relative basis; however it still has a positive absolute 3-year return, albeit only marginal so.

The primary detractor from performance this quarter was the fund's significant allocation to equities (c.22%), which suffered in continued market volatility. Additionally, the absolute return segment did not perform as expected during this period of economic stress and contributed to the fund's negative performance.

The fund's property holdings also negatively impacted performance. Due to intensifying fears of recession, exposure to logistics and industrial properties, through publicly traded REITS performed poorly. During the quarter the property holding in German residential REITS was liquidated.

Over the quarter, Ballie Gifford sold their 'cyclical recovery' portfolio as they believe the post-COVID-19 recovery period to be over. In place of this, they have added growth equities and increased exposure to emerging market bonds.

Given the poor performance this quarter, Ballie Gifford took some strategic actions to address issues within underperforming asset classes. Baillie Gifford remains focused on their longer-term trends and stresses the importance of not losing sight of long-term goals amidst the current volatile market.

We continue to rate the fund as 'Preferred', with an RI rating of 'Strong'.

## LCIV Ruffer Multi Asset

This year has been a challenging one for multi-asset investors with equities and bonds falling -12.4% and -11.1% respectively year-to-end of May. This market backdrop has created a large dispersion in the returns for the different 'Preferred' and 'Positive' rated multi-asset strategies in our universe ranging roughly from negative 5-10% returns year-to-end of May. The exception to this distribution is the Ruffer Absolute Return which has added 4.6% year-to-end of May.

Ruffer focus on capital preservation. Therefore, they typically have a different asset allocation to many multi-asset funds in our universe and we believe it's worth highlighting this in the current market environment. Ruffer's strong relative performance year-to-end of May has been driven by stock selection in the equity component of the portfolio with selective exposure to certain cyclical stocks. In addition, despite the portfolios high allocation to inflation linked bonds (which would typically increase duration), Ruffer have tactically managed duration keeping it around zero since late 2021. This has led to a purer exposure to inflation and has contributed significantly by hedging the portfolio with interest rate options being the highest contributor year-to-end of May. In addition exposure to USD and equity protection (puts) strategies have also added value. We maintain conviction in the quality of Ruffer's macro-research which leads to a relatively contrarian asset allocation, implemented strategically.

Further detail on specific manager performance is provided for funds that have performed below their relative benchmark over the longer term.

## LCIV JP Morgan Emerging Markets

The JP Morgan Emerging Markets fund returned -7.3% over the second quarter of 2022, against its benchmark of -4.0%. Over 12 months the fund has underperformed its benchmark by 5.1%. Underperformance over a 3-year period is more moderate.

Emerging markets continued to lag developed markets equities in 2022 and returns continued to fall in Q2. While sector allocation contributed to the fund's underperformance over the period, e.g., underweight allocation to the energy sector, the manager's weak stock selection was the primary detractor. An overweight allocation to an underperforming communication services sector - Sea Ltd and MercadoLibre, previously strong performers, continued to decline in over the quarter.

With a c.21% allocation to China, recent easing of COVID-19 restrictions, alongside reduced regulatory pressures has had a positive impact on the portfolio. The manager is looking to add to this exposure through smaller active positions. From a positioning standpoint, the manager believes the 'quality growth' bias in the strategy will serve it well over the longer term, particularly in a more subdued market environment.

We continue to rate JP Morgan's Emerging Market equity fund as 'Suitable', with an RI rating of 'Adequate'.

## LCIV Multi Asset Credit

Over Q2 2022, the LCIV's multi-asset credit strategy returned -7.6% against a benchmark of 0.7%. Again, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period as volatility can be expected in the short term. Performance was also negative over the past 12 months which has resulted in longer term performance falling further behind benchmark by 3.7%.

The key detractor from performance over the quarter was the high yield sector, especially within the European market with rising risks of recession, due to continually increasing inflation and interest rate hikes. Additionally, asset backed securities contributed to negative performance. The portfolio's exposure towards European collateralised loan obligations (CLOs) proved unfavourable, as they faced significant repricing.

Loans performed better than other credit markets at the start of the period, due to the floating rate assets held within the portfolio. However, loans underperformed as fears over the growth market increased, due to them being perceived as more risky than bonds.

Going forward, the fund is transitioning into a multi-manager fund, with an equal allocation to both underlying fund managers: CQS and PIMCO. The final transition was completed post quarter end, in July. This transition has resulted in a increased diversification, specifically to the fund's exposure to key credit asset classes. Additionally, this should provide more stability to performance going forward.

## Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

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

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio. With the fund having deployed most of the capital commitment it is appropriate to assess performance on both measures. As can be seen by both the IRR and TVPI, performance has been lower than expected to date, although running performance continues to marginally improve.

Note, reporting on underlying commitments is as at 31 March 2022 due to the lag in reporting from the manager, which is typical for funds of this nature.

This level of performance is primarily driven by challenges experienced by one project in particular which represents a material proportion of the fund. This is a Texas wind power project, which the manager has previously acknowledged.

### Summary as at 31 March 2022 (figures in \$m where applicable)

Capital committed	\$15.0
-------------------	--------

Net IRR since inception	(5.2%)
-------------------------	--------

Total contributed	\$14.7
-------------------	--------

Total value-to-paid-in-ratio (TVPI)	0.69x
-------------------------------------	-------

Distributions	\$1.2
---------------	-------

Value created	(\$5.3)
---------------	---------

Net asset value	\$8.4
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As part of the Fund's evolving Responsible Investment agenda and in recognition of climate risk, the Fund is committed to disclosing and monitoring climate metrics within its investment strategy where possible.

As a starting point, the Fund is reporting in line with information produced by its LGPS Pool, the London CIV. In time, the Fund will seek to evolve its climate risk monitoring process by monitoring against further metrics.

The information covered here captures c80% of the Fund's assets as at 30 June 2022. It excludes investments in property, private equity, infrastructure and private debt on account of the current lack of data in these areas.

Despite only representing c.15% of assets shown here, the LCIV Baillie Gifford multi-asset fund is responsible for c.27% of the total carbon intensity. Similarly, the LCIV Ruffer Multi Asset Fund contributes 14% to the Fund's total carbon intensity but only represents 11% of assets.

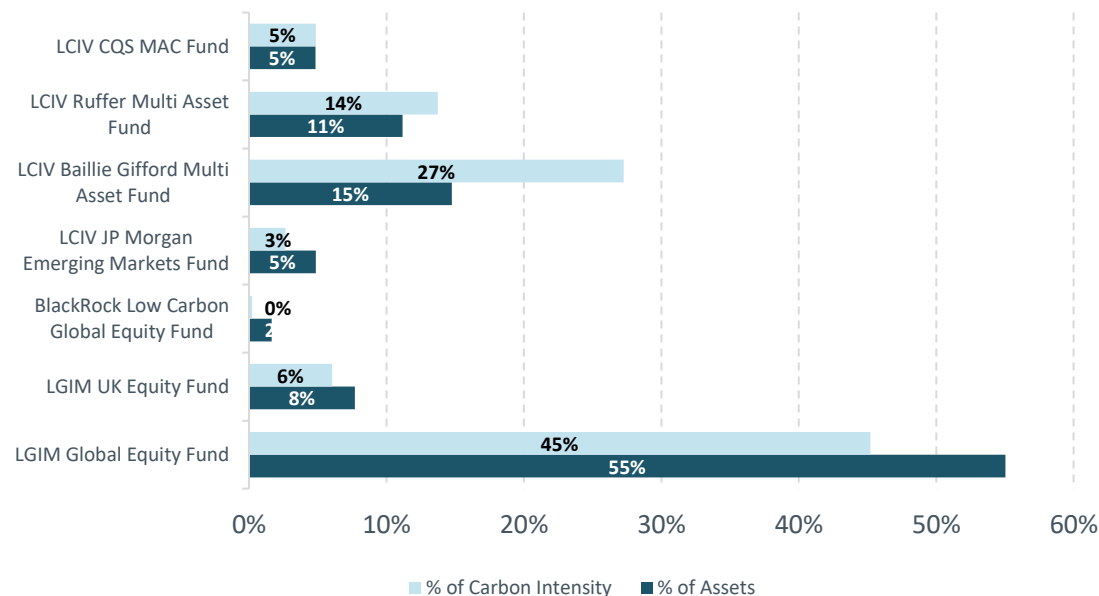
All other funds however, contribute to the Fund's overall carbon intensity in line with or below their relative proportion of assets.

## Climate Risk Overview

	Weighted Average Carbon Intensity (tCO2/£m Sales)	Fossil Fuel exposure (any activity) (%)
<b>Fund</b>	<b>226.8</b>	<b>7.1%</b>
<i>Composite benchmark*</i>	<b>295.0</b>	<b>8.1%</b>
<i>Relative to benchmark</i>	<b>-68.2</b>	<b>-1.0%</b>

\*Composite benchmark reflects individual mandate benchmarks weighted by proportion invested

## Carbon Intensity by Manager



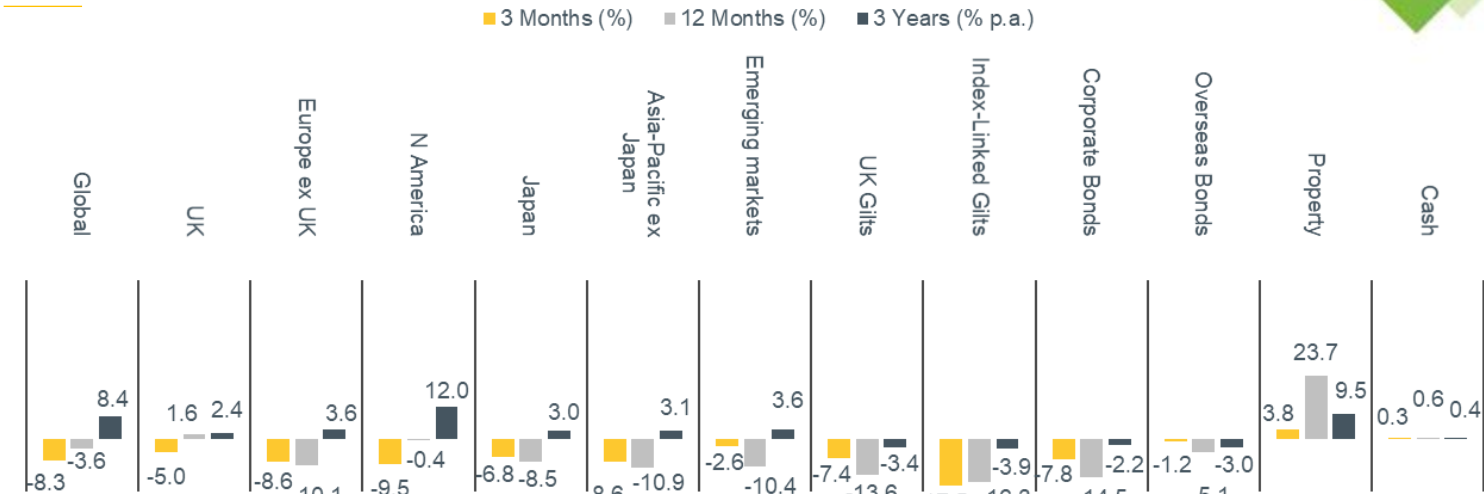
Soaring inflation and higher borrowing costs have continued to squeeze consumer's real incomes, with consumer confidence surveys plunging as a result. The persistence of these inflationary pressures, coupled with the prospect of tighter financial conditions, has given rise to fears of recession, and has resulted in revised consensus forecasts for global growth of 2.9% in 2022 and 2.8% in 2023 (down from 4.1% and 3.2%, respectively, at the start of the year.)

While headline inflation continues to rise across developed markets, year-on-year US and UK core inflation, which excludes volatile energy and food prices, eased slightly, but remained elevated, at 6.0% and 5.9%, respectively. While US and UK inflation pressures look more broad-based, a large proportion of eurozone inflation still owes to volatile energy and food prices, with Eurozone core CPI increasing to 3.8% year-on-year.

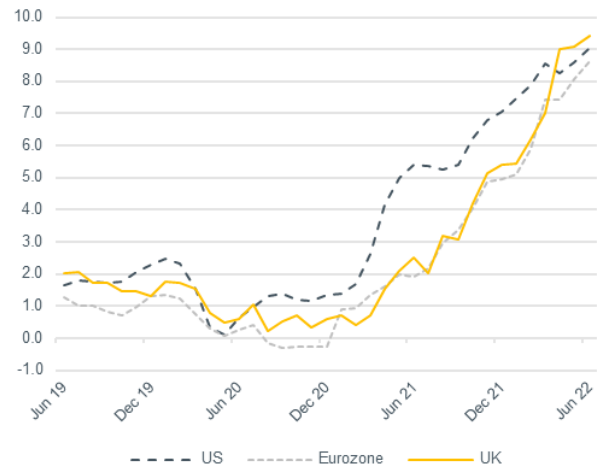
Despite severe supply side issues and risks to growth, central banks appear determined to bring down inflation. The Bank of England rose rates for the fifth consecutive time and the Fed delivered a bumper 0.75% p.a. increase, taking their base rates to 1.25% p.a. and 1.75% p.a., respectively. The European Central Bank have indicated a first rate hike is likely in July, and the end to negative rates by the end of Q3 2022.

Government bond yields rose as markets moved to price in significant further increases in interest rates, with UK 10-year gilt yields increasing 0.6% p.a. to 2.2% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a., from 4.4% p.a. to 3.6% p.a. as real yields rose more than their nominal counterparts.

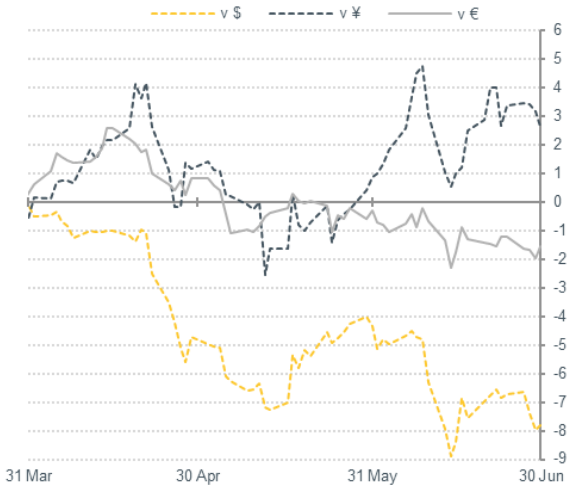
Historic returns for world markets <sup>[1]</sup>



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. <sup>[1]</sup>Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

## Market Background

With both inflation and growth concerns weighing on credit markets, global investment-grade credit spreads rose 0.5% p.a., to 1.8% p.a.; while US and European speculative-grade spreads both rose 2.4% p.a., to 5.9% p.a. and 6.4% p.a., respectively.

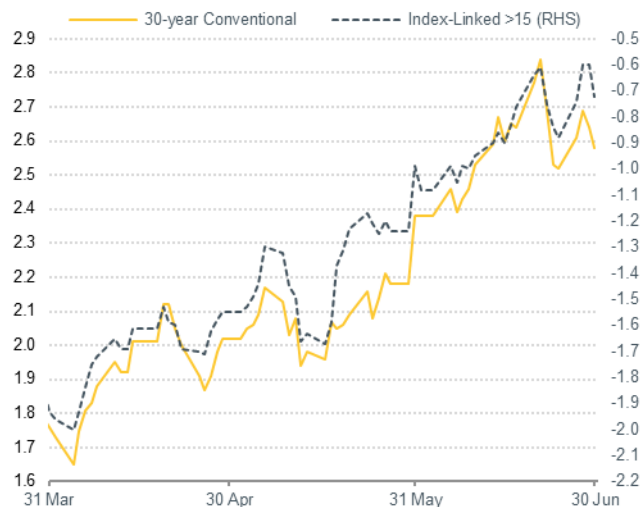
Commodity prices fell over the quarter, with expectations of lower demand leading to a fall in industrial metals prices as rising real yields weighed on precious metal prices.

Despite ongoing upwards revisions to consensus analyst earnings forecasts, global equities fell 8.3% over the quarter, as increases in expectations for the path of interest rates extended the recent decline in equity market valuations. The technology sector notably underperformed on the back of rising rates while returns within the consumer discretionary sector were impacted by a weakening consumer outlook. In contrast, consumer staples outperformed, as investors perhaps placed a premium on the sector's inherent pricing power.

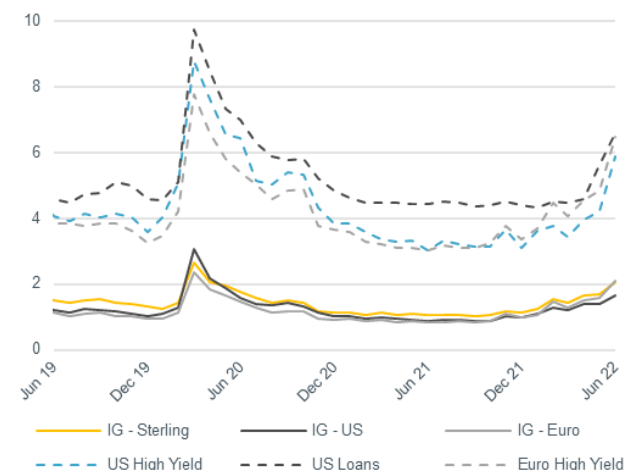
North America underperformed, owing to its large exposure to the technology sector. Meanwhile, above-average exposure to energy, metals, and miners, saw the UK continue its recent outperformance. The easing of lockdown restrictions in China provided some relative support to Emerging and Asian markets equities.

Property remained a relative bright spot, with the MSCI UK IPD total return index rising 9.6% year-to-date; largely owing to a 11.9% rise in industrial capital values. Return on the all-property index, including income, was 23.7% in the 12 months to end-June.

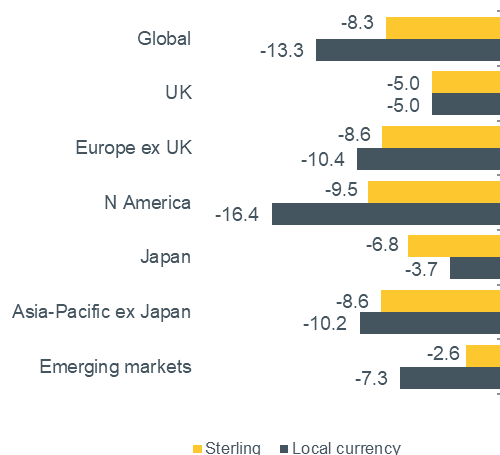
### Gilt yields chart (% p.a.)



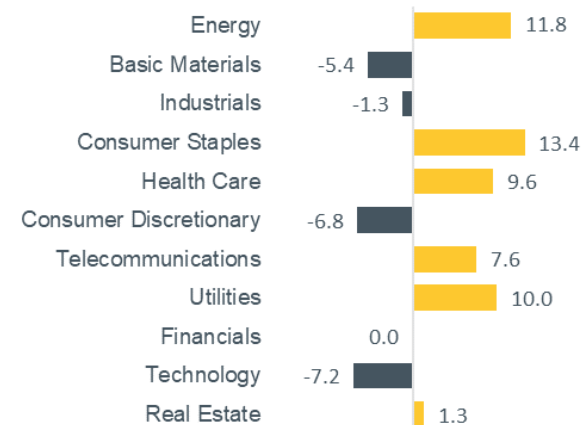
### Investment and speculative grade credit spreads (% p.a.)



### Regional equity returns <sup>[1]</sup>



### Global equity sector returns (%) <sup>[2]</sup>



Source: DataStream, Barings, ICE <sup>[1]</sup>FTSE All World Indices. Commentary compares regional equity returns in local currency. <sup>[2]</sup>Returns shown in Sterling terms and relative to FTSE All World.

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.



	<b>Pensions Fund Sub-Committee</b> 05 October 2022
	<b>Report from the Corporate Director</b> <b>Finance and Resources</b>
<b>Net Zero Roadmap Update and Responsible Investment policy</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Two <ul style="list-style-type: none"> <li>Responsible Investment policy</li> <li>LGPS Consultation on Governance and reporting of climate change risks - summary of proposals</li> </ul>
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel, Corporate Director Finance and Resources 020 8937 4043 <a href="mailto:Minesh.Patel@brent.gov.uk">Minesh.Patel@brent.gov.uk</a>  Ravinder Jassar, Deputy Director of Finance 020 8937 1487 <a href="mailto:Ravinder.Jassar@brent.gov.uk">Ravinder.Jassar@brent.gov.uk</a>  Flora Osiyemi, Head of Finance 020 8937 2998 <a href="mailto:Flora.Osiyemi@brent.gov.uk">Flora.Osiyemi@brent.gov.uk</a>  Sawan Shah, Senior Finance Analyst 020 8937 1955 <a href="mailto:Sawan.Shah@brent.gov.uk">Sawan.Shah@brent.gov.uk</a>

## 1.0 Purpose of the Report

- 1.1 This report presents an update on the Fund's net zero road map, responsible investment policy and the LGPS Consultation on Governance and reporting of climate change risks.

## **2.0 Recommendation(s)**

- 2.1 That the Pension Fund Sub-Committee note the update to the net zero roadmap, updated responsible investment policy and LGPS Consultation on Governance and reporting of climate change risks.

## **3.0 Detail**

- 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 The Fund's investment advisors, Hymans Robertson, have prepared the attached Responsible Investment Policy in Appendix 1 which formalises the Fund's Responsible Investment beliefs and principles and the approach the Fund is taking to fulfilling its commitments.
- 3.3 Responsible Investment ("RI") is defined as the integration and consideration of environmental, social and governance ("ESG") issues into investment processes and stewardship activities.
- 3.4 The Sub-committee's approach to responsible investment can be viewed from two key areas:
- Capital allocation – considering the financial impact of environmental, social and governance (ESG) factors (including climate change) when making investment decisions;
  - Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares and engaging with investee company management as part of the investment process.
- 3.5 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.
- 3.6 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.
- 3.7 The responsible investment policy brings together the Fund's responsible investment beliefs and approach into a single document.
- 3.8 A summary of the steps the Fund takes includes:

## **Integrating ESG issues into the investment decision-making process**

Integrating the consideration of ESG issues throughout our investment decision-making process. Considering the use of active management over index-tracking approaches where an active manager can be expected to provide materially improved ESG characteristics. Reviewing an investment manager's RI policy when appointing a new investment manager or allocating money to a new fund.

## **ESG risk monitoring and assessment**

Monitoring the Fund's managers on an ongoing basis from an ESG perspective. Asking our investment advisers to highlight opportunities to invest in responsible investment strategies. Ensuring that where an investment manager does not meet the expectations listed in this policy, officers will engage with the respective stakeholders to encourage improvements.

## **Expectations and monitoring of investment managers, including the London CIV**

We require our investment managers to integrate all material financial factors, including ESG issues, into their investment decision-making processes. We expect our managers to follow best industry practice and use their influence as major institutional investors to promote good practice in the investee companies. The Fund will continue to review London CIV's RI policy to ensure that its strategies and beliefs are still aligned with ours.

## **Stewardship – voting and engagement**

The Fund recognises the importance of our role as stewards of capital and the need to ensure the highest standards of governance. We have a commitment to actively exercising ownership rights attached to our investments. Voting rights have been delegated to the investment managers with the objective of preserving and enhancing long-term shareholder value.

- 3.9 The Fund has made good progress to date in this regard with a number of important steps taken. These are summarised below.
- 3.10 A commitment of £50m in an infrastructure fund through London's asset pool, the London CIV, with a significant renewable component was agreed in 2019. This investment is currently being built up with £23.7m invested by 30<sup>th</sup> June 2022.
- 3.11 The Fund has also agreed investment in a new low carbon passive equity tracker (BlackRock ACS World Low Carbon Equity Tracker). An initial allocation of £15m has been deployed, further allocations have been agreed and will be made shortly.

- 3.12 The Fund entered into the London CIV Private Debt fund with a £50m commitment in 2021. The underlying managers (Churchill/Pemberton) were required to show a clear commitment to integrating ESG at the fund level and the investment process as part of the evaluation criteria. This fund is currently being built up and it will be a number of years before it is fully invested.
- 3.13 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaboration group between LGPS Funds. Membership of LAPFF allows the Fund, along with other local government funds, to engage with large global firms. Individual funds engaging with companies on their own are unlikely to have as much of an impact. Climate change and the transition to a low carbon economy, is one of the individual engagement streams that LAPFF deals with.
- 3.14 The Fund has also introduced carbon metrics reporting into quarterly performance report providing the Weighted Average Carbon Intensity (WACI), fossil fuel exposure and carbon intensity for the majority of the Fund's assets. The Fund will continue review and refine metrics as the range and quality of data evolves.
- 3.15 Developed a practical 'roadmap to net zero' for the Fund which considered the key themes/principles that will require due consideration by the Fund as part of the net-zero journey, a framework of 5 key areas (Education, Understanding the baseline, Evaluating alignment and setting targets, Planning and implementation actions, Monitoring and reporting progress) to drive forward the Fund's strategy and a short and medium term roadmap for each key area within the framework.
- 3.16 The main changes from the previous policies are as follows:
- A further development of the Fund's ESG-related beliefs, setting out the actions we are taking to understand and manage ESG issues for the benefit of Fund members and other stakeholders;
  - Considering the use of active management over index-tracking approaches where an active manager can be expected to provide materially improved ESG characteristics;
  - Considering opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable;
- 3.17 The Fund will review its growth holdings over the coming weeks to identify options to move towards net zero with a view to presenting a recommendation to committee in February 2023. As examples, the below table identifies some potential targets for further consideration from the London CIV and the Fund's existing low carbon equity holding through BlackRock. Alternative options through Legal and General, with whom the Fund's main equity mandates are held, will also be considered.

<b>Fund</b>	<b>LCIV Sustainable Equity Fund</b>	<b>LCIV Sustainable Equity Exclusion Fund</b>	<b>LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA)</b>	<b>LCIV Global Alpha Growth Paris Aligned Fund</b>	<b>BlackRock ACS World Low Carbon Equity Tracker Fund</b>
Manager	RBC	RBC	State Street	Baillie Gifford	BlackRock
Style	Active	Active	Passive	Active	Passive
Fund AuM (£m)	1,225.6	400.0	501.2	1,033.3	6,058.26
Weighted Average Carbon Intensity (tCO2e/mGBP revenues)	144	136	91	122	26.5*

\*tCO2e/mUSD rather than tCO2e/mGBP

All data is latest available data at time of publication

#### **4.0 LGPS Consultation on Governance and reporting of climate change risks**

- 4.1 The Department for Levelling Up, Housing and Communities (DLUHC) published its consultation on governance and reporting of climate change risks on 1 September 2022.
- 4.2 This consultation seeks views on government proposals to require administering authorities of the Local Government Pension Scheme (LGPS) to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities.
- 4.3 The proposals developed are in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD).
- 4.4 It is proposed that LGPS administering authorities would calculate the carbon footprint of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement.
- 4.5 Administering authorities would be required to publish a Climate Risk Report annually by 1 December. The first Climate Risk Report would be due in December 2024.
- 4.6 A summary of the proposals included in the consultation has been attached as Appendix 2 to this report. The full consultation is available on DLUHC's website.<sup>1</sup>

<sup>1</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>

- 4.7 This consultation will last for 12 weeks from 1 September 2022 to 24 November 2022. Officers, in consultation with the Fund's advisors, intend respond to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

## **5.0 Financial Implications**

- 5.1 There are no direct financial implications arising from this report. Any changes to the Fund's investment strategy or its choice of investments will be brought forward to a future Committee meeting for decision.

## **6.0 Legal Implications**

- 6.1 The Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.
- 6.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.
- 6.3 The choice of investments can be influenced by RI and ESG considerations, so long as that does not risk material financial detriment to the Fund.

## **7.0 Equality Implications**

- 7.1 Not applicable.

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

- 8.1 Not applicable.

## **9.0 Human Resources**

- 9.1 Not applicable.

### **Report sign off:**

**Minesh Patel**

Corporate Director Finance and  
Resources

## Responsible Investment policy

### Addressee

This paper is addressed to Officers and the Pension Fund Sub-Committee of the London Borough of Brent Pension Fund (“the Fund”). The purpose of this paper is to formalise the Fund’s Responsible Investment beliefs and principles, and the approach the Fund is taking to fulfilling its commitments in a policy document.

### Beginning of Responsible Investment policy

#### Introduction

The London Borough of Brent is the Administering Authority for the London Borough of Brent Pension Fund. Within its Constitution, The London Borough of Brent Pension Fund has delegated responsibility for the administration of the LGPS to a Sub-Committee of elected councillors. The Brent Pension Fund Sub-Committee (“the Sub-Committee”) is the decision-making body for the Fund.

Our fiduciary duty is to act in the best financial interests of members of the Fund and ensure that the Fund’s objective, as set out in the Investment Strategy Statement, is met. Our aim when setting the investment strategy is to strike an appropriate balance between generating satisfactory long-term returns whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

### Responsible Investment

We define Responsible Investment (“RI”) as the integration and consideration of environmental, social and governance (“ESG”) issues into investment processes and stewardship activities.

The Sub-Committee consider the Fund’s approach to responsible investment in two key areas:

- **Capital allocation** – considering the financial impact of environmental, social and governance (ESG) factors (including climate change) when making investment decisions.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares and engaging with investee company management as part of the investment process.

We recognise that ESG issues represent a material financial risk, which could have a negative impact on the value of the Fund’s investments particularly if the risks are not understood or evaluated properly. We should therefore seek to understand and manage the ESG issues to which the Fund is exposed.

The Fund has previously developed a set of Investment beliefs, including a number of ESG-related beliefs. This policy further develops the Fund’s ESG-related beliefs and sets out the actions we are taking to understand and manage ESG issues for the benefit of Fund members and other stakeholders. The aim is to protect the value of the Fund’s investments from ESG-related risks and to also capitalise on the investment opportunities that ESG issues, such as climate change, may provide.

### Our RI beliefs and principles

We have agreed the following ESG-related beliefs and principles as the basis for our RI policy:

- **ESG issues can have a material impact on the long term performance of its investments** – we believe that ESG issues can have a material impact on the long-term risks and returns from the Fund’s investments, and there is an opportunity to positively impact investment returns by taking decisions with a long-term outlook and recognising the significance of ESG-related risks. We will engage with the London CIV, and our investment managers and advisers to understand the nature of these risks and identify investment opportunities which may also arise.

- **Climate change and the expected transition to a low carbon economy is a financial risk over the Fund's investment time horizon** – the Sub-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 advisers.
- **Ongoing engagement is preferable to divestment** – the Sub-Committee believes that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement may be via our managers or alongside other investors (e.g. LAPFF and through the London CIV). 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 degrees. We will encourage our investment managers to exercise stewardship and active ownership responsibilities effectively, through voting and engagement activities. This includes using our influence as asset owners to encourage positive behaviour from the managers, working in conjunction with the London CIV where appropriate.
- **The Fund's investment managers and the London CIV 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.
- **It is important for the Sub-Committee to integrate ESG issues when identifying investment opportunities** – we will consider opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable. Investments expected to have a "positive impact" can be considered if they are consistent with the overall objectives of the Fund's investment strategy.
- **We will generally avoid investing in the most harmful companies and sectors** – we believe we have a duty to consider the wider environmental and social impacts of investments. We believe that we should generally avoid investing in the most harmful companies and sectors.
- **The choice of benchmark index matters** – whilst active managers are expected to take ESG issues in their individual stock selection decisions, it is acknowledged that index-tracking managers will invest in line with the index set out in their mandate. The Committee recognises that, for each asset class where an index-tracking approach is adopted, there is a range of benchmark indices that could be used. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.
- **Disclosure is important** – we will encourage companies and investment managers to improve disclosure of their activity in relation to ESG issues. This will be addressed directly with managers, through involvement in the London CIV and also through membership of the LAPFF. We will also disclose the actions we are taking, including publishing this policy and incorporating our RI policies and approach into the way that we communicate with members.

These are incorporated with the Fund's broader Investment beliefs set out in the appendix to this paper.

### Our approach

We take the following steps to ensure the investment strategy is aligned with our RI beliefs and principles.



### **Integrating ESG issues into the investment decision-making process**

We aim to integrate consideration of ESG issues throughout our investment decision-making process, including setting the investment strategy, and the selection and monitoring of the Fund's investment managers. We are supported in these aims through regular and ongoing input from, and engagement with, our investment advisers and the London CIV.

We will consider the use of active management over index-tracking approaches where an active manager can be expected to provide materially improved ESG characteristics, for example when investing in certain geographical regions characterised by their concentration in a smaller number of industry sectors.

When looking to appoint a new investment manager or allocate money to a new fund, we will review the manager's RI policy with input from our investment advisers. This review will consider the manager's overall approach to RI, including how they integrate ESG issues into their own investment decision-making process, and their approach to stewardship.

We will consider opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable. Investments expected to have a "positive impact" can be considered if they are consistent with the overall objectives of the Fund's investment strategy.

We undertake training on a regular basis and this includes training and information sessions on ESG issues, including climate change, and how these could impact the Fund's assets and liabilities.

### **ESG risk monitoring and assessment**

Our processes to monitor and assess ESG-related risks and opportunities include the following:

- Our investment advisers monitor the Fund's managers on an ongoing basis from an ESG perspective. Where available, this includes assigning an 'RI rating' which reflects the commitment of the manager to ESG integration and the practices they apply. We monitor these RI ratings on a quarterly basis.
- These RI ratings are also a key consideration when the Sub-Committee is appointing a new investment manager or allocating money to a new fund.
- We ask our investment advisers to highlight opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- The Fund will analyse the carbon intensity of the assets at least annually and consider climate change scenario analysis at least triennially to review potential risks to the funding and investment strategy and consider whether any action is required to mitigate these risks.
- We expect our asset managers to understand our RI beliefs and requirements. We provide our policy to our investment managers and to the London CIV.
- In the event that any investment manager does not meet any of the expectations listed in this policy, Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

### **Expectations and monitoring of investment managers, including the London CIV**

We require our investment managers to integrate all material financial factors, including ESG issues, into their investment decision-making processes.

We expect our managers to follow best industry practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

We expect our investment managers to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, we expect our investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

We expect investment managers and the London CIV to comply with the UK Stewardship Code Principles and expect them to be a signatory to the 2020 UK Stewardship Code and to the Principles for Responsible Investment (PRI).

Our investment managers have provided copies of their RI policies. The managers are asked on an annual basis to provide an update on any changes to their policies. The managers are expected to report on their engagement activity with companies as part of their regular quarterly reporting. The consideration of ESG factors, along with discussion on current examples, is also an item on the agenda at all meetings between the investment managers and the Sub-Committee/Officers.

We monitor this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The London CIV has developed its own RI policy. We will continue reviewing this policy and engaging with the London CIV to ensure that its strategies and beliefs are still aligned with ours. We will also require the London CIV to monitor the investment managers appointed for their fund range and provide reporting on the engagement activities of those investment managers. As an important strategic partner, the London CIV will be invited at least annually to provide an update to the Sub-Committee on their ongoing RI actions and latest RI policy.

### **Stewardship – voting and engagement**

We recognise the importance of our role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which our investments reside. This ultimately protects the financial interests of the Fund and its beneficiaries.

We have a commitment to actively exercising ownership rights attached to our investments, reflecting a conviction that responsible asset owners should maintain oversight of the companies they invest in, recognising that the companies' activities impact upon not only their customers and clients but more widely upon their employees and other stakeholders and wider society.

We have delegated the exercise of voting rights to the investment managers on the basis they will exercise this power with the objective of preserving and enhancing long-term shareholder value.

The investment managers have provided copies of their voting policies and these have been reviewed by Officers. The managers are asked on an annual basis to provide an update on any changes to their policies. The managers are also required to report on their voting activity. We publish a report of voting activity as part of the Fund's annual report.

We expect the London CIV to take an active approach to voting and engagement and we will monitor its activity in these areas.

We review the stewardship activities on an annual basis with input from the Fund's investment adviser and will engage with managers and the London CIV as required.

We expect the investment managers to provide suitable context when reporting on their voting and engagement activities, to explain the rationale for the actions they have taken, the relevance to the Fund, and outcome of engagement activity.

We believe in collective engagement and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

### Climate change

We consider that significant exposure to high carbon emitting companies and projects within portfolio could pose a material financial risk to the value of the Fund's investments.

At present, we have not formalised a net zero target date for the Fund. While we have an ambition for the Fund to be net zero by 2030, we recognise the ability to realise this ambition is dependent on a number of factors including the availability of suitable investment opportunities and reliance on the London CIV. We note that the London CIV has set a net zero target of 2040 for the portfolio of assets it oversees. We are developing a net zero plan as part of the Fund's net zero roadmap, which will identify the priority actions that need to be taken over the short to medium term to move the Fund towards a net zero position.

We have committed to undertaking a carbon footprint exercise for the Fund to quantify the Fund's current carbon emissions. We will then develop a plan to reduce the Fund's carbon emissions. The plan will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Sub-Committee's fiduciary duties.

A key consideration in developing this plan, including the setting of any intermediate targets, will be the London CIV's own plans to reduce the carbon exposure of the funds it oversees. Currently, c35% of the Fund's assets sit directly within the London CIV and this percentage is expected to grow over time.

The Sub-Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. Consideration has therefore been given in setting the Fund's Investment Strategy to how this objective can be achieved within a pooled investment structure and the Sub-Committee, having taken professional advice, will work with the London CIV to ensure that suitable strategies are made available.

### Plus appendix

#### End of Responsible Investment policy

I look forward to discussing this paper with Officers and the Sub-Committee on 5 October.

Prepared by:

Kenneth Taylor, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

20 September 2022

## Appendix – Investment Beliefs

### Core 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).

**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.

**The choice of benchmark index matters** – whilst active managers are expected to take ESG issues in their individual stock selection decisions, it is acknowledged that index-tracking managers will invest in line with the index set out in their mandate. The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

**Rebalancing policies are important** – the Committee recognises that rebalancing the Fund's assets towards the strategic asset allocation is important in achieving the Fund's longer term objectives, in particular following a period of strong or weak market performance.

**Fees and transaction costs matter** - The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. It also does not seek to move in and out of investments regularly due to the cost drag. The Committee also seek to have transparency on the fees that it is paying to its providers.

**Governance “budget” matters** – The Committee recognises that the resources (and time) involved in deciding upon (and implementing) an investment strategy and structure play a part in any investment decisions made. A low governance approach to accessing markets is likely to be preferred if it can offer similar risk adjusted returns to alternative approaches.

**The London CIV is the Fund's preferred approach to implementation** – the Committee recognises the potential benefits of LGPS pooling. Their preferred route is to implement their investment strategy via the London CIV, subject to carrying out suitable due diligence on the CIV's investment offering.

### ESG-specific beliefs

**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.

**Ongoing engagement is preferable to divestment** – The Committee believes that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement may be 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 degrees.

**It is important for the Sub-Committee to integrate ESG issues when identifying investment opportunities** – we will consider opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable. Investments expected to have a “positive impact” can be considered if they are consistent with the overall objectives of the Fund's investment strategy.

**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.

**We will generally avoid investing in the most harmful companies and sectors** – we believe we have a duty to consider the wider environmental and social impacts of investments. We believe that we should generally avoid investing in the most harmful companies and sectors.

**Disclosure is important** – we will encourage companies and investment managers to improve disclosure of their activity in relation to ESG issues. This will be addressed directly with managers, through involvement in the London CIV and also through membership of the LAPFF. We will also disclose the actions we are taking, including publishing this policy and incorporating our RI policies and approach into the way that we engage and communicate with members.




## Consultation on Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

A summary of the key proposals in the consultation are provided in the table below:

Area	Proposal
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	<p>AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.</p> <p>Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.</p> <p>Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.</p> <p>Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.</p>

	<p>Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.</p> <p>Metrics must be measured and disclosed annually.</p>
Targets	<p>AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.</p>
Disclosure	<p>AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.</p>
Scheme Climate Report	<p>We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.</p>
Proper advice	<p>We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.</p>



	<b>Pensions Fund Sub-Committee</b> 05 October 2022
	<b>Report from the Corporate Director Finance and Resources</b>
<b>Brent Pension Fund: Annual Report and Accounts 2021/22</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	1 – Brent Pension Fund Annual Report 2021/22 2 – Brent Pension Fund Audit Findings Report 2021/22
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel, Corporate Director Finance and Resources Ravinder Jassar, Deputy Director of Finance Flora Osiyemi, Head of Finance Sawan Shah, Senior Finance Analyst Rubia Jalil, Finance Analyst

## 1.0 Purpose of the Report

- 1.1 This report provides an update on the Pension Fund Annual Accounts for the year ended 31 March 2022.

## 2.0 Recommendation(s)

- 2.1 The Committee is recommended to:

- Note the draft accounts included as part of the annual report;
- Note the Brent Pension Fund Audit Findings Report 2021/22 produced by the external auditors, Grant Thornton; and
- Note the draft Brent Pension Fund Annual Report 2021/22 which will be published as set out in paragraph 3.6.

## 3.0 Detail

## **Statement of Accounts**

- 3.1 Included in the Brent Pension Fund Annual Report 2021/22 attached in Appendix 1 are the latest version of the Pension Fund Annual Accounts for the year ended 31 March 2022.
- 3.2 At the time of writing, audit fieldwork is substantially complete. The auditors are now working on completing their closing procedures and final reviews with a view to sign off the audit shortly after the Audit and Standards Advisory Committee meeting on 29<sup>th</sup> September.
- 3.3 The Brent Pension Fund Audit Findings Report 2021/22, attached in Appendix 2, sets out the anticipated results of the audit. Grant Thornton intends to give an unqualified opinion on the Pension Fund accounts.
- 3.4 The accounts have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) governing the preparation of the 2021/22 financial statements for Local Government Pension Scheme funds. The accounts aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2022. The audit of the accounts commenced in July, and needs to be completed by the 30<sup>th</sup> November.
- 3.5 The main items to note are as follows:
- During 2021/22, the value of the Pension Fund's investments increased to £1,128m (2020/21 £1,032m). This is due to the strong performance in particular from the Fund's global and UK holdings as the recovery from the pandemic continued.
  - Total contributions received from employers and employees were £64m for the year, an increase on the previous year's £61m.
  - Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £47m, an increase on the previous year's £42m.
  - As in 2020/21, the Council is in a positive cash-flow position because its contributions exceed its outgoings to members.

## **Pension Fund Annual Report**

- 3.6 The draft Pension Fund annual report will be sent to Grant Thornton for review shortly. Regulations require the annual report to be published on or before 1<sup>st</sup> December. The Fund will publish the report on completion of the audit process and before the required deadline.
- 3.7 The Pension Fund annual report includes the:
- Investment Strategy Statement;

- Pensions Administration Strategy;
- Funding Strategy Statement; and
- Communications Policy Statement.

which have been approved by the Committee at previous meetings.

#### **4.0 Financial Implications**

4.1 Not applicable.

#### **5.0 Legal Implications**

5.1 Not applicable.

#### **6.0 Equality Implications**

6.1 Not applicable.

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

7.1 Not applicable.

#### **8.0 Human Resources**

8.1 Not applicable.

#### **Report sign off:**

***Minesh Patel***

Corporate Director Finance and  
Resources

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## **Brent Pension Fund**

# **Annual Report and Accounts 2021/22**

Pensions Regulator Scheme Number: 10272080

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## 1. Chairman's Foreword

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2021/22.

The Fund has 6,039 contributors, 6,967 pensioners and 8,468 deferred pensioners.

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

During 2021/22, the value of the Pension Fund's investments has increased to £1,128m (2020/21 £1,032m). This is due to strong performance in particular from the Fund's global and UK holdings as the recovery from the pandemic continued.

Total contributions received from employers and employees was £64m for the year, an increase from the previous year. Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, was £47m, an increase on the previous year's £42m. As in 2020/21, the Pension Fund is in a positive cash-flow position because its contributions exceed its outgoings to members. This means that the Pension Fund is able to invest some of the contributions from members in order to further increase the assets available to pay future benefits. This is in contrast to some Local Government Pension Scheme funds, who have to use some of their investments each year, reducing the assets on which they can make returns.

The Brent Pension Fund is revalued every three years by an independent actuary. The Pension Fund had its most recent Triennial Review in 2019. This is a detailed appraisal that uses economic and demographic assumptions in order to estimate future liabilities and set employer contribution rates. It was agreed in this valuation that the employer contribution rate would remain stable at 35% for the next 3 years. This is consistent with the Fund's deficit recovery plan to clear its deficit within 19 years of the balance sheet date. This Triennial Valuation revealed that the Fund's assets, at 31 March 2019, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. This is a significant increase on the 55% funding level as at the March 2016 valuation.

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

**ClIr Robert Johnson**  
**Chairman, Brent Pension Fund Sub-Committee**

## 2. Management and Financial Performance

### a. Scheme management and advisors

<b>Administering Authority:</b>	Brent Council Civic Centre Engineers Way Wembley Middlesex HA9 0FJ
<b>Brent Pension Fund Officers:</b>	Minesh Patel, Director of Finance Ravinder Jassar, Deputy Director of Finance Flora Osiyemi, Head of Finance Sawan Shah, Senior Finance Analyst Rubia Jalil, Finance Analyst Kastur Varsani, Assistant Accountant
<b>Legal Advisers:</b>	In-house
<b>Custodian:</b>	Northern Trust
<b>Actuary:</b>	Hymans Robertson LLP
<b>Financial Adviser:</b>	Hymans Robertson LLP
<b>Fund Managers:</b>	Legal & General Capital Dynamics London CIV LCIV Diversified Growth – Baillie Gifford LCIV MAC – CQS LCIV Emerging Markets – JP Morgan LCIV Infrastructure Fund – Stepstone LCIV Absolute Return –Ruffer LCIV Private Debt Fund – Churchill/Pemberton Alinda Blackrock Fidelity UK Real Estate
<b>Banker:</b>	NatWest
<b>Auditor:</b>	Grant Thornton
<b>Performance Measurement:</b>	Northern Trust
<b>AVC Providers:</b>	Prudential Clerical Medical Equitable Life (legacy only)
<b>The Local Government Pension Scheme</b>	

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



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

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

This document is the Annual Report and Accounts of the Brent Pension Fund for 2021/22

### **The LGPS in brief**

- The LGPS is one of the largest public sector pension schemes in the UK, with 6.2 million members.
- It is a nationwide pension scheme for people working in local government or for other types of employer participating in the scheme.
- The LGPS is administered locally by 86 regional pension funds – one of which is the Brent Pension Fund.
- It is a funded scheme, which means that Fund income and assets are invested to meet future pension fund commitments.
- Benefits are defined and related to members' salaries, so they are not dependant on investment performance. Ultimately the local authority and local taxpayers are the final guarantors.
- The scheme is regulated by Parliament.

## **Governance**

### **Governance Statement**

The Brent Pension Fund publishes a Governance Statement each year. The latest version of this document is at page 28.

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

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

### **Administering Authority**

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

- Brent Council has delegated its pensions functions to the Pension Fund Sub-Committee
- Brent Council has delegated responsibility for the administration and financial accounting of the Fund to the Director of Finance
- This report supports Brent Council's Annual Governance Statement, which is published at page 28.

### **Governance Compliance**

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

The full compliance statement is at page 29.

### **Pension Fund Sub-Committee**

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

- Ensure compliance with legislation and best practice
- Determine policy for the investment, funding and administration of the Fund
- Monitor performance across all aspects of the service
- Consider issues arising and make decisions to secure efficient and effective performance and service delivery
- Appoint and monitor advisers
- Ensure that arrangements are in place for consultation with stakeholders as necessary.

## **Pension Fund Sub-Committee Membership as at 31 March 2022**

**Chair:** Cllr S Choudhary

**Other Members:** Cllr A Aden  
Cllr M Daly  
Cllr F Donnelly-Jackson  
Cllr Maurice (resigned 24 May 2021)  
Cllr Kansagra (appointed 24 May 2021)  
Cllr W M Murray  
Cllr K Perrin

**Employee representatives:** Elizabeth Bankhole (UNISON)

**Other attendees:** Minesh Patel, Director of Finance  
Ravinder Jassar, Deputy Director of Finance  
Hymans Robertson LLP, Financial Adviser

## **Pension Fund Sub-Committee Training**

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

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

## **Conflict of Interests**

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

## **Accountability and Transparency**

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at [www.brent.gov.uk](http://www.brent.gov.uk).

## b. Risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund looks to achieve this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Pension Fund manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee.

Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

The Brent Pension Fund maintains a Risk Register which is reviewed and reported to every Pension Board meeting. Risks are rated on a "traffic light system" and are monitored on a regular basis for review. Controls are documented and further actions identified where necessary. The Brent Pension Fund Risk Register can be found on the Brent Pensions Board website.

This Risk Management Programme in place ensures that key risks are identified and that mitigating actions are taken to control these Risks. Appendix C as part of the Funding Strategy Statement notes each Objective Area in which these Risks are summarised and the mitigating actions being taken to control them.

### **Third Party Risks**

Third party risks such as payments of contributions are robustly monitored, as laid out in the Pensions Administration Strategy. The receipt and calculation of employer pension contributions is monitored monthly. Employers are required to complete a return, which reconciles to the pension payment and verifies the calculation of both employee and employer contributions.

The Council has also outsourced the following functions of the Fund:

- Custodianship of assets.
- Pensions administration in coordination with the Brent pensions administration team who monitors and manages the Fund's contractor for pension administration services, Local Pensions Partnership Administration (LPPA).

As these functions are outsourced, the Council is exposed to Third Party Risk. A range of investment managers are used to diversify risk. To mitigate the risks regarding custodianship of assets, assurance over third party operations is sought by requesting relevant documentation, such as AAF 01/06 and ISAE3402 assurance reports on the internal controls of these service organisations. Any weaknesses in controls are reviewed and reported as necessary to the Pension Fund Sub-Committee.

<b>Fund Manager</b>	<b>Type of Assurance</b>	<b>Control Framework</b>	<b>Compliance with Control</b>	<b>Reporting Accountant</b>
<b>Alinda</b>	ISAE3402	Reasonable Assurance	Reasonable Assurance	Deloitte LLP
<b>BlackRock</b>	ISAE3402	Reasonable Assurance	Reasonable Assurance	Deloitte LLP
<b>Capital Dynamics</b>	ISAE3402	Reasonable Assurance	Reasonable Assurance	PwC LLP
<b>Fidelity</b>	ISAE3402	Reasonable Assurance	Reasonable Assurance	PwC LLP
<b>London CIV</b>	Third-Party Controls Oversight	n/a	n/a	n/a
<b>LGIM</b>	ISAE3402	Reasonable Assurance	Reasonable Assurance	KPMG LLP

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

During 2021/22, no internal audits were carried out for the Pension Fund. In 2019/20, internal audit undertook a review of the Council's arrangements in regards to current investments, strategic asset allocation and compliance with MHCLG regulations. This review aimed to provide assurance over the following sub-processes and control objectives. The audit focused on key controls in place in relation to the sub-processes listed below, to mitigate the potential risks:

- Governance;
- Governance compliance statement;
- Risk management;
- Investments;
- Monitoring;
- Environmental, social and governance factors;
- Independent Advisor, and
- Pension Fund
- Policies.

All the scope areas were examined during the audit and no high level risk areas were reported. In addition, internal audit has identified a number of examples of good practice. 2 medium risk and 2 low risk recommendations were reported. Any risks identified were agreed between internal audit and management and actions are being undertaken to ensure that the recommendations are implemented and are operating effectively.

### **Other Investment Risk**

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

The Pension Fund employs an Investment Advisor, Hymans Robertson, to assist and advise the Pensions Sub Committee. Investment performance is reviewed by the committee every quarter.

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

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

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

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

## c. Financial performance

### Financial Summary

Income and expenditure of the fund over the past five years is shown below. This shows a net increase in the Fund's market value of £330m over the period. During 2021/22, the Fund value increased by £103m. This is primarily due to strong performance from the Fund's investment managers. A detailed analysis of the Fund's financial performance, including the movement in non-investment assets and liabilities, can be found in the statement of accounts at page 33 of this report.

<b>Financial Summary</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Contributions receivable	(53.5)	(54.9)	(65.2)	(66.8)	(70.9)
Benefits payable	75.0	47.7	54.2	47.6	52.7
<b>Net (additions)/withdrawals from dealings with members</b>	<b>21.5</b>	<b>(7.2)</b>	<b>(11.1)</b>	<b>(19.2)</b>	<b>(18.2)</b>
Management expenses	4.3	6.8	3.8	4.2	4.3
Net of investment income and taxes on income	(0.9)	(1.4)	(1.2)	(0.7)	(1.1)
Change in market value	(22.4)	(61.7)	34.1	(176.1)	(88.1)
<b>Net (increase)/decrease in Fund Value</b>	<b>2.5</b>	<b>(63.5)</b>	<b>25.6</b>	<b>(191.8)</b>	<b>(103.1)</b>

### Analysis of Dealings with Scheme Members

As shown in the table below, net contributions from members has been mainly positive over the past five years. The large outflow in 2017/18 related to the transfer out of the College of North West London from the Fund. Employer contributions have stayed broadly similar to the previous financial year, this is due to no change in the main employer contribution rate. Transfers in have slightly increased due to more new members choosing to transfer in benefits. Transfers out have slightly increased compared to last year, reflecting more members electing to remove their benefits from the scheme when they leave Brent.

<b>Analysis of Dealings with Scheme Members</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
<b>Contributions receivable</b>					
Members	(8.1)	(9.2)	(8.5)	(9.5)	(9.7)
Employers	(41.8)	(42.9)	(51.5)	(51.4)	(54.4)
Transfers In	(3.6)	(2.8)	(5.2)	(5.9)	(6.8)
<b>Total</b>	<b>(53.5)</b>	<b>(54.9)</b>	<b>(65.2)</b>	<b>(66.8)</b>	<b>(70.9)</b>
<b>Benefits payable</b>					
Pensions	34.4	37.7	38.6	37.5	39.7
Lump sum retirement and death benefits	4.5	8.2	9.3	4.8	7.2
Transfers Out	35.9	1.7	6.2	5.3	5.7
Refunds to members leaving service	0.2	0.1	0.0	0.0	0.2
<b>Total</b>	<b>75.0</b>	<b>47.7</b>	<b>54.1</b>	<b>47.6</b>	<b>52.7</b>
<b>Net Dealings with Members</b>	<b>21.5</b>	<b>(7.2)</b>	<b>(11.1)</b>	<b>(19.2)</b>	<b>(18.2)</b>

### Analysis of Management Expenses

The costs of managing the Pension Fund are split into three areas: Administration expenses, Oversight and Governance costs and Investment management expenses. Administration costs decreased slightly in 2021/22 due to the completion of data cleanse activity that began in 2020/21.

<b>Analysis of Management Expenses</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Administration costs	0.7	1.2	1.1	1.8	1.6
Oversight and Governance costs	0.1	0.2	0.3	0.2	0.2
Other expenses	0.0	2.2	0.0	0.0	0.0
Investment management expenses	-	-	-	-	-
Management fees	3.4	2.7	2.4	2.2	2.4
Custody fees	0.1	0.1	0.0	0.0	0.1
One-off transaction costs	0.0	0.4	0.0	0.0	0.0
<b>Total</b>	<b>4.3</b>	<b>6.8</b>	<b>3.8</b>	<b>4.2</b>	<b>4.3</b>

## Contributions

Members of the LGPS pay a contribution rate dependant on the salary band they fall in to. The contribution rate employees pay depends on their salary. The bands and contribution rates for 2021/22 are set out in the table below.

<b>Annual Pensionable Pay</b>	<b>Rate</b>
Up to £14,600	5.5%
£14,601 to £22,900	5.8%
£22,901 to £37,200	6.5%
£37,201 to £47,100	6.8%
£47,101 to £65,900	8.5%
£65,901 to £93,400	9.9%
£93,401 to £110,000	10.5%
£110,001 to £165,000	11.4%
£165,001 or more	12.5%

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer. The most commonly applied employer contribution rate within the Brent Pension Fund was 35.0% in 2021/22.

Regulations state that contributions must be paid to the Fund by the 22nd day of the month following deduction. The Fund reserves to right to levy interest on an employer for the late payment of contributions. In 2021/22, this power was not exercised.



### 3. Investment Policy and Performance

#### Introduction

The Administering Authority invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force on the 1st November 2016.

During 2021/22, the following external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Capital Dynamics (Private equity and Infrastructure)
- LCIV Churchill/Pemberton (Private Debt)
- LCIV Baillie Gifford (Diversified Growth Fund)
- LCIV Ruffer (Diversified Growth Fund)
- LCIV CQS (Multi Asset Credit)
- LCIV JP Morgan (Emerging Markets)
- LCIV Stepstone (Infrastructure)
- Alinda (Infrastructure)
- Blackrock (UK Gilts and Global Low Carbon Equities)
- Fidelity (Property)

The cash balance is deposited with money market funds.

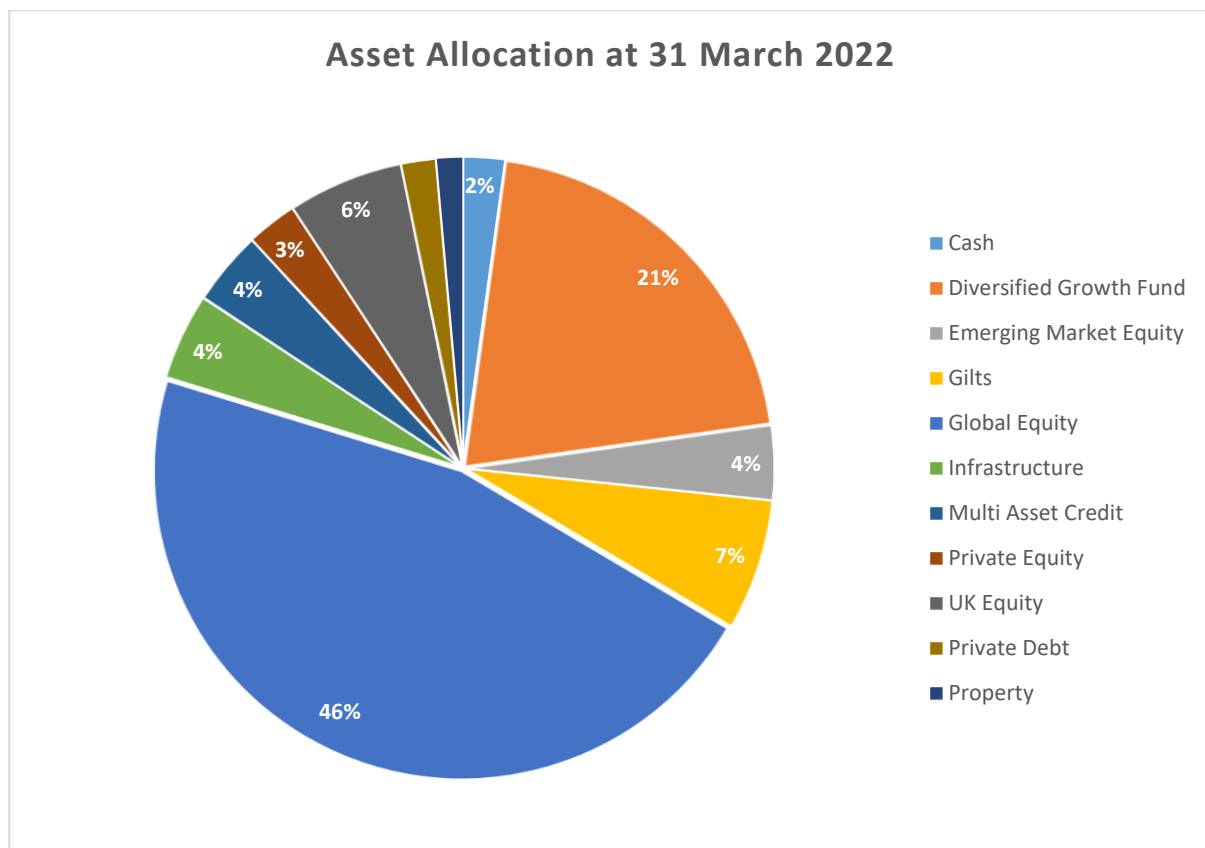
## 2021/22 Investment Results

### Asset Allocation and Fund Performance

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2022 is shown below:

Time Period	Total Fund Return %	Fund Benchmark Return %
1 year	8.3	7.2
3 years	8.2	7.1
5 years	6.6	6.5

The current asset allocation includes allocations to passive UK and global equities, emerging market equities, diversified growth funds, infrastructure, longer dated gilts, multi-asset credit, private debt and UK commercial property. The allocation to private equity is currently being wound down. A further allocation to infrastructure was agreed in 2018/19 and investment in this mandate is being built up. The allocation to Private Debt is also being built up. Allocations to Low Carbon Equities and Property were introduced in 2021/22. It will be some time before funds are fully invested. The asset allocation as at 31 March 2022 is illustrated by the below chart.



Overall the fund delivered a positive return of 8.3% for the year. Positive returns were achieved in the first 3 quarters with negative returns in quarter 4. Returns in the first 3 quarters were driven by the Fund's growth holdings, in particular the global equity mandate. Additionally the Baillie Gifford multi-

asset mandate produced strong performance over the period. Fund performance in quarter 4 was negative and the majority of assets struggled in Q1 2022 in a challenging environment as inflation took hold; coronavirus lockdowns continued in China; and Russia began its invasion in Ukraine.

The Fund's holdings by fund manager showing target asset allocation and performance over one, three and five year periods are shown below.

Investment	Asset Class	Planned Asset Allocation (%)	Market value 31 March 2022 (£m)	Allocation at 31 March 2022 (%)	Last Year (%)		Last 3 Years (%)		Last 5 Years (%)	
					Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK Equities - L&G	UK Equity	45	67.8	6	13.2	13.0	5.4	5.3	4.8	4.7
Global Equities - L&G	Global Equity		506.1	45	14.7	14.8	15.4	15.4	12.0	12.0
UK Equities - London CIV	UK Equity		0.2	0	n/a	n/a	n/a	n/a	n/a	n/a
LCIV JP Morgan EM	Emerging Market Equity	5	43.8	4	-10.2	-7.1	4.7	4.6	-	-
Global Low Carbon Dev	Global Equity	3	15.4	1	-	-	-	-	-	-
DGF LCIV Baillie Gifford	Diversified Growth Fund	12	135.1	12	3.4	2.4	3.6	2.6	3.2	3.2
DGF LCIV Ruffer	Diversified Growth Fund		97.4	9	7.3	2.4	10.1	2.6	5.6	3.2
LCIV Multi Asset Credit	Multi Asset Credit	15	43.7	4	-1.3	2.2	2.1	2.8	-	-
Blackrock - Over 15 year GILTS	Gilts		77.1	7	-7.1	-7.2	-0.7	-0.7	-	-
Private Equity - Capital Dynamics	Private Equity	5	30.0	3	30.0	16.9	10.8	13.7	12.7	11.4
Infrastructure - Capital Dynamics	Infrastructure	5	6.2	1	-29.8	9.1	-17.7	5.5	-10.7	6.5
Infrastructure - ALINDA	Infrastructure		23.3	2	15.1	9.1	5.9	5.5	-2.0	6.5
Infrastructure - LCIV Stepstone	Infrastructure		21.4	2	6.4	9.1	-	-	-	-
LCIV Private Debt Fund	Private Debt	5	20.3	2	-	-	-	-	-	-
Fidelity UK Real Estate Fund	Property	3	15.7	1	-	-	-	-	-	-
Cash	Cash	2	24.1	2	-	-	-	-	-	-
<b>TOTAL</b>		<b>100.0</b>	<b>1127.6</b>	<b>100</b>	<b>8.3</b>	<b>7.2</b>	<b>8.2</b>	<b>7.1</b>	<b>6.6</b>	<b>6.5</b>

Further analysis and commentary on the investment performance of individual mandates can be found within the Fund's performance monitoring reports that are presented to the Pensions Sub-committee.

It is important to consider the risk framework in which the investment results are achieved. If the Fund takes more risk in its asset allocation decisions, it offers the potential for higher returns but it also increases the uncertainty of the outcome, potentially increasing the chances of a negative downside. The Fund is committed to on-going review of its asset allocation and achieving an appropriate balance between risk and reward. Further information can be found in the Investment Strategy Statement.

### Comparison of investment performance with other LGPS Funds

The Fund's investment performance in comparison to the PIRC Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below (the PIRC universe consists of 63 out of 86 LGPS funds):

	Rank	Period ended 31 Mar 22	PIRC Local authority Average
1 year	48	8.3	8.6
3 years	61	8.2	8.3
5 years	74	6.6	7.1
10 years	78	8.2	8.9

It is important to note that, as a long term investor, investment returns over a longer period of time should be considered. The table below shows the rolling three year performance of the Fund compared to other LGPS funds:

<b>Financial Year</b>	<b>Rank</b>	<b>Rolling 3 year return</b>
2021/22	61	8.2
2020/21	72	7.6
2019/20	42	1.5
2018/19	26	8.5
2017/18	80	6.8
2016/17	75	9.9
2015/16	49	6.5
2014/15	80	10.1

### **Funding Strategy Statement (FSS)**

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found on page 112.

### **Investment Strategy Statement (ISS)**

The Investment Strategy Statement sets out the policy which determines how the Fund invests its assets. This can be found on page 155 of this document. The Scheme rules require that we publish the ISS that covers our policy on:

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

## 4. Asset Pools

In 2015, the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

The Brent Pension Fund joined other London local authorities in creating the London Collective Investment Vehicle (LCIV), the regional pool operator for the capital. The London CIV is now established and has £13.9bn of LGPS assets under management as at 31 March 2022. Additionally, the value of passive assets was £12.7bn.

London CIV's annual review for the year ended 31<sup>st</sup> March 2022 can be found at: <https://londonciv.org.uk/reports-and-regulatory-information>

### Pooled assets

Overall, the Fund continued to increase the investments it has made through the London CIV. During 2021/22, the Fund's investments in the London CIV infrastructure fund and London CIV Private Debt fund began to be built up. In line with standard industry practice for infrastructure and private debt investments, it will be some time before funds are fully invested. The Fund also introduced a low carbon passive equity holding through Blackrock.

As at 31/03/2022, the Fund had 6 investments with the London CIV: Emerging Market equities (through JP Morgan), Diversified Growth Funds (Baillie Gifford/Ruffer), Multi Asset Credit (CQS), Infrastructure (Stepstone) and Private Debt (Churchill/Pemberton). Additionally, the Fund's passive equity investments through Legal and General/Blackrock and Gilts through Blackrock are arranged through the London CIV's negotiated mandate where the Fund benefits from lower negotiated fees.

All asset classes except Property, Private Equity, Infrastructure (Legacy) and Cash are managed by the London CIV asset pool. Therefore, the Fund has approximately 91% of its investments held with the regional pool or under the pool's oversight.

The table below shows the pooling status of the Fund's investments grouped by asset class:

<b>Asset Class</b>	<b>Pooled £m</b>	<b>Non- pooled £m</b>	<b>Total</b>
Global Equities	565.3	-	<b>565.3</b>
UK Equities	67.8	-	<b>68</b>
Diversified Growth Fund	232.5	-	<b>232.5</b>
Fixed Income	120.8	-	<b>120.8</b>
Private Equity	-	30.0	<b>30.0</b>

<b>Asset Class</b>	<b>Pooled £m</b>	<b>Non- pooled £m</b>	<b>Total</b>
Infrastructure	21.4	29.5	<b>50.9</b>
Private Debt	20.3	-	<b>20.3</b>
Property	-	15.7	<b>15.7</b>
Cash	-	24.1	<b>24.1</b>
<b>Total</b>	<b>1028.3</b>	<b>99.3</b>	<b>1,127.6</b>
<b>Investment Management Costs</b>	<b>1.9</b>	<b>0.6</b>	<b>2.5</b>

Investment management costs totalled £2.5m in 2021/22 as disclosed in the Pension Fund Accounts. A breakdown of pooled and non-pooled investment management costs for the year is provided in the table above.

### **Pool set-up and ongoing costs**

The table below shows pool setup and on-going costs paid to London CIV during 2021/22 and since inception:

Type of Cost	<b>2021/22 £'000</b>	<b>Cumulative £'000</b>
<b>Set up costs</b>		
Shareholding at cost	0	150
Development Funding Charge	85	375
Annual Service Charge	25	175
<b>Ongoing investment management costs</b>		
Investment management costs*	32	126
<b>Total</b>	<b>142</b>	<b>826</b>

\*Only includes management fees for passive investments arranged through London CIV.

### **Contact Details**

The London CIV can be contacted as follows:

Post: London CIV, Fourth Floor, 22 Lavington Street, London, SE1 0NZ

Telephone: 0208 036 9000

Website: [londonciv.org.uk](http://londonciv.org.uk)

Email: [info@londonciv.org.uk](mailto:info@londonciv.org.uk)

## 5. Scheme Administration

### **The Brent Pensions Team**

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Local Pensions Partnership (LPP). The team is a contact point for employees who wish to join the scheme; for advice on procedures and for queries and complaints.

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

The team's responsibilities include the following:

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

### **Operational costs**

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

To enable assurances to be obtained as to the effective and efficient operation of the Fund's investments, performance is benchmarked on an annual basis against other local authority pension funds subscribing to the PIRC Local Authority Pension Performance Analytics' Universe of local authority pension funds. Internal controls are also in place to support the reliability and integrity of financial information and the Fund is subject to internal and external audit.

### **Value for Money Statement**

The Brent Pension Fund aims to deliver value for money services to all members and employers within the Fund. In order to demonstrate the efficiency and effectiveness of these services provided, officers in the Brent Pensions Team in coordination with the Fund's Pensions Administration provider, collect data on key service related performance indicators and cost data which is used for comparisons over time and comparisons with other Funds where possible. Alongside performance discussions, regular monthly performance meetings are also held with LPP to discuss key projects taking place throughout the year and updates such as end of year queries, resourcing, reporting and other administration services.

The key data to confirm value for money is set out on the following pages. In summary this data confirms that the Brent Pension Fund continues to deliver a good quality service which meets the expectations of members of the fund. Overall performance over the last 12 months was 97.9%.

### **Summary of Activity**

## Performance Indicators

The LPP Pensions Administration Service is measured against key performance indicators that measure compliance, efficiency, and effectiveness of the service.

## Workflow summary

The table below shows a summary of the total cases received and completed by category for the year 1 April 2021 to 31 March 2022.

Description - Top 13 Cases	Brought Forward at 01/04/21	Completed	Received	Outstanding at 31/03/2022	Performance against SLA (%) *
New Starters	29	1339	1338	28	95.8
Transfer In	145	354	356	147	96.1
Transfer Out	80	462	518	136	86.9
Estimate - Individual	21	257	250	14	82.6
Deferred Benefits	127	879	964	212	94.3
Deaths	369	751	530	148	99.2
Retirements (Immediate)	89	249	199	39	94
Retirements (Deferred)	161	613	566	114	97.9
Refunds	34	673	764	125	97.5
Estimates - Employer	9	208	216	17	91.5
Correspondence	24	427	424	21	100
Aggregation	47	251	294	90	86.7
Other	229	1327	1217	119	99.1
<b>Total</b>	<b>1364</b>	<b>7790</b>	<b>7636</b>	<b>1210</b>	

\* Performance against SLA data for Q4 only.

## Staffing

LPP currently has 3.5 FTE working on Brent administration with a ratio of 1 member of staff to 6,569 fund members. The team completed a total of 7,790 cases including other contractual cases outside of the top 13 for the period 1st April 2021 to 31st March 2022 which is an average of 2,226 cases per staff member.

## Complaints



LPP now have a dedicated complaints team who deal with all complaints. This allows the complaint to be dealt with independently of the administration team and gives consistency when responding to complaints. There was a total of 24 complaints received during the year, broken down by quarter below.

<b>Quarter</b>	<b>Number of complaints</b>
<b>Q1</b>	<b>6</b>
<b>Q2</b>	<b>7</b>
<b>Q3</b>	<b>3</b>
<b>Q4</b>	<b>8</b>
<b>Totals</b>	<b>24</b>

Information on complaints is regularly presented to the Pension Board for review, with lessons learned also discussed with officers and the LPP.

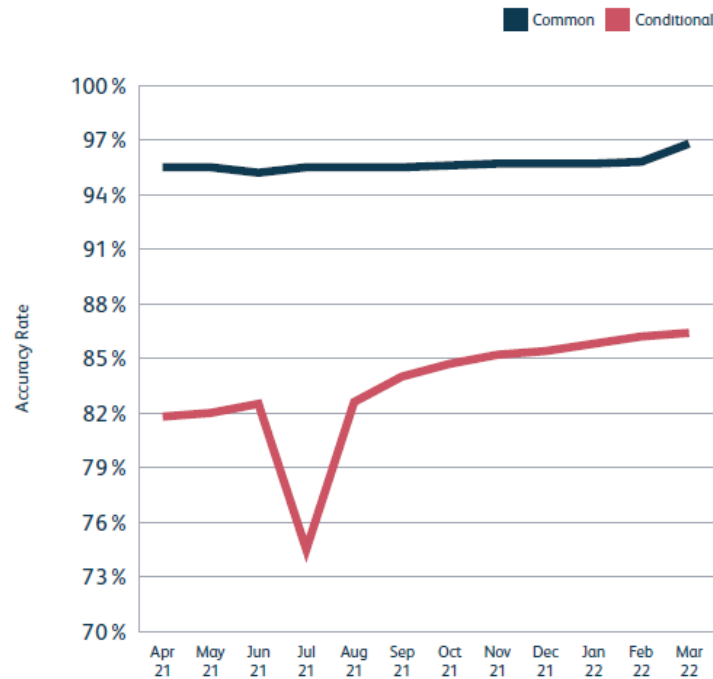
### **Dispute resolution procedure**

There were 2 Dispute resolutions received during the period 1st April 2021 to 31st March 2022.

Where a member is unsure of their benefit entitlement or has problems with their benefits, the Local Pensions Partnership (LPP) should be contacted. If a member is not satisfied with any decision they have a right to ask for it to be re-examined under the formal complaints procedure, which is officially called 'internal dispute resolution procedure'. The formal complaints procedure has 2 stages and full details can be obtained from the LPP by either phone on 0300 323 0260 or by writing to Local Pensions Partnership, PO Box 1383, Preston, PR2 0WR.

### **Accuracy of data**

Each year, following year-end processing, LPP raise queries with Brent employers such as missing joiners, leavers, change of hours and pay queries. In most instances the queries are reducing year on year, however LPP continue to identify any errors and work with employers prior to the queries being created. To this end, feedback has been received from employers and subsequently, LPP have improved templates and literature to ensure the data supplied by Brent employers is accurate and continues to improve the overall data quality position. Additionally, data quality is reviewed by the Pension Board on a regular basis. The annual common and conditional data accuracy rate for the year is shown in the chart below.



## Financial Indicators

### Unit Costs per Member

	2020/21	2021/22
<b>Investment Management Expenses</b>		
Total Costs £'000s	2,234	2,472
Total Membership Numbers	22,718	22,993
Cost per member £	98.34	107.51
<b>Administration Expenses</b>		
Total Costs £'000s	1,761	1,588
Total Membership Numbers	22,718	22,993
Cost per member £	77.52	69.06
<b>Oversight and Governance Costs</b>		
Total Costs £'000s	223	237
Total Membership Numbers	22,718	22,993
Cost per member £	9.82	10.31
<b>Total cost per member £</b>	<b>185.67</b>	<b>186.88</b>

The management fees disclosed above include investment management fees directly incurred by the Fund i.e. including those charged on pooled fund investments which tend to be deducted from the

market value of the investments rather than invoiced to the Fund. In addition to these costs, indirect costs are incurred through the bid offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

### Staffing Indicators

The table below shows the number of staff over the last two years in the Pensions Administration Team working exclusively on Local Government pension benefits.

	2020/21	2020/21
<b>Number of full time equivalent staff</b>	6.3	6.3
<b>Total fund membership</b>	22,718	22,993
<b>Number of fund members to one member of administration staff</b>	3,606	3,650

### Other Information

Further information regarding analysis of the Brent Pension Fund's membership data and list of contributing employers to the Fund can be found under the Brent Pension Fund Annual Accounts for 2021-22.

A summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities) has been provided in appendix B to this report.

For information about the Scheme generally, please see the following contact details:

<a href="mailto:pensions@brent.gov.uk">pensions@brent.gov.uk</a>	For non teachers pension enquiries
<a href="mailto:tpensions@brent.gov.uk">tpensions@brent.gov.uk</a>	For teachers pensions enquiries
<a href="mailto:Pension&gt;Returns@brent.gov.uk">Pension&gt;Returns@brent.gov.uk</a>	For all monthly contribution schedules only
<a href="mailto:askpensions@localpensionspartnership.org.uk">askpensions@localpensionspartnership.org.uk</a>	To communicate directly with the LPP

## 6. Actuarial Information

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary. The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2019.

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

In summary, the key funding principles are as follows:

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

The most recent valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £856m, were sufficient to meet 78% of the £1,104m liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £248m.

During 2021/22, the most commonly applied employer contribution rate within the Brent Pension Fund was 35.0% of pensionable pay. Other employers have different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

A summary of the last triennial valuation report and details of the full version of the actuarial report can be obtained below.

<https://legacy.brent.gov.uk/media/16416178/200326-lb-brent-2019-actuarial-valuation-report-final.pdf>

## **London Borough of Brent Pension Fund (“the Fund”)**

### **Actuarial Statement for 2021/22**

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- 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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 19 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 19 years.

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £856 million, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £248 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund’s funding policy as set out in its FSS.

### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2019 valuation report.

### **Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

### Financial Assumptions for the 2019 Valuation of The Fund

<b>Financial assumptions</b>	<b>31 March 2019</b>
Discount rate	4.4%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

### Life Expectancy Assumptions for the 2019 Valuation of The Fund

<b>Type of Pensioner</b>	<b>Males' Average Life Expectancy</b>	<b>Females' Average Life Expectancy</b>
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	23.0 years	25.5 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Peter MacRae FFA

9 May 2022

For and on behalf of Hymans Robertson LLP

## 7. Governance

### Annual Governance Statement

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

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

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

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

The Pension Fund Sub-Committee normally meets four times each year. These meetings are used mainly for discussions about the Fund's investment management activities, using reports on strategies and performance prepared by the Director of Finance and considering any views of the investment advisers. The Pension Fund Sub-Committee will also consider reports from the Director of Finance, the investment advisers and other consultants as necessary on a range of issues, for example reviews of the Statement of Investment Principles, training, and proposals for scheme change.

### Training

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

Training is delivered in advance of all committee meetings and to ensure that the sessions are effective, Topics are usually arranged in line with agenda items.



Training provided in 2021/22 included:

- An Introduction to Pension Scheme Funding
- Hot Topics in LGPS Funding
- Key Funding Issues in 2021/22
- Responsible Investment
- Climate Risk Metrics
- Climate Risk Targets
- Overview of the 2022 Valuation
- Assumption Setting for the 2022 Actuarial Valuation

### Use of advisers

The Director of Finance, Deputy Director of Finance and Head of Finance advise the Pension Fund Sub-Committee on all Pension Fund investment and administrative matters.

The Fund's Investment advisor advises the Pension Fund Sub-Committee on investment matters.

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

### Communications with Fund employers and members

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

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

### Governance Compliance Statement

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

Ref.	Principles	Compliance and comments
<b>A</b>	<b>Structure</b>	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Brent Council's constitution sets out the terms of reference for the Pension Fund Sub-Committee.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance.

Ref.	Principles	Compliance and comments
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
<b>B</b>	<b>Representation</b>	
a.	<p>That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g. admission bodies)</li> <li>ii) scheme members (including deferred and pensioner scheme members)</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisers (ad-hoc basis only).</li> </ul>	<p>Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.</p> <p>The Fund's investment adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.</p>
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
<b>C</b>	<b>Selection and role of lay members</b>	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.
<b>D</b>	<b>Voting</b>	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Sub-Committee have full voting rights, but the Sub-Committee works by consensus without votes being required.
<b>E</b>	<b>Training/facility time/expenses</b>	

Ref.	Principles	Compliance and comments
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Sub-Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Sub-Committee and training logs are maintained for all such training undertaken.
<b>F</b>	<b>Meetings (frequency/quorum)</b>	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance. The Pension Fund Sub-Committee meets regularly throughout the year. Additional meetings can be arranged to fit its business needs.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Sub-Committee includes lay members. Employers' forums are arranged for employers.
<b>G</b>	<b>Access</b>	
a.	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
<b>H</b>	<b>Scope</b>	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Sub-Committee deals with fund administration issues as well as fund investment.
<b>I</b>	<b>Publicity</b>	
a.	That administering authorities have published details of their governance arrangements in such a way that	Full compliance. The Council's Governance Policy Statement is

Ref.	Principles	Compliance and comments
	stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	published in the Pension Fund's Annual Report and on its website.

## 8. Brent Pension Fund Accounts

Pension Fund Accounts as at 31 March 2022

2020/21 £m		Notes	2021/22 £m
-	<b>Dealings with members, employers and others directly involved in the fund</b>	-	-
(60.9)	Contributions	7	(64.1)
(5.9)	Transfers in from other pension funds	8	(6.8)
(66.8)	<b>Sub-Total</b>	-	(70.9)
42.3	Benefits	9	46.8
5.3	Payments to and on account of leavers	10	5.9
47.6	<b>Sub-Total</b>	-	52.7
(19.2)	<b>Net (additions)/withdrawals from dealings with members</b>	-	(18.2)
4.2	Management expenses	11	4.3
(15.0)	<b>Net (additions)/withdrawals including management expenses</b>	-	(13.9)
-	<b>Returns on investments</b>	-	-
(0.7)	Investment income	12	(1.1)
(176.1)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	(88.1)
(176.8)	<b>Net return on investments</b>	-	(89.2)
(191.8)	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>	-	(103.1)
(839.0)	<b>Opening net assets of the scheme</b>	-	(1,030.7)
(1,030.7)	<b>Closing net assets of the scheme</b>	-	(1,133.8)

<b>31 March 2021 £m</b>	<b>Net Assets Statement</b>	<b>Notes</b>	<b>31 March 2022 £m</b>
1,032.3	Investment assets	13	1,127.7
0.0	-	13	0.00
<b>1,032.3</b>	<b>Sub-Total</b>	<b>-</b>	<b>1,127.7</b>
1.5	Current assets	19	8.6
0.0	Non-current assets		0.0
<b>(3.1)</b>	Current liabilities	20	<b>(2.5)</b>
<b>1,030.7</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,133.8</b>

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2022 but excludes long-term liabilities to pay pensions and benefits in future years. The actuarial present value of promised retirement benefits is disclosed in Note 18.

## Notes to the Brent Pension Fund accounts

### 1. *Description of Fund*

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme, and is administered by Brent Council.

The following description of the Fund is a summary only.

#### **a) General**

The Fund is a contributory defined benefit pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies.

#### **b) Membership**

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

Organisations participating in the Brent Pension Fund include:

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

There were 44 employer organisations with active members within the Brent Pension Fund at 31 March 2022, listed below:

#### **Scheduled bodies**

London Borough of Brent

Alperton Community School

ARK Academy

ARK Elvin Academy

ARK Franklin Academy

Braintcroft Primary School  
Capital City Academy  
Claremont High School Academy  
Compass Learning Partnership  
Crest Academy  
Furness Primary School  
Gladstone Park Primary School  
Kingsbury High School  
Manor School  
Michaela Community School  
North West London Jewish Day School  
Oakington Manor Primary School  
Our Lady of Grace RC Infants School  
Our Lady of Grace RC Juniors School  
Preston Manor High School  
Queens Park Community School  
Roundwood School and Community Centre  
St Andrews and St Francis School  
St Claudine's Catholic School for Girls  
St Gregory's RC High School  
St Margaret Clitherow  
Sudbury Primary School  
The Village School  
Wembley High Technology College  
Woodfield School Academy

**Admitted bodies**

Apleona HSG Ltd (previously Bilfinger Europa Facility Management Limited)  
Barnardos  
Caterlink  
Conway Aecom  
DB Services



Edwards and Blake

FM Conway

Local Employment Access Project (LEAP)

National Autistic Society (NAS)

Ricoh UK

Sudbury Neighbourhood Centre

Taylor Shaw

Veolia

Veolia (Ground Maintenance)

<b>31-Mar-21</b>	<b>Brent Pension Fund</b>	<b>31-Mar-22</b>
41	Number of employers with active members	44
-	<b>Number of employees in scheme</b>	-
4,457	Brent Council	4,399
1,928	Other employers	1,640
<b>6,385</b>	<b>Total</b>	<b>6,039</b>
-	<b>Number of pensioners</b>	-
6,157	Brent Council	6,210
703	Other employers	757
<b>6,860</b>	<b>Total</b>	<b>6,967</b>
-	<b>Deferred pensioners</b>	-
7,025	Brent Council	7,188
1,163	Other employers	1,280
<b>8,188</b>	<b>Total</b>	<b>8,468</b>

The decrease in number of active employee members in the scheme is primarily due to the Data Cleanse Project work conducted by the Fund's administration provider Local Pensions Partnership (LPP), which was started in the previous financial year (2020/21) and completed in 2021/22. The objective of this project was to review, cleanse and fix any errors identified in member data. The result of this Data Cleanse can partially be seen in the increase in deferred members.

### **c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. During 2021/22, the most commonly applied employer contribution rate within the Brent Pension Fund was 35.0% of pensionable pay.

#### **d) Benefits**

Since April 2014, the scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate 1/49th. Accrued pension is updated annually in line with the Consumer Price index.

For a summary of the scheme before April 2014 and details of a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits please refer to the LGPS website: [www.lgpsmember.org](http://www.lgpsmember.org)

## ***2. Basis of preparation***

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

## ***3. Summary of significant accounting policies***

### **Fund Account – revenue recognition**

#### **a) Contribution income**

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

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

## **b) Transfers to and from other schemes**

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

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

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

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

## **c) Investment income**

### **i) Interest income**

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

### **ii) Dividend income**

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

### **iii) Distributions from pooled funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by

the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) **Movement in the net market value of investments**

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

**Fund Account – expense items**

**d) Benefits payable**

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

**e) Taxation**

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

**f) Administration expenses**

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

**g) Investment management expenses**

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

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

## Net Assets Statement

### h) Financial assets

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

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

#### i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

#### ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

#### iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

#### iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

#### v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are

published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

**i) Contingent Assets**

Admitted body employers in the Brent Pension Fund hold bonds to guard against possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. Contingent Assets are disclosed in Note 24.

**j) Foreign currency transactions**

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

**k) Derivatives**

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

**l) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**m) Financial liabilities**

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

#### **n) Actuarial present value of promised retirement benefits**

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 18).

#### **o) Additional voluntary contributions**

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

AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed as a note only (Note 21).

### ***4. Critical judgements in applying accounting policies***

#### **Unquoted private equity / infrastructure / private debt investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities; infrastructure and private debt investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities; infrastructure and private debt investments at 31 March 2022 was £101m (£81m at 31 March 2021).

#### **Pension fund liability**

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

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

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

The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 18)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £170m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £10m, and a one-year increase in assumed life expectancy would increase the liability by around 4% (c. £74m).
<b>Private equity / infrastructure / private debt</b>	Private equity/infrastructure/private debt investments are valued based on the latest available information, updated for movements in cash where relevant. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure/private debt investments in the financial statements are £101m. There is a risk that this investment may be under- or overstated in the accounts.



Item	Uncertainties	Effect if actual results differ from assumptions
<b>Effect of the war between Ukraine and Russia on investment valuations</b>	<p>In the immediate aftermath of the invasion, there were general falls in the financial markets with sanctions and other measures being implemented by the UK government and other governments around the world.</p> <p>Given the financial sanctions imposed by governments, it is extremely difficult to trade Russian, Ukrainian and Belarusian holdings. Therefore it is difficult to obtain a market price for such holdings and many investment managers have written down exposure.</p>	The Fund's exposure to Russian, Ukrainian and Belarusian holdings consisted of a very small proportion of the Fund's overall assets. Prior to the invasion, these assets made up approximately 0.1% of the total value of the Fund.

## 6. Events after the Reporting Date

There have been no events since 31 March 2022, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7. Contributions receivable

By category	2020/21 £m	2021/22 £m
Employees' contributions	9.5	9.7
Employers' contributions:	-	-
Normal contributions	47.4	49.9
Deficit recovery contributions	1.7	1.7
Augmentation contributions	2.3	2.8
Total employers' contributions	51.4	54.4
<b>Total</b>	<b>60.9</b>	<b>64.1</b>

By authority	2020/21 £m	2021/22 £m
Administering Authority	47.8	50.7

<b>By authority</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Scheduled bodies	11.6	11.9
Admitted bodies	1.5	1.4
<b>Total</b>	<b>60.9</b>	<b>64.1</b>

#### *8. Transfers in from other pension funds*

<b>Type of Transfer</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Individual transfers	5.9	6.8
<b>Total</b>	<b>5.9</b>	<b>6.8</b>

#### *9. Benefits payable*

<b>By category</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Pensions	37.5	39.7
Commutation and lump sum retirement benefits	4.1	6.1
Lump sum death benefits	0.7	1.1
<b>Total</b>	<b>42.3</b>	<b>46.8</b>

<b>By authority</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Administering Authority and Scheduled bodies	42.1	46.5
Admitted bodies	0.2	0.3
<b>Total</b>	<b>42.3</b>	<b>46.8</b>

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

<b>Payments</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Refunds to members leaving service	0.3	0.2
Group transfers	0.0	0.0
Individual transfers	5.0	5.7
<b>Total</b>	<b>5.3</b>	<b>5.9</b>

## 11. Management Expenses

<b>Management Expense Type</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Administration costs	1.8	1.6
Investment management expenses	2.2	2.5
Oversight and Governance costs	0.2	0.2
<b>Total</b>	<b>4.2</b>	<b>4.3</b>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments. Audit fees were £33k (£32.8k 2020/21).

### a) Investment management expenses

<b>Type of Investment Management Expense</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>
Management fees	2.1	2.4
Custody fees	0.1	0.1
One-off transaction costs	0.0	0.0
<b>Total</b>	<b>2.2</b>	<b>2.5</b>

<b>Fund Manager</b>	<b>2021/22 Total</b>	<b>Management fees</b>	<b>Custody fees</b>	<b>One-off transaction costs</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Alinda	0.2	0.2	0.0	0.0

<b>Fund Manager</b>	<b>2021/22 Total £m</b>	<b>Management fees £m</b>	<b>Custody fees £m</b>	<b>One-off transaction costs £m</b>
Capital Dynamics	0.2	0.2	0.0	0.0
Fidelity UK Real Estate	0.1	0.1	0.0	0.0
LGIM	0.1	0.1	0.0	0.0
LCIV MAC	0.2	0.2	0.0	0.0
LCIV Emerging Markets	0.2	0.2	0.0	0.0
LCIV Baillie Gifford DGF	0.5	0.5	0.0	0.0
LCIV Infrastructure Fund	0.1	0.1	0.0	0.0
LCIV Private Debt	0.1	0.1	0.0	0.0
LCIV Ruffer	0.7	0.7	0.0	0.0
London LGPS CIV LTD	0.0	0.0	0.0	0.0
Blackrock	0.0	0.0	0.0	0.0
Northern Trust (Fund Custodian)	0.1	0.0	0.1	0.0
Cash	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2.5</b>	<b>2.4</b>	<b>0.1</b>	<b>0.0</b>

<b>Fund Manager</b>	<b>2020/21 Total £m</b>	<b>Management fees £m</b>	<b>Custody fees £m</b>	<b>One-off transaction costs £m</b>
Alinda	0.3	0.3	0.0	0.0
Capital Dynamics	0.5	0.5	0.0	0.0
LGIM	0.0	0.0	0.0	0.0
LCIV MAC	0.2	0.2	0.0	0.0
LCIV Emerging Markets	0.2	0.2	0.0	0.0
LCIV Baillie Gifford DGF	0.5	0.5	0.0	0.0
LCIV Ruffer	0.4	0.4	0.0	0.0
Blackrock	0.0	0.0	0.0	0.0

<b>Fund Manager</b>	<b>2020/21 Total £m</b>	<b>Management fees £m</b>	<b>Custody fees £m</b>	<b>One-off transaction costs £m</b>
Northern Trust (Fund Custodian)	0.1	0.0	0.1	0.0
Cash	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2.2</b>	<b>2.1</b>	<b>0.1</b>	<b>0.0</b>

## 12. Investment income

<b>Type of Investment Income</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Dividend income from private equities/infrastructure	0.4	0.4
Interest income from private equities/infrastructure/private debt	0.2	0.7
Interest on cash deposits	0.1	0.0
<b>Total</b>	<b>0.7</b>	<b>1.1</b>

## 13. Investments

<b>Investments asset</b>	<b>Market value 31 March 2021</b>	<b>Market value 31 March 2022</b>
Pooled investments	897.4	986.6
Pooled property investments	0.0	15.7
Private equity/infrastructure/private debt	81.1	101.3
<b>Total</b>	<b>978.5</b>	<b>1,103.6</b>

### 13a. Investments

<b>Investments 2021/22</b>	<b>Market value 1 April 2021 £m</b>	<b>Purchases during the year £m</b>	<b>Sales during the year £m</b>	<b>Change in market value during the year £m</b>	<b>Market value 31 March 2022 £m</b>
Pooled investments	897.4	15.0	(1.7)	75.8	986.6
Pooled property investments	0.0	15.0	0.0	0.7	15.7
<b>Private equity/infrastructure /private debt</b>	81.1	37.8	(29.2)	11.6	101.3
<b>Total</b>	<b>978.5</b>	<b>67.8</b>	<b>(30.9)</b>	<b>88.1</b>	<b>1,103.6</b>
<b>Other investment balances: Cash Deposit</b>	53.8	-	-	-	24.1
<b>Investment income due</b>	0.0	-	-	-	0.0
<b>Net investment assets</b>	<b>1,032.3</b>	-	-	-	<b>1,127.7</b>

<b>Investments 2020/21</b>	<b>Market value 1 April 2020 £m</b>	<b>Purchases during the year £m</b>	<b>Sales during the year £m</b>	<b>Change in market value during the year £m</b>	<b>Market value 31 March 2021 £m</b>
Pooled investments	697.0	68.0	(57.3)	189.7	897.4
Pooled property investments	0.1	0.0	0.0	(0.2)	0.0
<b>Private equity/infrastructure</b>	84.3	19.2	(9.0)	(13.4)	81.1
	<b>781.4</b>	<b>87.2</b>	<b>(66.3)</b>	<b>176.1</b>	<b>978.5</b>
<b>Other investment balances: Cash Deposit</b>	53.9	-	-	-	53.8
<b>Investment income due</b>	0.0	-	-	-	0.0

<b>Net investment assets</b>	<b>835.3</b>	-	-	-	<b>1,032.3</b>
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*13b. Analysis of investments by category*

<b>Category</b>	<b>31 March 2021 £m</b>	<b>31 March 2022 £m</b>
<b>Pooled funds - additional analysis</b>	-	-
<b>UK</b>	-	-
Fixed income unit trust	42.8	43.7
Unit trusts	143.1	145.1
Diversified growth funds	221.5	232.5
<b>Overseas</b>		
Unit trusts	490.0	565.3
<b>Total Pooled funds</b>	<b>897.4</b>	<b>986.6</b>
<b>Pooled property investments</b>	<b>0.0</b>	<b>15.7</b>
<b>Private equity/infrastructure/private debt</b>	<b>81.1</b>	<b>101.3</b>
<b>Total investments</b>	<b>978.5</b>	<b>1,103.6</b>

*13c. Analysis of investments by fund manager*

<b>31 March 2021</b>	<b>31 March 2021</b>	<b>Fund manager</b>	<b>31 March 2022</b>	<b>31 March 2022</b>
<b>Market Value</b>	<b>Market Value</b>		<b>Market Value</b>	<b>Market Value</b>
<b>£m</b>	<b>%</b>		<b>£m</b>	<b>%</b>
501.1	51.2%	Legal & General	573.9	52.0%
0.2	0.0%	London CIV	0.2	0.0%
48.8	5.0%	JP Morgan	43.8	4.0%
46.2	4.7%	Capital Dynamics	36.2	3.3%
130.7	13.4%	LCIV - Baillie Gifford	135.1	12.2%
90.8	9.3%	LCIV - Ruffer	97.4	8.8%
42.8	4.4%	LCIV - MAC (CQS)	43.7	4.0%
11.8	1.2%	LCIV - Infrastructure	21.4	1.9%
0	0.0%	LCIV - Private Debt	20.3	1.8%
23.1	2.4%	Alinda	23.4	2.1%
0	0.0%	Fidelity UK Real Estate	15.7	1.4%
0	0.0%	Blackrock Low Carbon Global Equity	15.4	1.4%
83.0	8.5%	Blackrock	77.1	7.0%
<b>978.5</b>	<b>100.0%</b>	<b>Total</b>	<b>1,103.6</b>	<b>100.0%</b>



The following investments represent over 5% of the net assets of the fund. All of these companies are registered in the United Kingdom.

<b>Security</b>	<b>Market value 31 March 2021</b>	<b>% of total fund</b>	<b>Market value 31 March 2022</b>	<b>% of total fund</b>
L&G - Global Equities	441.2	39.1%	506.1	49.0%
L&G - UK Equities	59.9	5.3%	67.8	6.6%
Blackrock - Over 15 year Gilts	83	7.4%	77.1	7.5%
LCIV - Baillie Gifford DGF	130.7	11.6%	135.1	13.1%
LCIV - Ruffer DGF	90.8	8.1%	97.4	9.4%

#### *13d. Stock lending*

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

#### *14. Fair Value – Basis of Valuation*

The basis of the valuation of each asset class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of asset</b>	<b>Valuation hierarchy</b>	<b>Basis of valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
<b>Unquoted equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple  Revenue multiple  Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts

#### *14a. Sensitivity of assets valued at Level 3*

Having analysed historical data and current market trends, and consulted with our independent investment advisor, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

<b>Investment Type</b>	<b>Assessed valuation range (+/-)</b>	<b>Value at 31 March 2022 £m</b>	<b>Value on increase £m</b>	<b>Value of decrease £m</b>
<b>Private equity</b>	32.6%	30.0	39.8	20.2

Investment Type	Assessed valuation range (+/- )	Value at 31 March 2022 £m	Value on increase £m	Value of decrease £m
Infrastructure	15.2%	51.0	58.8	43.2
Private debt	12.9%	20.3	22.9	17.7

#### *14b. Fair value hierarchy*

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### **Level 1**

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

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

#### **Level 2**

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

#### **Level 3**

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

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

The values of the investment in private equity are based on valuations provided by the general partners

to the private equity funds in which Brent Pension Fund has invested.

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

Transfers between levels will be recognised when there has been a change to observable mark data (improvement or reduction) or other change in valuation technique.

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

<b>Values at 31 March 2022</b>	<b>Quoted market price – Level 1 £m</b>	<b>Using observable inputs – Level 2 £m</b>	<b>With significant unobservable inputs – Level 3 £m</b>	<b>Total £m</b>
<b>Financial assets</b>	-	-	-	-
Pooled investments	-	986.6	-	<b>986.6</b>
Pooled property investments	-	15.7	-	<b>15.7</b>
Private Equity/Infrastructure/Private Debt	-	-	101.3	<b>101.3</b>
<b>Subtotal Financial assets at fair value through profit and loss</b>	<b>0.0</b>	<b>1,002.3</b>	<b>101.3</b>	<b>1,103.6</b>
Cash	24.1	-	-	<b>24.1</b>
Investment Income due	0.0	-	-	<b>0.0</b>
<b>Subtotal Loans and receivables</b>	<b>24.1</b>	<b>0.0</b>	<b>0.0</b>	<b>24.1</b>
<b>Total Financial assets</b>	<b>24.1</b>	<b>1,002.3</b>	<b>101.3</b>	<b>1,127.7</b>
<b>Financial liabilities</b>	-	-	-	-
Current liabilities	(2.5)	-	-	<b>(2.5)</b>
<b>Subtotal Financial liabilities at amortised cost</b>	<b>(2.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.5)</b>
<b>Total Financial liabilities</b>	<b>(2.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.5)</b>
<b>Net Financial assets</b>	<b>21.6</b>	<b>1,002.3</b>	<b>101.3</b>	<b>1,125.2</b>

	Quoted market price – Level 1	Using observable inputs – Level 2	With significant unobservable inputs – Level 3	Total
Values at 31 March 2021	£m	£m	£m	£m
<b>Financial assets</b>	-	-	-	-
Pooled investments	-	897.4	-	<b>897.4</b>
Pooled property investments	-	0.0	-	<b>0.0</b>
Private Equity/Infrastructure/private debt	-	-	81.1	<b>81.1</b>
<b>Subtotal Financial assets at fair value through profit and loss</b>	<b>0.0</b>	<b>897</b>	<b>81.1</b>	<b>978.5</b>
Cash	53.8	-	-	<b>53.8</b>
Investment Income due	0.0	-	-	<b>0.0</b>
<b>Subtotal Loans and receivables</b>	<b>53.8</b>	<b>0.0</b>	<b>0.0</b>	<b>53.8</b>
<b>Total Financial assets</b>	<b>53.8</b>	<b>897.4</b>	<b>81.1</b>	<b>1,032.3</b>
<b>Financial liabilities</b>	-	-	-	-
Current liabilities	(3.1)	-	-	<b>(3.1)</b>
<b>Subtotal Financial liabilities at amortised cost</b>	<b>(3.1)</b>	<b>0.0</b>	<b>0.0</b>	<b>(3.1)</b>
<b>Total Financial liabilities</b>	<b>(3.1)</b>	<b>0.0</b>	<b>0.0</b>	<b>(3.1)</b>
<b>Net Financial assets</b>	<b>50.7</b>	<b>897.4</b>	<b>81.1</b>	<b>1,029.2</b>

*14c. Reconciliation of Fair Value Measurements within Level 3*

	£m
Value at 31 March 2021	81.1
Transfers into Level 3	0.0
Transfers out of Level 3	0.0
Purchases	37.8
Sales	(19.9)
Issues	0.0
Settlements	0.0
Unrealised gains/losses	11.6
Realised gains/losses	(9.3)
Value at 31 March 2022	101.3

### *15. Classification of financial instruments*

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

31 March 2021				31 March 2022		
Fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m		Fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
-	-	-	<b>Financial assets</b>	-	-	-
897.4	-	-	Pooled investments	986.6	-	-
0	-	-	Pooled property investments	15.7	-	-
81.1	-	-	Private equity/ infrastructure/private debt	101.3	-	-
-	53.8	-	Cash	-	24.1	-
-	1.5	-	Debtors	-	8.6	-
<b>978.5</b>	<b>55.3</b>	<b>0.0</b>	<b>Total Financial assets</b>	<b>1,103.6</b>	<b>32.7</b>	<b>0.0</b>
-	-	-	<b>Financial liabilities</b>	-	-	-
-	-	(3.1)	Creditors	-	-	(2.5)
<b>0.0</b>	<b>0.0</b>	<b>(3.1)</b>	<b>Total Financial liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.5)</b>
<b>978.5</b>	<b>55.3</b>	<b>(3.1)</b>	<b>Net Financial assets</b>	<b>1,103.6</b>	<b>32.7</b>	<b>(2.5)</b>

*15a. Net gains and losses on Financial Instruments*

31 March 2021 £'000		31 March 2022 £'000
176.1	Fair value through profit and loss	88.1
<b>176.1</b>	<b>Total</b>	<b>88.1</b>

*15b. Fair Value of financial instruments and liabilities*

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

<b>31 March 2021</b>	<b>31 March 2021</b>	<b>Financial Instruments and Liabilities</b>	<b>31 March 2022</b>	<b>31 March 2022</b>
<b>Carrying Value</b>	<b>Fair Value</b>		<b>Carrying Value</b>	<b>Fair Value</b>
<b>£m</b>	<b>£m</b>		<b>£m</b>	<b>£m</b>
-	-	<b>Financial assets</b>	-	-
978.5	978.5	Fair value through profit and loss	1,103.6	1,103.6
55.3	55.3	Loans and receivables	32.7	32.7
<b>1,033.8</b>	<b>1,033.8</b>	<b>Total financial assets</b>	<b>1,136.3</b>	<b>1,136.3</b>
-	-	<b>Financial liabilities</b>	-	-
(3.1)	(3.1)	Financial liabilities at amortised cost	(2.5)	(2.5)
<b>(3.1)</b>	<b>(3.1)</b>	<b>Total financial liabilities</b>	<b>(2.5)</b>	<b>(2.5)</b>

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

## *16. Nature and extent of risks arising from financial instruments*

### **Risk and risk management**

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

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

#### **a) Market risk**



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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

### **Other price risk**

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

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

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

### **Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period. (Based on data as at 31 March 2022 using data provided by investment advisors scenario model). The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

<b>Asset Type</b>	<b>31/03/2022 Value (£m)</b>	<b>Potential market movements (+/-)</b>
Bonds	77.1	9.3%
Equities	633.3	21.1%
Other Pooled investments	276.2	9.7%
Pooled Property investments	15.7	16.1%
Private Equity	30	32.6%
Infrastructure	51	15.2%
Private debt	20.3	12.9%

Had the market price of the fund investments increased/decreased by 1% the change in the net assets available to pay benefits in the market price would have been as follows:

<b>Asset Type</b>	<b>31/03/2022 Value £m</b>	<b>Potential value on increase £m</b>	<b>Potential value on decrease £m</b>
Bonds	77.1	84.3	69.9
Equities	633.3	766.9	499.7
Other Pooled investments	276.2	303.0	249.4
Pooled Property investments	15.7	18.2	13.2
Private Equity	30.0	39.8	20.2
Infrastructure	51.0	58.8	43.2
Private debt	20.3	22.9	17.7
<b>Total</b>	<b>1,103.6</b>	<b>1,293.9</b>	<b>913.3</b>

#### **Interest rate risk exposure asset type**

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>31 March 2021 £m</b>	<b>31 March 2022 £m</b>
Cash balances	53.8	24.1
UK Fixed income unit trust	42.8	43.7
<b>Total</b>	<b>96.6</b>	<b>67.8</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2022 £m</b>	<b>+1% £m</b>	<b>-1% £m</b>
Cash balances	24.1	0.2	(0.2)
UK Fixed income unit trust	43.7	0.4	(0.4)
<b>Total</b>	<b>67.8</b>	<b>0.7</b>	<b>(0.7)</b>

<b>Asset type</b>	<b>Carrying amount as at 31 March 2021 £'000</b>	<b>+1% £'000</b>	<b>-1% £'000</b>
Cash balances	53.8	0.5	(0.5)
UK Fixed income unit trust	42.8	0.4	(0.4)
<b>Total</b>	<b>96.6</b>	<b>1.0</b>	<b>(1.0)</b>

## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the

Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

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

The following table summarises the Fund's currency exposure as at 31 March 2022 and as at the previous period end:

<b>Currency risk exposure - asset type</b>	<b>Asset value at 31 March 2021 £m</b>	<b>Asset value at 31 March 2022 £m</b>
Overseas unit trusts	490.0	565.3
Overseas pooled property investments	0.0	0.0
Overseas private equity/infrastructure/private debt	81.1	101.3
<b>Total</b>	<b>571.1</b>	<b>666.6</b>

A 1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

<b>Assets exposed to currency rate risk</b>	<b>Asset value as at 31 March 2022 £m</b>	<b>+1% £m</b>	<b>-1% £m</b>
Overseas unit trusts	565.3	5.7	(5.7)
Overseas pooled property investments	0.0	0.0	0.0
Overseas private equity/infrastructure/private debt	101.3	1.0	(1.0)
<b>Total</b>	<b>666.6</b>	<b>6.7</b>	<b>(6.7)</b>

<b>Assets exposed to currency rate risk</b>	<b>Asset value as at 31 March 2021 £m</b>	<b>+1% £m</b>	<b>-1% £m</b>
Overseas unit trusts	490.0	4.9	(4.9)
Overseas pooled property investments	0.0	0.0	0.0
Overseas private equity/infrastructure/private debt	81.1	0.8	(0.8)
<b>Total</b>	<b>571.1</b>	<b>5.7</b>	<b>(5.7)</b>

## b) Credit risk

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

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

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2022 was £24.1m (31 March 2021: £53.8m). This was held with the following institutions:

<b>Credit risk exposure</b>	<b>Rating</b>	<b>Balances at 31 March 2021 £m</b>	<b>Balances at 31 March 2022 £m</b>
<b>Bank deposit accounts</b>	-	-	-
NatWest	A	0.9	0.9

<b>Credit risk exposure</b>	<b>Rating</b>	<b>Balances at 31 March 2021 £m</b>	<b>Balances at 31 March 2022 £m</b>
Northern Trust - Aviva Cash	-	0.1	0.1
Money Market deposits	AAA	52.8	23.1
<b>Other short-term lending</b>	-	-	-
Local authorities	-	0.0	0.0
<b>Total</b>	-	<b>53.8</b>	<b>24.1</b>

### c) Liquidity risk

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

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2022 the value of illiquid assets was £117.0m, which represented 10.4% (31 March 2021: £81.1m, which represented 7.9%) of the total fund assets.

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

All financial liabilities at 31 March 2022 are due within one year."

<b>Liquidity Risk</b>	<b>31-Mar-21 £m</b>	<b>%</b>	<b>31-Mar-22 £m</b>	<b>%</b>
Pooled investments	897.4	86.9%	986.6	87.5%
Cash deposits	53.8	5.2%	24.1	2.1%
Investment income due	0	0.0%	0	0.0%

Liquidity Risk	31-Mar-21		31-Mar-22	
	£m	%	£m	%
<b>Total liquid investments</b>	<b>951.2</b>	<b>92.1%</b>	<b>1,010.7</b>	<b>89.6%</b>
Pooled property investments	-	0.0%	15.7	1.4%
Private Equity/ Infrastructure/private debt	81.1	7.9%	101.3	9.0%
<b>Total illiquid investments</b>	<b>81.1</b>	<b>7.9%</b>	<b>117.0</b>	<b>10.4%</b>
<b>Total investments</b>	<b>1,032.3</b>	<b>100.0%</b>	<b>1,127.7</b>	<b>100.0%</b>

#### d) Refinancing risk

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

### 17. Funding arrangements

In line with the LGPS Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022 and results are scheduled to be released by 31 March 2023.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2019 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future

contributions are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation the Fund was assessed as 78% funded, which is a significant improvement to the 55% valuation at the 2016 valuation. This corresponded to a deficit of £248m (2016 valuation: £562m) at that time. As a result, a deficit recovery plan is in place which aims to achieve 100% funding over a period of 19 years from April 2019.

Contribution increases or decreases may be phased in over the three-year period beginning 31 March 2020 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

<b>Year</b>	<b>Employers' contribution rate</b>
2020/21	35.0%
2021/22	35.0%
2022/23	35.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the funding strategy statement on the Fund's website.

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

The main actuarial assumptions used for the March 2019 actuarial valuation were as follows:

Discount rate	4.4% p.a.
Pay increases	2.6% p.a.
Pension increases	2.3% p.a.

### **Mortality assumptions**

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

<b>Mortality assumption at age 65</b>	<b>Male</b>	<b>Female</b>
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Current pensioners

22.1 years

24.3 years

### **Commutation assumption**

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

### *18. Actuarial present value of promised retirement benefits*

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 17). The Actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2022 was £1,838m (31 March 2021: £1,917m). This figure includes both vested and non-vested benefits, although the latter is assumed to have a negligible value. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### **Financial assumptions**

Inflation/pensions increase rate	3.20%
Salary increase rate	3.50%
Discount rate	2.70%

### **Longevity assumption**

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

	<b>Males</b>	<b>Females</b>
Current pensioners	22.1 years	24.5 years
Future pensioners*	23.2 years	26.0 years

\* Future pensioners are assumed to be currently aged 45

### **Commutation assumption**

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

### **Sensitivity Analysis**

<b>Sensitivity to the assumptions for the year ended 31 March 2022</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount (£m)</b>
0.5% p.a. increase in the Pension Increase Rate	10%	160
0.5% p.a. increase in the Salary Increase Rate	1%	10
0.5% p.a. decrease in the discount rate	10%	170

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 4% (c. £74m).

## **19. Assets**

### **a) Current assets**

<b>Assets</b>	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£m</b>	<b>£m</b>
Contributions due – employees	0.2	0.2
Contributions due – employers	0.7	0.9
Sundry debtors	0.6	7.5
<b>Total</b>	<b>1.5</b>	<b>8.6</b>

#### **Analysis of debtors**

<b>Debtor</b>	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£m</b>	<b>£m</b>
Central government bodies	0.6	0.8
Other local authorities	0.9	6.1
Other entities and individuals	0.0	1.7
<b>Total</b>	<b>1.5</b>	<b>8.6</b>

#### *20. Current liabilities*

	<b>31 March 2021</b>	<b>31 March 2022</b>
<b>Liability</b>	<b>£m</b>	<b>£m</b>
Group transfers	0.0	0.0
Sundry creditors	3.1	2.5
<b>Total</b>	<b>3.1</b>	<b>2.5</b>

#### **Analysis of creditors**

<b>Creditor</b>	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£m</b>	<b>£m</b>
Central government bodies	0.0	1.0
Other entities and individuals	3.1	1.5

<b>Creditor</b>	<b>31 March 2021</b>	<b>31 March 2022</b>
	<b>£m</b>	<b>£m</b>
<b>Total</b>	<b>3.1</b>	<b>2.5</b>

## 21. Additional voluntary contributions

<b>Additional Voluntary Contributions</b>	<b>Market value 31 March 2021 £m</b>	<b>Market value 31 March 2022 £m</b>
Clerical Medical	1.3	1.3
Equitable Life	0.2	0.2
Prudential	0.6	0.7
<b>Total</b>	<b>2.1</b>	<b>2.2</b>

<b>Additional Voluntary Contributions</b>	<b>Contributions 31 March 2021 £m</b>	<b>Contributions 31 March 2022 £m</b>
Clerical Medical	0.0	0.0
Prudential	0.1	0.1
<b>Total</b>	<b>0.1</b>	<b>0.1</b>

\*Clerical medical data is not available at the publication date.

The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect

from 1 April 2014.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

## *22. Related party transactions*

### **Brent Council**

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

The Council incurred costs of £1.24m (2020/21: £1.12m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £41.0m to the Fund in 2021/22 (2020/21: £37.3m).

### **Governance**

One member of the Pension Fund Sub-committee is in receipt of pension benefits from the Brent Pension Fund (chair Cllr R Johnson). Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

### **Key management personnel**

The key management personnel of the fund are the Chief Executive, the Director of Finance (s.151 officer), the Director of Legal & HR and the Head of Finance (Pensions). The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below:

<b>Remuneration Type</b>	<b>31st March 2021 £m</b>	<b>31st March 2022 £m</b>
Short Term Benefits	0.038	0.040
Post-Employment Benefits	0.012	0.012
Termination Benefits	0.000	0.000
<b>Total Remunerations</b>	<b>0.050</b>	<b>0.052</b>

### 23. *Contingent liabilities*

Outstanding capital commitments (investments) at 31 March 2022 totalled £82.1m (31 March 2021 £58.4m)

<b>Investment</b>	<b>31st March 2021 £m</b>	<b>31st March 2022 £m</b>
Capital Dynamics	12.6	12.9
Alinda Fund II	2.5	2.5
Alinda Fund III	5.7	8.1
London CIV Infrastructure Fund	37.6	28.9
London CIV Private Debt Fund	n/a	29.7
<b>Total</b>	<b>58.4</b>	<b>82.1</b>

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

### 24. *Contingent Assets*

#### **Contingent assets**

Two non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. Both admission agreements ended during the year 2021/22.

<b>Body Employer Name</b>	<b>31st March 2021 £m</b>	<b>31st March 2022 £m</b>
Apleona HSG Limited (previously Bilfinger)	0.1	0.0
Conway Aecom	0.1	0.0
<b>Total</b>	<b>0.2</b>	<b>0.0</b>

## 10. Glossary

### **Active Management**

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

### **Actuarial assumptions**

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

### **Actuarial Valuation**

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

### **Actuary**

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

### **Administering Authority**

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

### **Admitted Bodies**

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

### **Alternative Investments**

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

### **Asset Allocation / Asset Mix**

The apportionment of the Fund's assets between asset classes and/or markets. Asset allocation may be either strategic, i.e., long term, or Tactical, i.e., short term, aiming to take advantage of relative market movements.

### **Auditor**

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



**AVCs**

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

**Benchmark**

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

**Bond**

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

**Bulk Transfer**

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

**Cessation Valuation**

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

**Common contribution rate**

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

**Commutation**

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

**Contingent Liability**

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

**Covenant**

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

**Deficit**

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

**Discount rate**

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

vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.

### **Dividends**

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

### **Emerging Markets**

The financial markets of developing economies.

### **Equities**

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

### **Final Pay**

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

### **Fixed Interest Securities**

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

### **FTSE**

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

### **Fund Manager**

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

### **Funding Level**

The ratio of assets value to liabilities value.

### **Funding Target**

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

### **Future service rate**

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

### **Gilts**

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

**Global Custodian**

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

**Guarantor**

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

**Hedge Fund**

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

**Hedging**

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

**Income Yield**

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

**Index**

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

**Index-Linked Securities**

Investments which generate returns in line with an index.

**Investment Adviser**

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

**Letting employer**

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

**LGPS**

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

**Liabilities**

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

### **Mandate**

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

### **Market Value**

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

### **Maturity**

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

### **Members**

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

### **Orphan Liabilities**

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

### **Outperformance / underperformance**

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

### **Past service adjustment**

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

### **Performance**

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

### **Pooled Investment Fund**

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

### **Pooling**

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

**Portfolio**

Term used to describe all investments held.

**Private Equity**

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

**Profile**

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

**Rates and Adjustments Certificate**

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

**Recovery Period**

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

**Regulations**

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

**Risk**

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

**Scheduled Bodies**

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

**Securities**

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

**Solvency**

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

**SONIA**

Sterling Overnight Index Average – the average of the interest rates that financial institutions charge banks to borrow sterling overnight. It is often used as a benchmark to set other interest rates or to measure returns on investments.

### **Stabilisation**

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

### **Statement of Investment Principles**

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

### **Theoretical contribution rate**

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

### **Transfer Value**

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

### **Unit Trust**

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

### **Valuation**

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2019), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

### **Yield Curve**

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

## 11. Appendices

### a. Pensions Administration Strategy

# London Borough of Brent

## Pension Administration Strategy (PAS)

December 2018

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##### Appendix 1 – Regulation Extract

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# **London Borough of Brent Pension Administration Strategy (PAS)**

## **1. Introduction**

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

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

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

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

## **2. Pension Administration Strategy Policy Statement**

### **2.1 Pensions Administration Strategy Statement**

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

### **2.2 Legislative context**

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

### **2.3 Aims**

In making this strategy the Funds aims are:

- To clarify the roles and responsibilities of the “Fund” and scheme employers in administering the Local Government Pension Scheme



- To ensure the services provided by the “Fund” are equitable and transparent
- To assist employers in the effective provision of necessary data.

## 2.4 Objectives

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

## 2.5 Documents which make up the strategy

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

Pensions Administration Strategy - Service Level Agreement

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

Pensions Administration Strategy - Employer guide

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

## 3. Service Level Agreement

### Pensions Administration Strategy - Service level agreement

#### 3.1 Employer Functions

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

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

Task	Description
Redundancy and Severance	Calculation and payment of redundancy and/or severance payments
FRS 17	Provision of data required for FRS17 calculations

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

### 3.2 Actuarial Functions

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

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

Task	Description
Legal work & non-standard actuarial work	Any work in relation to this will require input from both the LPP and the Funds Actuary

<b>Task</b>	<b>Description</b>
Cessation valuations	Any work in relation to this will require input from both the LPP and the Funds Actuary
Employer actuarial valuations	Any work in relation to this will require input from both the LPP and the Funds Actuary
Academy conversion	Any work in relation to this will require input from both the LPP and the Funds Actuary
Valuation of unfunded liabilities	Any work in relation to this will require input from both the LPP and the Funds Actuary

### 3.3 Administering Authority Functions

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

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

<b>Case Type/Task</b>	<b>Limitation</b>	<b>Timescale (working days)</b>	<b>Target (% within timescale)</b>
Admissions	No	10	95%

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

<b>Case Type/Task</b>	<b>Limitation</b>	<b>Timescale (working days)</b>	<b>Target (% within timescale)</b>
Queries to employer			

### 3.4 Employer Responsibilities

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

An employer guide can be found at Annex 2.

<b>Payments of monies due</b>	<ul style="list-style-type: none"> <li>• Monthly contributions – on time and the correct amount</li> <li>• Payroll Recharge – on time, and the correct amount</li> <li>• Capital Sums – on time, and the correct amount</li> <li>• Single payments of contributions</li> </ul>
<b>End of year error rates</b>  Examples of end of year errors <ul style="list-style-type: none"> <li>• A missing joiner Form</li> <li>• A missing leaver Form</li> <li>• A missing change of hours</li> <li>• A missing notification of absence</li> <li>• Return from absence</li> <li>• Missing additional contributions</li> <li>• Significantly low/high pensionable remuneration compared to the previous year with no explanation</li> </ul>	Respond to errors within 10 working days of notification  If you are unable to respond in ten working days then inform the LPP of the likely time frame that you can respond in and advise Brent Pensions of the delay

as to the reason	
<b>Submission of year end return</b>	<p>You must submit your year end return by 30th April each year</p> <p>If you are unable to submit your yearend return then inform the LPP of the likely time frame that you can provide it and the reason why and advise Brent Pensions of the delay</p>
<b>Response to other queries raised</b> (e.g. by the LPP Pensions Services or Employer Services teams) <p>There are times where the LPP may need to confirm with you that a member's record is correct before issuing them with a benefit calculation. It is these types of queries that we are referring to</p>	<p>2 weeks from notification by the LPP Pensions Operations or Data Management teams</p> <p>If unable to respond in 2 weeks then inform the LPP of the likely timeframe that you can respond in and advise Brent Pensions of the delay</p>

<b>On-line access</b>	
<b>Employer LPP portal "YourFund"</b>	Use of online Forms for all relevant tasks
<b>Submission of joiners/leavers</b>	<ul style="list-style-type: none"> <li>• Notification of joiners within 1 month of joining the scheme</li> <li>• Notification of leavers within 1 month of leaving the scheme</li> <li>• Notification of retirement within 1 month prior to the last day of service</li> </ul>

<b>Notification of other changes during employment</b>	<ul style="list-style-type: none"> <li>Relevant changes e.g. change of hours, absence notification online within 1 month of the event</li> </ul>
<b>Correct admission of members into the Fund</b>	You must ensure that you are correctly admitting members into the "Fund"
<b>Up to date discretions policies in place</b>	Discretionary policies to be in place and up to date
<b>Customer Relationship Management contacts</b>	<ul style="list-style-type: none"> <li>LPP notified of contact change or new contact within 1 month via the employers contact form</li> </ul>

#### 4. Staff Charging Schedule

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

VAT is charged on all applicable items.

Staffing level	Charge per day excluding VAT	Charge per hour excluding VAT
Admin Staff	£382.00	£53.00
Team Leader	£534.00	£78.00
Specialist	£534.00	£78.00
Manager	£727.00	£103.00

Staffing level	Charge per day excluding VAT	Charge per hour excluding VAT
Senior Manager	£998.00	£142.00
Director	£1,470.00	£210.00

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

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

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

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

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

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

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

## **6. Fees – Annex 1**



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

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

<b>Activities</b>	<b>Fees excluding VAT</b>
<b>Leaver</b> – failure to notify the administrator of any leaver within 1 month of leaving the scheme	£60 initial fee then £25 for every month the information remains outstanding
<b>Retirees</b> – failure to notify the administrators when a scheme member is due to retire within 1 month before the retirement date	£60 initial fee then £25 for every month the information remains outstanding
<b>Late payment of pension benefits</b> – if due to an employer's failure to notify the administrator of a scheme members retirement, interest becomes payable on any lump sum paid. The administrator will recharge the total interest paid to the employer	Interest charged in accordance with regulation 44 of the LGPS administration regulations  Charged at Bank of England Base rate plus 1%
<b>Change of employer contact details</b> - The "Fund" not notified of contact change or new contact within 1 month of alteration	£60 per occasion
<b>Submission of pension contribution data</b> – The "Fund" not informed by the employer of not having submitted pension contribution data or contributions within the timelines set out in this agreement	£60 per occasion

### **Appendix 1 - Regulation Extract**

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

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

### **Pension administration strategy**

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

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

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

(2) The matters are-

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

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

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

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

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

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

- (f) the publication by the administering authority of annual reports dealing with—
    - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
    - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
  - (g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.
- (3) An administering authority must—
- (a) keep its pension administration strategy under review; and
  - (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.
- (4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.
- (5) An administering authority must publish—
- (a) its pension administration strategy; and
  - (b) where revisions are made to it, the strategy as revised.
- (6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.
- (7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.
- (8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

*Payment by Scheme employers to administering authorities*

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

(a) all amounts received from time to time from employees under regulations 9 to 14 and 16 (contributions);

(b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;

(c) a contribution towards the cost of the administration of the fund; and

(d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Background**

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

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

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

Now it is agreed as follows:

## 1. Interpretation

1.1 The following expressions have the following meanings:

<b>“1997 Regulations”</b>	the Local Government Pension Scheme Regulations 1997 (to the extent applicable by reason of the Transitional Regulations)
<b>“Administration Regulations”</b>	the Local Government Pension Scheme (Administration) Regulations 2008

<b>“Benefit Regulations”</b>	the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
<b>“Core Scheme Functions”</b>	the functions identified in the Service Level Agreement as being core Scheme functions
<b>“Fund”</b>	the Pension Fund
<b>“Pension Administration Strategy Statement”</b>	the Administering Authority’s statement prepared in accordance with Regulation 59 of the Administration Regulations as revised from time to time in accordance with that Regulation
<b>“Regulations”</b>	the Administration Regulations, the Benefit Regulations, the Transitional Regulations and the 1997 Regulations
<b>“Scheme”</b>	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under sections 7 and 12 of the Superannuation Act 1972
<b>“Service Level Agreement”</b>	the section of the Pensions Administration Strategy Statement setting out the levels of performance which the Administering Authority and its employing authorities are expected to achieve in carrying out their Scheme functions including performance targets. The Service Level agreement may be revised from time to time as part of the Pensions Administration Strategy Statement. A copy of the Service Level Agreement current as at the date of this Agreement is included in the documentation
<b>“Transitional Regulations”</b>	the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 & 2013

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

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

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## 2. The Service Level Agreement



- 2.1 With effect from the date of this Agreement, the Administering Authority and the Employer agree to use their best endeavours to comply with and be bound by the terms of the Service Level Agreement.
- 2.2 In consideration of this Agreement the Administering Authority will charge the Employer a contribution towards the cost of the administration of the Fund which reflects the fact that compliance with the Service Level Agreement will result in greater efficiencies and lower administration costs for the Fund.
- 2.3 If in the opinion of the Administering Authority the Employer has not complied with the terms of the Service Level Agreement the Administering Authority may charge the Employer a higher contribution towards the cost of the administration of the Fund.
- 2.4 When considering whether to charge the Employer a higher contribution towards the cost of the administration of the Fund in accordance with Clause 2.3 the Administering Authority shall take into account any failure on its own part to comply with the terms of the Service Level Agreement.
- 2.5 Clause 2.3 shall not affect the Administering Authority's ability under Regulation 70 of the Administration Regulations to give written notice to the Employer where it has incurred additional costs which should be recovered from the Employer because of the Employer's level of performance in carrying out its functions under the Regulations or the Service Level Agreement.
- 2.6 The Employer acknowledges that the Service Level Agreement may be revised from time to time by the Administering Authority in accordance with Regulation 59 of the Administration Regulations and that the Employer will comply with and be bound by the terms of the revised Service Level Agreement.

### **3. Other Charges**

- 3.1 The Employer acknowledges that the contribution it is required to pay towards the cost of the administration of the Fund is to cover the cost of meeting the Core Scheme Functions.
- 3.2 Where the Employer requests that the Administering Authority provides services beyond these functions the Administering Authority reserves the right to charge the Employer for the provision of such services. Non-core services include by way of example and without limitation the provision of FRS17 reports, bulk redundancy calculations, bulk information requests, member presentations, site visits and the payment of compensatory added year's benefits. Such services will be provided on terms agreed at the time with the Administering Authority and the Employer.

#### **4. Notices**

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

#### **5. Waiver**

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

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

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

#### **7. Laws**

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

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

### **Appendix 2 – Employer Guide**

#### **Employer Guide**

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

**Clean and accurate data**

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

This includes:

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

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

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

## **Brief Summaries of Actions needed**

### **Joining the scheme**

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

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

### **Change of hours**

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

## **Sick Leave**

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

## **Unauthorised Absence**

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

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

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

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

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

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

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

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

## **Leaving the scheme**

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

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

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

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

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

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

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

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

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

### **Using online Forms**

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

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

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

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

## **Online Forms**

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

## b. Employer Numbers Table

The table below shows the Brent employers and their members' details as at 31 March 2022

Employer	Active	Deferred	Pensioner	Dependant	Frozen refund
London Borough of Brent	2526	6155	5141	879	840
Ark Elvin Academy	53	22	10	2	16
Age Concern	0	3	4	0	0
MENCAP	0	5	2	0	0
Roundwood School and Community Centre	6	0	0	0	0
Wettons (Sth Ground Maint.)	0	0	3	0	0
Wettons (Nth Ground Maint.)	0	2	5	0	0
Ark Academy	74	84	5	1	27
Torah Temimah Primary School	0	1	0	0	0
Goldsborough H&N SVC LTD	0	15	99	5	0
Churchill Contracts (BACES)	0	1	0	0	0
Churchill Contracts (Day Cent)	0	4	1	0	0
Capital City Academy	52	67	13	3	6
College of North West London	0	3	0	0	0
NWL Jewish Day School	1	10	5	0	1
Newman Catholic College	54	45	21	2	15
Kilburn Park School	12	29	3	0	4
Malorees Junior School	17	8	8	0	6
St Joseph's RC Primary School	41	36	18	5	14
Preston Manor High School	0	33	15	2	1
St Gregory's RC School	0	5	13	0	0
Copland Community School	1	36	30	4	0
Convent of Jesus & Mary Inf. Sch.	19	56	18	2	5
Claremont High School	0	17	11	1	1
Alperton High School	0	32	21	1	0
Oakington Manor (not in use)	0	10	10	1	5
John Kelly Girls Tech College	0	5	7	0	0
John Kelly Boys Tech College	0	14	3	1	1
Kingsbury High School	0	61	44	3	7
Queens Park Community School	0	22	10	2	4
National Autistic Society (NAS)	28	122	115	5	3
Kilburn Skills	0	3	9	2	0

Employer	Active	Deferred	Pensioner	Dependant	Frozen refund
Sudbury Neighbourhood Centre	4	8	17	0	2
Brent Samaritans	0	0	1	0	0
Brent Crossroads	0	0	2	0	0
Pakistani Workers Association	0	0	1	1	0
Brent Association Disabled Peo.	0	1	2	0	0
Harlesden Young Mums Project	0	0	2	0	0
WISE	0	0	0	1	0
Sudbury Primary School (Acad.)	78	26	8	0	16
LEAP	5	4	1	0	0
Childcare	0	0	2	0	0
Carequest	0	0	1	0	0
Islamia Primary School	36	38	3	0	7
Claremont High School Academy	73	23	5	0	11
Brent Care at Home LTD	0	8	70	9	0
JFS School	70	49	13	0	15
Brent Housing Partnership LTD	0	6	3	0	3
Wetton Clean SVC (Nth Wembley)	0	0	3	0	0
Wetton Clean SVC (Sth Wembley)	0	1	1	0	0
Jarvis Workspace FM LTD	0	1	1	0	0
Wembley High Technology College	37	22	4	1	25
Sanctuary Housing Association	0	1	0	0	0
Alperton Community School	61	41	16	2	28
Furness Primary School (Acad.)	34	16	4	0	4
Oakington Manor Primary School	50	31	3	0	16
Queens Park Community School	43	22	10	0	16
The Crest Boys Academy	0	15	5	1	0
The Crest Girls Academy	0	11	3	0	1
Opt Out - No Liability	0	1	0	0	0
Xerox (UK) Limited	1	0	0	0	0
Alpeona HSG Ltd	1	4	3	0	0
Thames Reach Housing Ass	0	1	0	0	0
Sudbury Primary School	0	18	0	0	0



Employer	Active	Deferred	Pensioner	Dependant	Frozen refund
Mount Stewart JM School	19	14	6	0	9
Braintcroft JM School	31	21	2	0	12
Brentfield JM School	65	33	6	0	9
Carlton Vale Infant School	13	14	4	0	3
Christchurch Brond COFE School	17	8	1	0	1
Elsley JM School	35	13	7	0	6
Gladstone Park Primary School	0	1	1	0	0
Kingsbury Green JM School	50	45	4	0	14
St Margaret's Clitheroe School	19	6	8	0	1
College Green Nursery	15	6	0	0	1
Wykeham JM Primary School	32	6	2	0	0
Vernon House	0	0	1	0	0
Leopold School	67	31	1	0	23
St Andrew & St Francis (Acad.)	34	26	2	0	1
Veolia	27	13	12	3	0
Veolia (Ground Maintenance)	1	1	1	0	0
Conway Aecom Ltd	1	4	0	0	0
Barnardos	8	19	2	0	2
Michaela Community School Acad.	20	7	1	0	18
Preston Manor High School	99	75	8	0	25
Ark Franklin Primary School	35	28	5	0	14
St Claudine's Catholic School for Girls	44	23	4	1	7
Gladstone Park Primary School	41	34	12	1	11
Kingsbury High School (Acad.)	85	44	11	1	32
The Crest Academy	54	15	3	0	6
Woodfield School Academy	51	17	0	0	21
NWL Jewish Day School (Acad.)	27	0	5	1	2
St Gregory's RC School (Acad.)	42	11	4	0	4
Taylor Shaw	1	2	0	0	0
Manor School (Academy)	193	27	5	1	16
Caterlink Ltd	3	0	0	0	0
Anson Primary School	22	20	1	0	3
Barham Primary School	62	37	0	0	9
Byron Court Primary School	38	21	3	0	3
Chalkhill Primary School	66	12	0	0	4

Employer	Active	Deferred	Pensioner	Dependant	Frozen refund
Curzon Crescent Children's Cen	19	6	2	0	2
Donnington Primary School	25	11	2	0	3
Fawood Children's Centre	23	8	1	0	2
Fryent Primary School	56	13	4	0	10
Granville Children's Centre	30	6	1	0	2
John Keeble CofE School	41	19	2	0	4
Lyon Park Infants School	1	5	0	0	0
Lyon Park Juniors School	49	17	1	0	3
Malorees Infant	23	13	3	0	5
Michael Sobell Sinai School	52	32	0	0	4
Mitchell Brook Primary School	74	35	2	0	19
Mora Primary School	16	20	3	0	5
Mount Stewart Infants	26	11	0	0	3
Newfield School	26	12	2	0	1
Northview Primary school	24	13	1	0	3
Oliver Goldsmith	27	10	3	0	3
Our Lady Of Grace RC Infants	19	4	3	0	1
Our Lady Of Grace RC Juniors	16	1	1	0	1
Our Lady of Lourdes	20	8	1	0	2
Park Lane Primary School	37	27	3	0	6
Phoenix Arch School(Vernon House School)	12	10	1	0	2
Preston Park Primary	58	41	1	1	14
Princess Frederica Ce Va Primary School	29	14	1	0	6
Roe Green Infant School	45	14	4	0	4
Roe Green Junior School	38	10	1	0	3
Salisbury Primary Sch	55	32	2	0	5
St Mary Magdalenes School	21	6	2	0	1
St Mary's CofE School	21	11	0	0	4
St Mary's RC School	17	12	0	0	4
St Robert Southwell Catholic School	38	12	0	0	1
Stonebridge Primary School	33	15	2	0	5
The Village School	159	61	7	0	13
Uxendon Manor School	47	17	3	0	2
Wembley Primary School	67	24	2	0	6

Employer	Active	Deferred	Pensioner	Dependant	Frozen refund
Harlesden Primary School	44	5	2	0	7
Compass Learning Partnership	22	2	1	0	3
Previous Service	0	0	0	0	1
London Borough-Non Member EDM	0	0	0	3	0
St Joseph's Infant School	13	7	2	0	1
St Joseph's Junior School	16	7	2	0	1
Edwards & Blake	4	3	0	0	0
FM Conway	1	0	0	0	0
DB Services	1	6	1	0	0
<b>Total</b>	<b>6,039</b>	<b>8,468</b>	<b>6,019</b>	<b>948</b>	<b>1,519</b>

# London Borough of Brent Pension Fund

Funding Strategy Statement

March 2021

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## 1. Introduction

### 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 31 March 2020.

### 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](#).

### 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](#))

### 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.

### What does the FSS aim to do?

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

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

### How do I find my way around this document?

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

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

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

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

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

If you have any other queries please contact Ravinder Jassar in the first instance at e-mail address [Ravinder.jassar@brent.gov.uk](mailto: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](#)).

### How does the actuary calculate the required contribution rate?

In essence this is 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 [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 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.

### 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.

### 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](#).

### 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.

### 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](#).

### **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.

### **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

#### 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.

#### 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
- 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.

## 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 <a href="#">Appendix E</a> )			Ongoing participation basis, but may move to "gilts exit basis" - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	Yes - see <a href="#">Note (b)</a>	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	19 years	19 years	19 years	19 years	Future working lifetime of actives	As per letting employer
Secondary rate – <a href="#">Note (d)</a>	% 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 – <a href="#">Note (e)</a>	70%	75%	70%	75%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangement		3 years	3 years	3 years	None
Review of rates – <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	<a href="#">Note (g)</a>	n/a	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
Cessation of participation: 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 <a href="#">Note (j)</a> .			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 <a href="#">Note (j)</a> .		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. Please note, the level of exit credit payable would be determined by the Administering Authority in accordance with the Regulations.

##### 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.

#### **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, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body.

As discussed in Section 0, 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.

### **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.

#### **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.

#### **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.

### **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.

### **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.

### **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.

### **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

### **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.

### **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.

### **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.

### **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

### 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.

### 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.

### 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 31<sup>st</sup> January 2020;
- c) There was an Employers Forum on 13<sup>th</sup> 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 March 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 e-mail 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 **Brent Council website**.

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## Appendix B – Responsibilities of key parties

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

### **B1 The Administering Authority should:-**

operate the Fund as per the LGPS Regulations;

effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

collect employer and employee contributions, and investment income and other amounts due to the Fund;

ensure that cash is available to meet benefit payments as and when they fall due;

pay from the Fund the relevant benefits and entitlements that are due;

invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;

communicate appropriately with employers so that they fully understand their obligations to the Fund;

take appropriate measures to safeguard the Fund against the consequences of employer default;

manage the valuation process in consultation with the Fund's actuary;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));

prepare and maintain a FSS and a ISS, after consultation;

notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

deduct contributions from employees' pay correctly;

pay all contributions, including their own as determined by the actuary, promptly by the due date;

have a policy and exercise discretions within the regulatory framework;

make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

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

### **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

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

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>
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.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions</p>

Risk	Summary of Control Mechanisms
	from a percentage of payroll to fixed monetary amounts.

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The 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 <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

#### e) C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>

Risk	Summary of Control Mechanisms
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(i)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<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:

0. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
1. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
2. 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:

meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)

at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)

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.

f)

## 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.

<b>Funding basis</b>	<b>Ongoing participation basis</b>	<b>Contractor exit basis</b>	<b>Low risk exit basis</b>
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	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

g)

#### **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

<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding basis</b>	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.
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually

be a local authority, but can sometimes be another type of employer such as an Academy.

<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 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.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.

## d. Investment Strategy Statement

### Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Brent Pension Fund (“the Fund”), which is administered by Brent Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016 (“the Regulations”). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.

The ISS has been prepared by the Pension Fund Sub Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in June 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The previous review took place in 2020 and was approved by Committee in October 2020. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

The Fund has chosen to opt up and be classified as a Professional client as defined in the Markets in Financial Instruments Directive.

In December 2019, in line with the Competition and Market Authority’s Order, the Fund agreed a set of objectives with Hymans Robertson LLP. These are reviewed on, at least, an annual basis.

### The suitability of particular investments and types of investments

The Fund’s primary objective is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The funding position will be reviewed at each actuarial valuation, or more frequently as required.

The Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions are agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Fund has the following funding principles:

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

The Committee has translated its objectives, taking into account the funding principles outlined above, into a suitable long-term strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The investment strategy takes due account of the maturity profile of the Fund (e.g. in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile;
- The level of expected risk;
- Outlook for asset returns.

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate significantly from the target allocation (accepting that, given the nature of some of the underlying investments, it may take the Fund time to move to the long-term target allocation). This is covered in more detail later in this Statement.

Providing a framework for all investment decision making to enable delivery of the above key objectives are the Fund's investment beliefs. The Fund's currently held investment beliefs which have been updated during the last review are set out in the Appendix.

### Strategic allocation

The Fund's current assets include:

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

The Fund is invested in these asset classes either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks when it is deemed appropriate to do so.

The Regulations require the Fund to set out the maximum percentage relative to the total value of all investments that it will invest in particular investments or classes of investment.

The Fund's long-term strategic target investment allocation is set out in Table 1 below and includes the associated maximum percentage limits for each asset class associated with the long-term strategic



targets. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

The Regulations also require the Fund to have regards to the diversification of its investments. The overall strategic benchmark comprises a mix of different assets which provides considerable diversification for the Fund. Table 1 outlines both the long-term target and the interim stage, reflecting the time it takes to fund new mandates. The table also includes the maximum percentage (reflected by the upper limit set for rebalancing) of total Fund value that it will seek to have invested in these assets.

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

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a strategy not previously known to the Committee is proposed, appropriate advice is sought and training is provided to help the Committee reach an informed decision.

Table 1: Fund allocation

Asset class	Interim Target allocation %	Long-Term Target allocation %	Upper limit for rebalancing %
UK equities	53	50	65
Overseas equities			
Private Equity	5	-	7.5
<b>Total Growth</b>	<b>58</b>	<b>50</b>	<b>-</b>
Diversified Growth Funds	20	5	25
Infrastructure	5	15	20
Property	-	10	15
Private Debt	-	5	10
<b>Total Income</b>	<b>25</b>	<b>35</b>	<b>-</b>
Multi-asset credit	5	5	10
Government bonds	10	10	15
Cash	2	-	5

Asset class	Interim Target allocation %	Long-Term Target allocation %	Upper limit for rebalancing %
<b>Total Protection</b>	<b>17</b>	<b>15</b>	<b>-</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>-</b>

The latest investment strategy review took place during February 2020. At this time the Committee agreed the following updates to the long-term strategic allocation:

- A 5% increase in the allocation to equities;
- A new 5% allocation to private debt;
- A decrease of 10% in the allocation to diversified growth funds (DGFs).

At the same time, long term allocations to property and infrastructure were maintained at the same level (10% and 15% respectively). The Committee is aware that private market investments take time to invest in, with money committed but not drawn down immediately. This investment phase can take several years. During this investment period the Fund will retain its exiting target allocation to DGFs which will be monitored and regularly assessed in anticipation of its longer-term reduction in size.

The Fund's actual investment arrangements will deviate from their target over time and therefore regular monitoring takes place to prevent too much deviation from the desired strategic allocation. The rebalancing arrangements in place set out in the final section of this report.

Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

**Table 2: Investment Restrictions**

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%
5. Total investment in illiquid assets	30%

## Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The managers of the passive funds in which the Fund invests hold a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

## Risk Measurement and Management

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth-oriented assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Environmental, social and governance ("ESG") – The risk that ESG related factors (including climate change) reduce the Fund's ability to generate the long-term returns and/or have implications on the Fund's liabilities.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a long-term strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Fund is a long-term investor and therefore, the Committee seeks to act as a responsible asset owner. Further details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee seeks to mitigate systemic risk through holding a diversified portfolio, but appreciate it is not possible to make specific provision for all possible eventualities that may arise under this heading.

#### Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. Also the risk that, due to the illiquid nature of the asset classes, the Fund cannot implement its agreed investment strategy on a timely basis.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has rebalancing arrangements to ensure, where possible, the Fund's "actual allocation" does not deviate substantially from its target.

The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

By investing across a range of assets, including liquid quoted equities and bonds, the Committee has recognised the need for access to liquidity in the short term. The Fund also holds liquid diversifying assets over the period while the agreed exposure to less liquid alternatives are being built up.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists. Other factors include, but are not limited to, the Committee believing that the manager is not capable of achieving these performance objectives in the future, and/or the manager's company status changes or there are significant staff changes to their investment team. The Fund also has regular correspondence with the London CIV regarding their managers and their approach to monitoring and assessing managers.

#### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk – The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist. Further details of the Fund's approach to pooling and relationship with the London CIV is provided in the section below.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement (Appendix C).

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (CIV). The proposed structure and basis on which the London CIV will operate was set out in the July 2016 submission to government.

#### Assets to be invested in the pool

The Fund's intention is to invest its assets through the London CIV as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 to government and is reviewed on a regular basis. The key criteria for assessment of Pool solutions will be as follows:

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

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

Asset class	Manager
Diversified Growth Fund	Baillie Gifford
Diversified Growth Fund	Ruffer
Multi-asset Credit	CQS
Emerging Markets Equities	JP Morgan
Infrastructure	StepStone
Private Debt	TBC

In addition, the Fund has passive equity exposure to LGIM and BlackRock both of which have LGPS specific fee scales in place and have benefits of scale due to being pooled with the managers' other clients' assets. The LCIV consider these passive investments to fall under the pool umbrella.

In time, as set out in the indicative timetable for investing through the pool and in line with one of the Committee's stated beliefs, the intention is for all assets (subject to due diligence) to be transitioned

into the London CIV. The exceptions to this are the Fund's passive assets and the Fund's existing investments in closed ended funds (which will run-off over time). The Fund reserves the right to invest its assets outside London CIV where suitable Pool investment solutions are not available.

#### Structure and governance of the London CIV

The July 2016 submission to government of the London CIV pool provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured. Over time the structure and governance of the Pool may evolve at which point the Fund will outline such details in the ISS. In the meantime, further information is provided on the London CIV's website (<https://londonciv.org.uk/>)

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

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

The Fund invests on the basis of financial risk and return, having considered a full range of factors, including environmental, social, and corporate governance (ESG) factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

The Fund therefore requires its investment managers to integrate all material financial factors, including ESG considerations, into their investment analysis and decision-making for all fund investments.

The Fund's Investment Managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) are also expected to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, including ESG factors. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. As a result, the Committee has committed to undertaking a Carbon Risk Audit for the Fund, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

Once this audit has taken place the Committee intends to develop a plan to reduce the Fund's carbon exposure. The plan will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

A key consideration in developing this plan, including the setting of any intermediate targets, will be the London CIV's own plans to reduce the carbon exposure of the funds it oversees. Currently, c30% of the Fund's assets sit directly with the London CIV and this percentage is expected to grow over time. Once passive investments through LGIM and BlackRock are included, c90% of the Fund's assets can be considered to be pooled.

At this stage, the Committee has not set a target timeframe for the Fund to become carbon neutral. This will be considered in more detail as part of the plan to reduce the Fund's carbon exposure. Some flexibility may be appropriate to allow the Fund to adjust the pace of the transition in the light of changing financial conditions or technological advances in certain sectors.

The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. Consideration has therefore been given in setting the Fund's Investment Strategy to how this objective can be achieved within a pooled investment structure and the Committee, having taken professional advice, will work with the London CIV to ensure that suitable strategies are made available.

Where necessary, the Fund will also engage with its Investment Managers or the Lond.on CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs.

The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors (including climate change) on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

In light of the latest investment strategy review and the Fund's increased focus and importance of responsible investment, the Fund has bolstered its beliefs in this area, specifically:

- Ongoing engagement and collaborative investment practices will affect positive change through the powers of collective influence.
- We must act as responsible owners
- The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision-making

More detail on these beliefs can be found in the appendix.

The Committee takes ESG matters very seriously. Its investment beliefs include explicit statements relating to ESG and climate change. The ESG criteria of its existing investment investments are assessed on an ongoing basis and ESG is a key consideration when assessing the relative merits of any potential new Fund investments. The Fund also conducts an annual review of its:

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

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries.

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



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

### Voting rights

The Committee wishes to be an active shareholder and exercise its voting rights to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

In practice, the Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on at least an annual basis.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by LCIV's Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

### Stewardship

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

The Committee is willing to consider potential investor collaboration opportunities if such opportunities offer the scope to improve engagement with companies and help increase the potential for long-term sustainable returns to be achieved. In the spirit of collective engagement, the Fund became a member of the Local Authority Pension Fund Forum (LAPFF) in 2019, through which it collaborates with other LGPS funds to magnify its voice and maximise the influence of investors as asset owner across a range of corporate governance issues. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.



## **Appendix – Investment Beliefs**

**Clear and well defined objectives are essential to achieve future success** - the Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

**Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection** - the Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters. The Committee is aware that there is need to take investment risk in order to generate a sufficient level of return.

**Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy** – the Committee believes that as the funding position of the Fund improves, the level of risk taken by the Fund should reduce as appropriate i.e. only take as much risk as necessary. The Committee believes that there exists a relationship between the level of investment risk taken and the rate of expected investment return. In reducing risk, the Fund's expected return would typically also reduce.

**Long term investing provides opportunities for enhancing returns** - As a long-term investor it is important that the Fund acts as an asset owner. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid or may be subject to higher levels of volatility (a premium return is required for any such investments).

**Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments** - the Committee recognises that ESG issues can impact the Fund's returns. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations and ESG is integrated into strategic considerations.

**Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes** - the Committee recognises that environmental issues can impact the Fund's returns. The Committee aims to be aware of, and monitor, financially material environmental-related risks and issues through the Fund's investment managers and advisors.

**Ongoing engagement is preferable to divestment** – The Committee believes that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement may be 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 2oC degrees.

**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.

**Equities are expected to generate superior long term returns** - the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. However the Committee also recognise that equities can be highly volatile over the short-term.

**Diversification reduces the overall volatility of the Fund's asset returns** - the Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. However, the Committee also recognise that there is scope to over diversify and that any desire to diversify needs to be aligned to the Fund's governance arrangements.

**Passive management has a role to play in the Fund's structure** - The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance. There is a belief that passive management is most suitable for markets that are deemed as being more efficient such as developed market equities.

**Active management can add value but is not guaranteed** - the Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. There is a belief that active management is most suitable for markets that are deemed as being less efficient e.g. emerging market equities, specialist markets e.g. infrastructure or where views on the relative value of different asset classes are a targeted source of value e.g. DGF mandates.

**Private markets can offer opportunities** - Private markets can offer opportunities and give higher return due to higher illiquidity premia. However it is recognised that private markets can be more expensive, less transparent (e.g. fees and drivers of return), increase the Fund's governance burden and require ongoing maintenance to achieve target exposure. Such factors must be taken into account when considering such an allocation.

**Choice of benchmark index matters** - the Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

**Rebalancing policies are important** – the Committee recognises that rebalancing the Fund's assets towards the strategic asset allocation is important in achieving the Fund's longer term objectives, in particular following a period of strong or weak market performance.

**Fees and transaction costs matter** - The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. It also does not seek to move in and out of investments regularly due to the cost drag. The Committee also seek to have transparency on the fees that it is paying to its providers.

**Governance “budget” matters** – The Committee recognises that the resources (and time) involved in deciding upon (and implementing) an investment strategy and structure play a part in any investment decisions made. A low governance approach to accessing markets is likely to be preferred if it can offer similar risk adjusted returns to alternative approaches.

**The London CIV is the Fund’s preferred approach to implementation** – the Committee recognises the potential benefits of LGPS pooling. Their preferred route is to implement their investment strategy via the London CIV, subject to carrying out suitable due diligence on the CIV’s investment offering.

## e. Communications Policy Statement

### Introduction

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

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

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

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

### Pension Fund Administration

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

### Communication Responsibilities and Resources

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

### Communications with Scheme Members

Our aims for communicating with our scheme members are:

- To better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team

- To encourage the use of the pension scheme website and registration to My Pension Online - Member Self Service.

The Key actions will be:

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

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

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

Communication	Media	Frequency of Issue	Distribution	Audience
<a href="https://www.yourpension.org.uk/Brent/Home.aspx">https://www.yourpension.org.uk/Brent/Home.aspx</a> Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All

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

## **Explanation of communications**

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

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

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

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

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

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

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

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

## **Communications with Prospective Scheme Members**

Our aims for communicating with our prospective scheme members are:

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

The Key actions will be:

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

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

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

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

### **Explanation of communications**

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

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



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

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

## **Communications with Scheme Employers**

Our aims for communicating with our scheme employers are:

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

The Key actions will be:

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

<b>Action</b>	<b>Audience</b>	<b>Media</b>
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face
Review and update the pension website	Employer	Web
Work with LPP and Scheme employers to implement Your Fund.	Employer	Web

Action	Audience	Media
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face

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

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

#### Explanation of communications

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

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

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

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

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

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

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

## **Communications with Representatives of Members**

### ***Pensions Committee***

Our aims for communicating with Pensions Committee are:

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

The Key actions will be:

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

<b>Action</b>	<b>Audience</b>	<b>Media</b>
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web

Action	Audience	Media
To arrange required training as and when required	Pensions Committee Members	Face to Face

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

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

### **Explanation of communications**

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

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

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

### ***Pensions Board***

Our aims for communicating with the Local Pensions Board are:

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

The Key actions will be:

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

Action	Audience	Media
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web
To arrange required training as and when required	Local Pension Board	Face to Face and online

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

Communication	Media	Frequency of Issue	Distribution	Audience
Pension Board Reports	Paper and Web	Quarterly and as and when required	By email and available on the Brent.Gov.uk and yourpension.org.uk websites	Local Pension Board
Local Pension Board Briefings	Face to face	Quarterly and as and when required	Fund officers attend each meeting	Local Pension Board

<b>Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Distribution</b>	<b>Audience</b>
Training sessions	Face to face and online	Before each board meeting. Continual self- development is also required	Face to face delivered by Fund officers and targeted online training	Local Pension Board

### **Explanation of communications**

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

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

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

### **Other Stakeholders**

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

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

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

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

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

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

#### ***Trade Unions***

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

# The Audit Findings for London Borough of Brent Pension Fund

**Year ended 31 March 2022**

September 2022

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# Contents



## Your key Grant Thornton team members are:

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## Section

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2. Financial statements
3. Independence and ethics

## Appendices

- A. Action plan
- B. Audit adjustments
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Brent Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements	
<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>Our audit work was completed on site/remotely during July-September. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position.</p>	<p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>final manager, and partner review of the audit file and resolution of any residual queries arising;</li><li>completion of Level 2 and 3 testing – awaiting response from individual fund managers;</li><li>subsequent events confirmation;</li><li>receipt of management representation letter; and</li><li>review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>

## 2. Financial Statements

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 29 September 2022. These outstanding items have been detailed on Page 3.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table on the right our determination of materiality for Brent Pension Fund.

### Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	11,338,000	This represents 1% of the Net Assets reported at 31 March 2022.
Performance materiality	7,936,600	This represents 70% of the Materiality threshold above. This has been reduced from the planning stage from 75%.
Trivial matters	396,800	This balance is set at £800k being 5% of the overall materiality.



## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals.</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p><b>Valuation of Level 3 investments</b></p> <p>You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £81m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>- Evaluated management's processes for valuing Level 3 investments;</li> <li>- Reviewed the nature and basis of estimated values and considered the assurance management has over the year-end valuations provided for these types of investments, against the requirements of the Code;</li> <li>- Independently requested year-end confirmations from investment managers and custodian;</li> <li>- Obtained audited financial statements for Capital Dynamics (Private Equity/infrastructure), LCIV Infrastructure, LCIV Private Debt and Alinda (Infrastructure) as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2022. For one of the sub-funds within Capital Dynamics, the 31 December 2021 audited financial statements are not available, the value of this fund is £120k and as such, we have ensured that the impact of this is clearly trivial;</li> <li>- For all funds, reviewed investment manager service auditor report on design effectiveness of internal controls.</li> </ul> <p>Our audit work is substantially complete subject to fund manager response to the queries raised for Capital Dynamics. Our work to date has not identified any issues.</p>

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### New system implementation

In October 2021, the Oracle Cloud Fusion system replaced the Pension Fund's Oracle EBS system used for financial, payroll and HR transactions.

Data migration is fundamental to any business technology transformation and there is a risk of error when data is moved from one system to another. New systems are often evolving and present a greater risk material misstatements.

Given the nature of this transition, we have identified a risk of material misstatement in relation to the system migration, at financial statements level.

We have:

- performed detailed testing over security management, technology acquisition and infrastructure as well as development and maintenance
- evaluated the design and implementation of controls management put in place to ensure balances at month six were moved correctly to month seven are complete and accurate
- reconciled opening balances at month seven to closing balances at month six, including reconciliations of the general ledger, accounts payable, accounts receivable and assets
- In addition to the above procedures, our IT auditors performed an assessment of the Council's processes and controls used as part of the transitioning from Oracle EBS to Oracle Cloud Fusion during the audit period.

We have followed up on work which our IT specialist recommended us to do which was to ensure that a bank reconciliation was carried out in both R12 (the old system) and Oracle Cloud (the new system) in the month which the system implementation occurred.

Our work on the New System Implementation is complete. We have nothing else to bring to the attention of the Audit and Standards Committee apart from the point we have raised above.

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £101.3m	<p>The Pension Fund has investments in the following:</p> <ul style="list-style-type: none"> <li>- Capital Dynamics (Private Equity and Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £36.2m;</li> <li>- Alinda (Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £23.4m;</li> <li>- LCIV (Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £21.4m; and</li> <li>- LCIV (Private Debt) that in total are valued on the balance sheet as at 31 March 2022 at £20.3m.</li> </ul> <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements dated 31 December 2021. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management have used the cash flows adjusted valuation provided by the custodian, Northern Trust.</p> <p>The value of the investment has increased by £20.2m in 2020/21, largely due to the increase in LCIV Infrastructure by £9.6m and acquisition of LCIV Private Debt in 2021/22.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> <li>- We have deepened our risk assessment procedures performed including understanding processes and controls around the valuation of Level 3 investments.</li> <li>- We are satisfied that the movements between 31 December 2021 and 31 March 2022 are reconciled to appropriate and known movements in the intervening period. For one of the sub-funds within Capital Dynamics, the 31 December 2021 audited financial statements are not available, the value of this fund is £120k and as such, we have ensured that the impact of this is clearly trivial.</li> <li>- We are satisfied that the method, data and assumptions used by management to derive the accounting estimate is appropriate.</li> <li>- We are satisfied that the disclosure of the estimate in the Fund's financial statements is sufficient.</li> <li>- We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations.</li> </ul> <p>Our work to date has not identified any issues. We will update the Audit and Standard Committees of our findings on completion of our work.</p>	Light Purple
<b>Assessment</b> <ul style="list-style-type: none"> <li>Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated</li> <li>Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</li> <li>Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious</li> <li>Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious</li> </ul>			



## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,002.3m	<p>The Pension Fund have investments in Pooled investments and Pooled property investments, which in total are valued on the balance sheet as at 31 March 2022 at £1,002.3m</p> <p>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.</p> <p>The Fund obtains valuations from the fund manager and custodian to ensure that valuations are materially fairly stated.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> <li>- We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards.</li> <li>- We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations.</li> <li>- We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations.</li> </ul> <p>Our work to date has not identified any issues. We will update the Audit and Standard Committees of our findings on completion of our work.</p>	Light purple

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.



## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA [UK] 570).

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Issue	Commentary
Going concern	<p data-bbox="871 464 2056 608">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2016 673">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 930" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p data-bbox="871 941 2040 1083">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1098 2029 1243" style="list-style-type: none"> <li>• the nature of the Pension Fund and the environment in which it operates</li> <li>• the Pension Fund's financial reporting framework</li> <li>• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="871 1257 2051 1279">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1294 2056 1390" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report as part of the December 2022 Audit and Standards Advisory Committee.

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# 3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p><b>Segregation of duties conflicts between finance and system administration roles in Oracle Cloud.</b></p> <p>Our audit identified the following segregation of duties conflicts for users in Oracle Cloud:</p> <ul style="list-style-type: none"> <li>A Senior Finance Analyst had access to the Application Implementation Consultant and IT Security Manager roles.</li> <li>A Senior Finance Analyst had access to six Brent L3 Support roles.</li> <li>The Head of Finance had access to the IT Security Manager role.</li> <li>Five finance users who had access to the Financial Integration Specialist role (we note that this access was revoked on 14 April 2022).</li> <li>13 members of the Payroll team and four members of the Learning and Development team who had access to the Brent HCM Application Administrator role.</li> </ul> <p>The Pension Fund confirmed that some of these users required this level of access to complete the closedown process for the production of the financial statements.</p> <p><b>Risk</b></p> <p>Bypass of system-enforced internal control mechanisms through inappropriate use of administrative access rights increases the risk of financial misstatement through fraud or error, as a result of users making unauthorised changes to transactions and system configuration parameters.</p>	<p>It is recommended that the Pension Fund undertake a full review of all users who have been assigned access to system administration roles and revoke access to those system administration roles which do not align with the user's roles and responsibilities.</p> <p>Furthermore, the Pension Fund should undertake an assessment of the specific access that is required to complete the year end closedown process and build custom roles within Oracle Cloud rather than assigning powerful system administrator roles.</p> <p><b>Management response</b></p> <p>This finding is acknowledged and Brent have since implemented a plan to remove the security roles from the users post 31-Mar-2022 and this is being tracked to ensure sufficient controls are in place to avoid this risk in the future.</p> <p>A review will be carried out to assess the feasibility of building custom roles and taking into account cost, time and expertise needed to build these in time for the 2022/23 year end process.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements cont'd

Assessment	Issue and risk	Recommendations
Medium	<p><b>Lack of audit logging in Oracle Cloud.</b></p> <p>Our review identified that whilst audit logging is available within Oracle Cloud, this has not been enabled.</p> <p><b>Risk</b></p> <p>Not enabling and monitoring audit logs increases the risk that unauthorised system configuration and data changes made using privileged accounts will not be detected by management, which could impact the security of Oracle Cloud and the integrity of the underlying database.</p>	<p>It is recommended that the Council implement audit logging for financially critical areas including, but not limited to:</p> <ul style="list-style-type: none"> <li>• Accounts Payable (including Suppliers);</li> <li>• Cash Management;</li> <li>• Accounts Receivable; and</li> <li>• General Ledger.</li> </ul> <p>The auditing should be sufficiently detailed to capture any changes made to Oracle Cloud such as changes to workflow approval rules or system configurations.</p> <p><b>Management response</b></p> <p>This finding is acknowledged a review will be carried out on the impacts of turning on audit logging for these areas in terms of cost, system performance and dependencies.</p>
Low	<p><b>Monitoring of scheduled processes.</b></p> <p>Our audit identified that exception report notifications are configured to be sent to the Senior Finance Analyst, rather than the internal Oracle Cloud Support team.</p> <p><b>Risk</b></p> <p>Restricting exception report notifications to certain individuals increases the risk that exceptions are not identified and resolved in a timely manner in their absence. This could result in incomplete or inaccurate financial information being posted between accounts within Oracle Cloud.</p>	<p>It is recommended that the Council configure all exception report notifications, for key financial scheduled processes, to be sent to a shared mailbox so that they can be monitored and resolved in a timely manner by the Oracle Cloud Support team.</p> <p><b>Management response</b></p> <p>This finding is acknowledged and a review will be carried out determine how these notifications could be efficiently routed to the Oracle Cloud Application Support (OCAS) Team and which notifications should be in scope.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements cont'd

Assessment	Issue and risk	Recommendations
Low	<p><b>Project documents maintained in an unsecured format.</b></p> <p>Our audit identified that draft 'solution design documents', with unaccepted track changes, for a number of key process areas of the Oracle Cloud project were kept on the project SharePoint site. These documents could be accessed by staff from the Council's System Integrator and Infosys teams.</p> <p><b>Risk</b></p> <p>There is a risk that unauthorised changes could be made to the solution design documents, which could result in processes and controls not operating as anticipated. This could also result in financial misstatement through fraud or error if certain controls are not implemented as planned.</p>	<p>For future major projects, it is recommended that the Council consider the following measures to help safeguard key project documentation:</p> <ul style="list-style-type: none"> <li>Ensuring that changes to key documents are authorised before processed, reviewed by someone independent of the author with any comments arising being addressed in a timely manner.</li> <li>Restricting access to editable versions of documents to authorised personnel, which should exclude the System Integrator team.</li> <li>Publishing PDF versions of key documents for use by the project team, these documents should include version control information such as dates when they were signed off and by whom.</li> </ul> <p><b>Management response</b></p> <p>This finding is acknowledged and a full review of the SharePoint site where project documentation is stored is being carried out to restrict access or editing rights. Following this any documentation published or circulated should be in PDF format.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Minor presentational and disclosure issues	<p>The audit team propose that the Pension Fund amend all other minor and presentational issues highlighted in the audit.</p> <p><b>Management response</b></p> <p>This will be updated.</p>	✓



# C. Fees


We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Indicative Final fee
Pension Fund Audit	£37,808	£37,808
Additional fee for work arising from delayed response from Management and the investment managers		£2,500
Total audit fees (excluding VAT)	£37,808	£40,308

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements.



	<b>Pensions Fund Sub-Committee</b> 05 October 2022
	<b>Report from the Corporate Director Finance and Resources</b>
<b>2022 Valuation - Funding Strategy Statement Update</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
<b>No. of Appendices:</b>	Two <ul style="list-style-type: none"> <li>1 - Funding Strategy Statement (FSS) – Hymans Robertson update 15 Sep 2022</li> <li>2 - Current Funding Strategy Statement</li> </ul>
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel, Corporate Director Finance and Resources Ravinder Jassar, Deputy Director of Finance Flora Osiyemi, Head of Finance Sawan Shah, Senior Finance Analyst

## 1.0 Purpose of the Report

- 1.1 This report provides an update from the Fund Actuary to highlight the key changes being considered for the 2022 Funding Strategy Statement (FSS) review.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to note the key changes for the 2022 Funding Strategy Statement (FSS), that the draft FSS will be consulted with employers as required by LGPS Regulations, and that the FSS will come back to the committee in February 2023 for formal ratification.

## 3.0 Detail

- 3.1 Every three years, a formal valuation of the whole Fund is carried out under Regulation 62 (1) of LGPS Regulations 2013 to assess and examine the ongoing financial position of the Fund.
- 3.2 Its purpose is to:
- Compare actual experience against assumptions made at the last valuation;
  - Value the assets and liabilities of each individual employer and the pension fund as a whole using data from the Fund's administration system and financial records;
  - Set employer contribution rates, including for the Council, for the next 3 years (1 April 2023 to 31 March 2026);
  - Review the Funding Strategy Statement (FSS);
  - Perform a health check on the Fund's solvency.
- 3.3 The key governance document for the valuation is the Fund's Funding Strategy Statement (FSS). The FSS sets out the underlying assumptions and principles that are adopted when valuing the Fund's liabilities and setting contribution rates. The FSS also addresses the fact that different employers within the fund have different objectives and it includes deficit recovery periods for different employers. The FSS is normally reviewed during the valuation process in consultation with the Fund actuary and employers.
- 3.4 Attached in Appendix 1, is an update from the Fund Actuary to highlight the key changes being considered for the 2022 FSS review. These include:
- A review of the structure of the document. The existing single document will be replaced with a 'core' document and 'satellite' policies.
  - A review of funding assumptions for the 2022 valuation.
  - A summary of work undertaken relating to climate risk.
  - To update the FSS in relation to new regulations relating to employer flexibilities and exit credits.
- 3.5 The existing FSS is attached in Appendix 2 for reference.
- 3.6 The draft FSS will be produced by the Fund actuary in the coming weeks. In line with LGPS regulations, the FSS will be subject to formal consultation with employers. This is currently scheduled for autumn 2022. The final version of the FSS will be presented to the Sub-committee at the February 2023 meeting for approval and will incorporate any amendments from comments received during the consultation period.

#### **4.0 Financial Implications**

- 4.1 There are no direct financial implications arising from this report. The Fund is required to produce an FSS which sets out the underlying assumptions and principles that are adopted when valuing the Fund's liabilities and setting

contribution rates. Appropriate contribution rates by the various employers are necessary for the Pension Fund to improve its funding level.

## **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***

Corporate Director Finance and  
Resources

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# Funding Strategy Statement (FSS) – Hymans Robertson update 15 Sep 2022

## Background

Under LGPS Regulations, all funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

- 1 The inputs it requires: the Fund's officers and Pension Fund Sub-Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.
- 2 The outputs it gives: the finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders, to set out how the Fund manages funding risks and provide evidence that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the triennial valuation. The FSS also outlines how the funding strategy fits in with the investment strategy.

The [current FSS](#) was approved by the Sub-Committee on 25 February 2020 as part of the 2019 triennial actuarial valuation.

## 2022 FSS review

The 2022 review has focussed on adapting the FSS to the changing regulations and environment within which the Fund operates.

The evolving challenges, increasing diversity of employers and growing complexity and regulation in the LGPS over the last few years have together meant the FSS has become increasingly unwieldy. While the purpose of the FSS is to act as a compliant and robust reference document, it is acknowledged that a more streamlined document and modular approach to policies would improve accessibility and useability - ultimately making it more practical for all stakeholders (particularly employers).

The revised structure will be a streamlined "core" FSS document which is complemented by a number of "satellite" policy documents. This will replace the current approach of having a single FSS covering all circumstances.

- The **core document** will include all the funding information required by LGPS Regulations and Statutory Guidance. It will also be restructured into sections within an LGPS employer's lifecycle (ie arrangements on joining, calculating assets and liabilities, setting contributions, arrangements on leaving, etc).
- The **satellite policies** will work both to complement the core FSS and also as standalone documents in their own right. These documents will set out the Fund's policies with regards to specific elements of strategy and include more details on process and practicalities. These will cover areas such as cessations, contribution reviews, contribution prepayment requests, and the specific issues for academies.

Alongside the restructure there are regulatory and other updates required since the current FSS was prepared. The most significant changes to bring to the Sub-Committee's attention include:

### 1. Review of funding assumptions

The actuary has reviewed the funding assumptions as part of the 2022 valuation. These have been updated to reflect emerging experience and market conditions as at 31 March 2022. The Sub-Committee considered and agreed these at its 21 February 2022 meeting, and they need to be incorporated into the FSS.

### 2. Climate risk

The Fund recognises that climate change is a key risk due to the open-ended time horizons of the liabilities. As part of the modelling analysis for reviewing the Council's contribution strategy, the actuary stress-tested the results under additional climate scenarios.

The modelling results under the stress tests were slightly worse than the core modelling results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks.

The Fund's FSS should clarify this recent work.

### 3. Employer flexibilities

In September 2020 the Government introduced new legislation to permit LGPS Funds to treat employers more flexibly if necessary, in particular:

- Allowing a review of the employer's contribution rate between triennial actuarial valuations if the employer's circumstances change materially;
- If an employer leaves the Fund, with a cessation debt to pay, this can be spread over a number of years rather than having to be paid in a single lump sum;
- If an employer wishes to leave the Fund but does not wish to trigger a cessation debt, this can be arranged via a "Deferred Debt Agreement", whereby the employer remains active in the Fund even though it has no employee members.

The Fund's FSS needs to confirm the Fund's policies in these areas.

### 4. Exit credits

If an employer leaves the Fund with a surplus position, prior to May 2018 there was no facility for this to be repaid to the employer. Legislation in May 2018 changed that, introducing the possibility of an "exit credit" being paid by the Fund to such an employer.

The legislation triggered a number of queries and issues, however, and so in 2020 there was further regulation to clarify these points. The Fund's FSS therefore needs to allow for these updates.

### FSS - next steps

Following this meeting, a draft version of the FSS and policies will be issued to all participating employers for comment alongside their 2022 valuation results: LGPS Regulations require the FSS to be subject to formal consultation. This will likely take place during November 2022.

Following the end of the consultation period, any comments received may lead to amendments to the document. The Sub-Committee will then be asked to approve the final version of the FSS at its 20 February 2023 meeting thus allowing the Actuary to sign off the final valuation documents in time for the statutory deadline of 31 March 2023.



# London Borough of Brent Pension Fund

Funding Strategy Statement

March 2020

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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 31 March 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](mailto: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:



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- 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.

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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;

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- 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
- 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 <a href="#">Appendix E</a> )			Ongoing participation basis, but may move to “gilts exit basis” - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	Yes - see <a href="#">Note (b)</a>	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	19 years	19 years	19 years	19 years	Future working lifetime of actives	As per letting employer
Secondary rate – <a href="#">Note (d)</a>	% 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 – <a href="#">Note (e)</a>	70%	75%	70%	75%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangement		3 years	3 years	3 years	None
Review of rates – <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	<a href="#">Note (g)</a>	n/a	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
Cessation of participation: 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 <a href="#">Note (i)</a> .			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 <a href="#">Note (i)</a> .		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. Please note, the level of exit credit payable would be determined by the Administering Authority in accordance with the Regulations.

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, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body.

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,

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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:



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- 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 31<sup>st</sup> January 2020;
- c) There was an Employers Forum on 13<sup>th</sup> 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 March 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 e-mail 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>



Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.  If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a> ).
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

Risk	Summary of Control Mechanisms
	<p>valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
<p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>	<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>
<p>Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a>).</p>	<p>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.</p>
<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

**C5 Governance risks**

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in 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 <a href="#">Notes (h)</a> and <a href="#">(j)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p>

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 <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<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?**

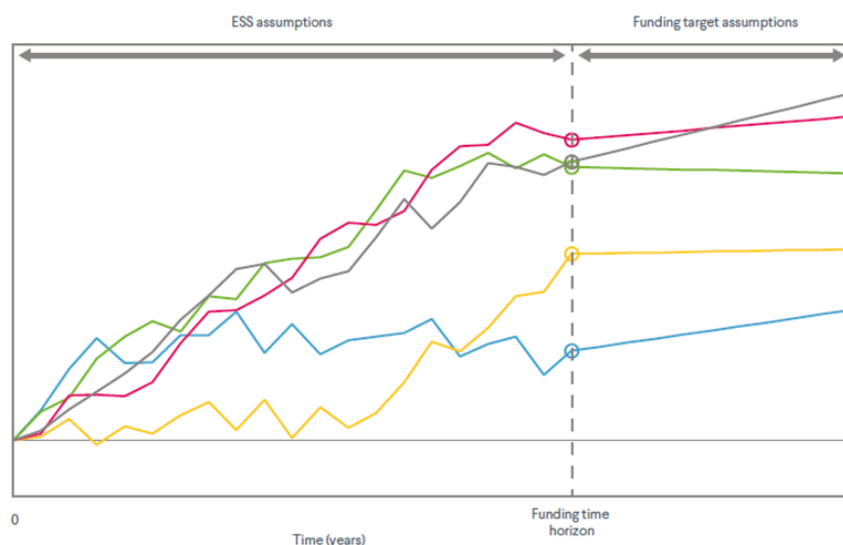
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	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

<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding basis</b>	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.
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.

<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 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.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
<b>Scheduled Bodies</b>	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).

<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.
<b>Valuation</b>	A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.

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## **MINUTES OF THE PENSION BOARD** **Held as an online meeting on Monday 25 July 2022 at 6.00 pm**

PRESENT (in remote attendance): Mr David Ewart (Chair), Councillor Kabir, Councillor Akram and Chris Bala (Pension Scheme Member representative), Bola George (Member representative – Unison), Robert Wheeler (Member representative- GMB), Sunil Gandhi (Employer Member- Non Brent Council).

ALSO PRESENT (in remote attendance): Councillor Mili Patel (Deputy Leader and Cabinet Member for Finance, Resources & Reform)

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

None.

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

None.

### **3. Minutes of the previous meeting – 24 March 2022**

The minutes of the previous meeting held on Thursday 24<sup>th</sup> March 2022 were agreed as an accurate record.

### **4. Matters arising**

None.

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

Sawan Shah (Brent Council - Senior Finance Analyst) introduced the report updating the Pension Board on various pensions' administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

In considering the report, the Board noted:

- The Pension Administration performance update for the Q4 monitoring period January – March 2022, as detailed within Appendix 1 of the report.
- That whilst the quarterly average percentage of cases processed on time (95.9%) had been below the Service Level Agreement target (98%) this reflected revised targets agreed with the Fund during the Universal Pension Management (UPM) system migration.
- The slippage in Helpdesk call performance wait times during the same period which also reflected the migration to the new pension administration system and measures being taken to train additional Helpdesk advisors.
- The number of complaints remained low with 8 cases received since the last update.
- The Pension Regulator scores achieved in relation to the accuracy of common and conditional data had improved further since the previous quarter.

John Crowhurst (Operations Director, LPP, who provide the Pension Administration Servicer for the Fund) then provided the Board with a presentation outlining key business and performance updates within the LPP Quarterly & Annual Brent Pension Fund Administration Report. Key issues highlighted were as follows:

Referring firstly to progress with the introduction of the new pension system administration system and migration to Universal Pensions Management (UPM) the Board was advised that Phase I of the process had been successfully completed with nine out of 18 LLP clients having 'gone live'. The plans for Phase II of the migration had now been agreed for all remaining clients between October – December 22. This would include Brent, who were due to go live in November 2022. The new Member Portal 'Pension Point' and Employer Portal were now live, with 40,000 members having successfully registered for Pension Point. Data migration had also been fully reconciled. In terms of Brent's migration, LPP were continuing to provide regular monthly updates designed to ensure successful transfer of administrative system as well as further detailed engagement with members and employers in order to support the transition to the new system.

From a casework performance perspective, the Board noted the detailed breakdown provided within the quarterly monitoring update as detailed in Appendix 1 of the report. This reflected the adjustment in relation to "business as usual" as a result of the ongoing system migration accompanied by a short blackout period, and need for additional staff training and higher numbers of hyper care issues post go-live.

In terms of help desk performance, whilst the slippage in performance was recognised during the current monitoring period the Board noted that as a result of the action taken to recruit and train additional helpdesk advisers and appoint an additional helpdesk training resource it had been possible to improve performance with average wait times in June at approx.5 minutes (recognised as the lowest since the beginning of the new pension system migration process) and response times to web form enquiries at approx. 24-48 hours. It was, however, stressed that there would be further pressure on the service once Phase II of the system migration went live in the autumn, although it was felt that the experience gained during the initial migration Phase would assist to mitigate the impact in terms of performance.

Members were then invited to ask questions on the update provided, which are summarised below:

- Regarding additional help desk staffing, clarification was sought as to whether this would be a temporary or permanent solution. In response the Board was advised that a dedicated trainer had been employed to upskill staff at a quicker rate, with that resource also available to be redeployed as required. In regards to the budget, it was updated that this resource would be considered as part of budget forecasting on a quarterly basis.
- Details were sought on when it was felt the new Universal Pension Management (UPM) system would be fully functional. In response the Board was advised of a development roadmap being prepared to assist in the roll out of further system functionality once the initial migration programme had been

completed. It was anticipated that the new system would be fully functional by May-June 2023.

- In response to a query regarding the engagement with schools as part of the migration programme, the Board was advised that (given the upcoming holiday period) the training and engagement programme had already commenced in order to ensure that functionality could be accessed as early as possible. This process had included short videos being made available to schools and other employers going forward, as well as use of the Employers Forum.
- In response to concerns identified regarding the increase in number of outstanding cases at the start of the Q4 monitoring period (1,210) the Board were advised that these would be expected to decrease once migration to the new pension system had been completed.
- Having noted the issues identified in relation to the availability of helpdesk advisors and impact on performance, further detail was sought on the challenges in terms of the recruitment and retention of staff by LPP. Whilst highlighting the difficulties in being able to recruit staff with specific Local Government Pension Scheme (LGPS) experience the Board were advised of the measures being taken to enhance training for staff in order to speed up the time from their recruitment to deployment with as flexible a resource available as possible.
- In noting the impact of the increase in call volume on helpdesk performance, the Board were advised that these had mostly related to the migration and deployment of the new pensions system, particularly in relation to initial issues experienced with the system access and authentication process. It was confirmed these had now been addressed in advance of the Phase II migration.
- Further details were also sought on the work being undertaken to focus on those issues generating the highest number of calls. As part of the performance monitoring process the Board was advised that these areas and trends were subject to ongoing review, in order to support the provision of additional guidance e.g. self-help explainer videos designed to support members with queries and assist in managing the overall levels of call volumes.
- In response to a final query, the Board were provided with an assurance that Project PACE (relating to migration of the new pension administration system) remained on track for the Brent Pension Fund with a go live date in November 2022. It was also noted that LPP would be providing a variety of different communication and training delivery methods to assist in rollout of the system.

As a final part of the performance update the Board was then provided with details on progress with the Annual Benefit Statement (ABS), which the scheme manager was required to issue to all eligible active and deferred members by 31 August each year.

As part of the update Sawan Shah advised that the updated position in relation to scheme employer submissions was that three employers, representing 3% of members in the Fund, were still to submit their end of year returns.

Whilst concerned at the delay in employers submitting their final returns, the Board recognised the work being undertaken between the Fund and LLP to closely

monitor the position and work with employers to ensure the prompt submission of these returns. Fund officers had sought to escalate concerns to senior management of the employers whose submissions were still outstanding and as a result these were anticipated in time to ensure the ABS could be issued within the required timescale.

Further issues raised by the Board in relation to the ABS update were as follows:

- With regards to the delay in employers submitting monthly returns, the Board were advised of the additional guidance already being provided for employers (including as part of the migration to the new pension administration system) in order to address compliance issues, which included a range of communication and engagement methods factoring in the recent impact of the pandemic. In terms of any specific category of employers affected, the main focus of engagement activity had been on the school sector, given their payroll provider arrangements and submission deadlines in relation to the academic year and as part of the phased roll out of monthly returns.
- Whilst the Pension Administration Strategy enable the scheme manager to take action against employers who did not comply with their statutory and legal obligations to the Fund formal action had not been required, at this stage, with the Board advised that no material break had needed to be reported to the Regulator.

As there were no further questions from Members, the Chair thanked John Crowhurst and officers for the update and it was **RESOLVED** that the report be noted with a further update on progress with Project PACE to be provided for the next meeting.

## 6. Chair's Annual Report

David Ewart (Chair – Brent Pension Board) presented a report which provided a summary of the work carried out by the Council's Pension Board during the 2021/22 municipal year.

The Board welcomed the report and as with no comments or issues raised it was **RESOLVED** to note the report.

## 7. Risk Register

Flora Osiyemi (Head of Finance) presented a report updating the Board on the Risk Register for the Brent Pension Fund Pensions Administration Service.

In considering the report, the Board noted the following:

- No new risks had been added to the Register since the previous update in March 2022.
- The changes made to the Risk Register, as detailed within section 3.6 and Appendix 1 of the report. The key changes identified included:
  - Item 5.6 (Transfer of LPP Administration System) being updated to reflect Phase II of the migration and Brent's "go live" date with members having considered the impact of this process as part of the Pension Administration Update.

- Item 6.4 (Year End Return) the risk had been changed from a low to a medium - low risk with the likelihood also having changed from 2 to 4 due to the number of outstanding returns, although as noted as part of the Pension Administration Update the current number of outstanding returns had reduced and now stood at three rather than 11;
- Item 9.2 (Investments in Russia, Belarus and Ukraine) the likelihood of the risk materialising had been changed from 10 to 2 given the limited exposure of the Fund to holdings in these areas.

The Board also received and noted the Risk Strategy for the Fund, attached at Appendix 2 of the report.

The Board welcomed the report and as no further issues were raised it was **RESOLVED** to note the report including the key changes set out in section 3.6 of the report.

## 8. **LGPS Update**

The Board received a report providing an update on recent developments within the Local Government Pension Scheme (LGPS) regulatory environment and any recent consultations issued which would have a significant impact on the Fund.

In considering the report the Board noted the following updates:

- In March 2022, the Council had received a letter (attached in Appendix 1 of the agenda pack) from the Head of Local Government Pensions at the Department for Levelling Up, Housing and Communities (DLUHC) setting out their recommendations on how administering authorities should take the McCloud remedy into account in the 2022 triennial valuation. The guidance provided had been subject to review with Brent's Fund Actuaries who had commented that it was in line with expectations and therefore not expected to create any delay in the valuation process.
- The discussions between Prudential and the Head of Pensions at the Local Government Association regarding the ongoing operational difficulties being experienced by administering authorities in relation to the Prudential performance along with the action being taken to address the situation, on which further details had been provided in Appendix 2 of the report.
- The publication of the LGPS England and Wales Annual Report for 2021.
- The publication of the Government Actuary's Department (GAD) report on the 2016 scheme valuation which calculated the cost cap of the scheme. The report concluded that the costs of the scheme had remained below the target costs and as a result no action had been required in relation to any breach of the cost cap corridor and thus no benefits adjustment had been issued.

In terms of issues raised, members were advised that the increase in management charges identified within the LGPS Annual Report had been driven primarily by a rise in investment management charges with administration and governance costs remaining broadly stable.

The Board welcomed the report and as no further issues raised it was **RESOLVED** to note the recent developments in the LGPS, as detailed within the report.

## 9. **Terms of Reference and Conflicts of Interest policy**

Rubia Jahlil (Finance Analyst) introduced a report detailing the outcome a review of the Pension Board's Terms of Reference and Conflicts of Interest Policy.

In considering the outcome of the review and current Terms of Reference and Conflicts of Interest Policy, the Board supported the view that these both remained fit for purpose. It was noted that as part of the Board's role in ensuring the Brent's Pension Fund continued to be managed and administered effectively and in compliance with necessary regulations they would continue to receive regular updates on the issues being considered by Brent's Pension Fund Sub Committee, including the updated Investment Strategy.

Members welcomed the report and with no further issues raised, it was **RESOLVED** that the Board approve the current Terms of Reference and Conflicts of Interest policy with no changes identified for consideration.

10. **Quarterly Monitoring Report – Q1 2022**

The Board received an update on the Brent Pension Fund Q1 2022 Investment Monitoring Report. It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the Q1 Investment Monitoring Report.

11. **Pension Fund Business Plan**

The Board received a report outlining the business plan for the Fund for the next 12-18 months prepared by the Fund's investment advisors, Hymans Robertson. It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the report and endorse the contents of the Pension Fund Business Plan.

12. **Net Zero Transition Roadmap Update**

The Board received a report providing an update on progress against the Fund's net zero transition roadmap. It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the update provided update and ongoing work and progress being made on the Net Zero Transition Roadmap as detailed within Appendix 1 of the report

13. **Pension Fund year end accounts 2021/22**

The Board received a report presenting the draft pension fund annual accounts for the year ended 31 March 2022. It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022.

In considering the report the Board thanked officers for their work in successfully meeting the Fund's year-end accounts deadline ahead of the statutory schedule and noted the strong financial position of Brent's Pension Fund, with the value of investments having increased to £1,128m during 2021/22 (compared to £1,032m 2020/21). In response to a query regarding the final accounts, the Board was advised that these were now in the process of being audited prior to final sign off, with a further update to be provided once this had been completed.

Members welcomed the report and as no further issues were raised it was **RESOLVED** to note and endorse the Pension Fund Year End Accounts 2021/22.

14. **2022 Triennial Valuation**

The Board received a report updating the committee on the 2022 Pension Fund Valuation. It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022.

Members welcomed the report and with no further comments or issues raised, it was **RESOLVED** to note the report and progress on the Valuation process.

15. **Any other urgent business**

None.

16. **Exclusion of Press and Public**

At this stage in proceedings the Board **RESOLVED** that the press and public will be excluded from the remainder of the meeting as the reports and appendices to be considered contained the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Access to Information Act 1972, namely:

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

*Having passed the above resolution the live webcast was ended at this stage of the meeting.*

17. **London CIV Update**

The Board received a report, which provided the latest update on recent developments regarding the Brent Pension Fund Investments held within the London CIV (LCIV). It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 27 June 2022. The update included (as detailed in Appendix 1) the data, performance of Funds that Brent had invested via London CIV as well as the LCIV quarterly investment review which included Brent's investments in the LCIV Infrastructure fund along with valuation and performance data for the underlying portfolio investments and an update on pipeline investments (as detailed in Appendix 2 of the report). As a final update members' attention was drawn to the general updates provided by the London CIV (as set out in Appendix


3) in relation to investment, fund launches and fund monitoring and operational controls.

Having considered the update provided, the Sub Committee **RESOLVED** to note the reports and updates provided by London CIV.

The meeting closed at 7.17pm

MR. D EWART  
Independent Chair



	<b>Pensions Fund Sub-Committee</b> 05 October 2022
	<b>Report from the Corporate Director Finance and Resources</b>
<b>2022 Valuation - Whole Fund Results</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT - Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
<b>No. of Appendices:</b>	One <ul style="list-style-type: none"> <li>Actuarial valuation at 31 March 2022 (exempt from publication)</li> </ul>
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel, Corporate Director Finance and Resources Ravinder Jassar, Deputy Director of Finance Flora Osiyemi, Head of Finance Sawan Shah, Senior Finance Analyst Rubia Jalil, Finance Analyst

## 1.0 Purpose of the Report

- 1.1 The purpose of this report is to update members on the 2022 valuation initial results at 31 March 2022.

## 2.0 Recommendation(s)

- 2.1 The Committee is asked to note the progress of the valuation.
- 2.2 The Committee is asked to note the Whole Fund results and the improved funding position since the 2019 valuation.

### 3.0 Detail

- 3.1 The valuation results sets out the contribution rates of the various employers for the period 2022/23 through 2024/25. Its key document is the Funding Strategy Statement that sets out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately.
- 3.2 The whole fund results look at the overall funding level. Various employers will have different funding levels based on contribution rates in the past. Some will also have very different levels of risks, such as smaller bodies with no guarantee are a high risk whereas academies are guaranteed in effect by the Department for Education. Brent Council, as by far the largest employer in the Fund and has a funding level broadly consistent with the overall fund.
- 3.3 The report presents the funding position of the London Borough of Brent Pension Fund on the valuation date of 31 March 2022. It explains why the funding position has changed since the last valuation in 2019 and shows the sensitivity of the funding position.
- 3.4 The high level funding results are summarised below. These results are compared to the 2019 formal valuation to show how funding level has improved as at 31 March 2022. The liabilities have increased by £193m, asset values have increased by £278m and therefore the deficit has been reduced by £85m.

Valuation Date	31 March 2022 (£m)	31 March 2019 (£m)	31 March 2016 (£m)
Liabilities	1,297	1,104	1,238
Assets	1,134	856	676
Surplus/(Deficit)	(163)	(248)	(562)
Funding Level	87%	78%	55%

As shown in the table above, the overall funding level has improved to 87% compared to 78% at the previous valuation and 55% at the 2016 valuation. The increases to funding level reflect significant progress made in the overall financial health of the pension fund, reflecting higher than expected investment returns and improved data quality.

- 3.5 The Fund actuary, Hymans Robertson, will now focus on analysing data for individual employers within the Fund and issuing draft employer results. The Fund will also be holding an employers' forum in November 2022 to communicate the valuation results to the employers.
- 3.6 The below table outlines progress on the high-level valuation timetable.

Date	Event	Status
21 February 2022	Sub-committee meeting - Report to Pensions Sub-committee to review and agree key valuation assumptions	Complete
31 March 2022	Valuation date.	Complete
April 2022	Council contribution rate (comPASS) modelling.	Complete
April – May 2022	Employers submit their year-end returns.	Complete
June 2022	Resolve all queries arising from the year-end returns	Complete
July 2022	Provision of data to the Fund actuary by LPPA on behalf of the scheme manager.	Complete
August – September 2022	Whole fund results prepared and discussed with officers.	Complete
August - October 2022	Data validations, responding to data queries and Fund actuary sign off for data.	In progress
05 October 2022	Sub-committee meeting - Provision of initial whole fund results, Council contribution rate modelling results and employer contribution strategy proposal (draft FSS).	Complete
October 2022	Issue employer results together with draft Funding Strategy Statement for formal consultation.	On track
December 2022 – January 2023	Finalise Funding Strategy Statement following consultation.	On track
20 February 2023	Sub-committee meeting - Sign off 2022 valuation report and FSS.	On track
31 March 2023	Sign off rates and adjustments certificate with final employer contribution rates.	On track
01 April 2023	Implementation of new FSS and contribution rates.	On track

## 4.0 Financial Implications

- 4.1 These are discussed throughout the report. The triennial valuation will set employer contribution rates for the following three financial years. Employer contributions are the single largest component in the Pension Fund's yearly cash inflow. Appropriate contribution rates by the various employers are necessary for the Pension Fund to improve its funding level.

## 5.0 Legal Implications

- 5.1 The 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.

## **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***

Corporate Director Finance and  
Resources

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of the Local Government Act 1972.

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