



## Pension Board

**Wednesday 22 March 2023 at 6.00 pm**

This will be held as an online virtual meeting

### Membership:

#### Members

David Ewart

#### Representing

Independent Chair

#### Councillor Members

Councillor Akram

Councillor Kabir

Brent Employer Representative

Brent Employer Representative

#### Co-opted Members

Bola George

Sunil Gandhi

Chris Bala

Robert Wheeler

Member Representative (Unison)

Employer Member (Non-Brent Council)

Pension Scheme Member Representative

Member Representative (GMB Trade Union)

**For further information contact:** Adam Woods, Governance Officer  
Email: [Adam.Woods@brent.gov.uk](mailto:Adam.Woods@brent.gov.uk)

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**The press and public are welcome to attend this meeting as an online virtual meeting. The link to attend and view proceedings is available online via the following link: [WEBCAST LINK](#)**

### **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

Item	Page
<b>1 Apologies for absence</b>	
<b>2 Declarations of interests</b>	
Members are invited to declare at this stage of the meeting, 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>3 Minutes of the previous meeting</b>	1 - 10
To approve the minutes of the previous meeting held on 09 November 2022 as a correct record.	
<b>4 Matters arising (if any)</b>	
To consider any matters arising from the minutes of the previous meeting.	
<b>Pension Board Reports</b>	
<b>5 Pensions Administration Update</b>	11 - 48
This report updates the Pension Board on various pensions administrative matters as part of its remit to oversee the administration of the Brent Pension Fund.	
<b>6 LGPS Update</b>	49 - 136
The purpose of this report is to update the committee 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	
<b>7 Risk Register</b>	137 - 156
This report presents the updated Risk Register for the Brent Pension Fund Pensions Administration Service	

## Reports Referred from the Pension Fund Sub-Committee

**8 Investment Strategy Review** 157 - 190

This report presents the analysis and results of the investment review carried out by Hymans Robertson. The review follows on from the 2020 strategic investment review and the Fund's 2022 Actuarial Valuation.

**9 Investment Monitoring Report - H2 2022** 191 - 204

To receive the Brent Pension Fund H2 2022 Investment Monitoring Report.

**10 Housing Allocation Report** 205 - 222

This report updates the Board on the London CIV UK Housing Fund and the Product Assurance Review conducted by the Fund's investment advisors.

**11 Triennial Valuation Results and Funding Strategy Statement** 223 - 312

This report sets out the results of 2022 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Board.

**12 Procurement of Investment Management Services** 313 - 316

This report summarises the outcome of the Investment Management Services tender.

**13 Exclusion of Press and Public**

The following items are not for publication as they relate to the category of exempt information set out below, as specified under Part 1, Schedule 12A of the Local Government Act 1972:

Agenda Item 8: Investment Strategy Review – Appendix 2 (Investment Strategy Review 2023: Appendix 7 – Low Carbon Equities).

This appendix has been classified as exempt under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

Agenda Item 10: Housing Allocation Report – Appendix 1 (Product Assurance Review – London CIV UK Housing Fund).



This appendix has been classified as exempt under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

Agenda Item 11: 2022 Triennial Valuation Results and Funding Strategy Statement – Appendix 5 (Rates and Adjustments Certificate).

This appendix has been classified as exempt under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

The press and public will be excluded from the remainder of the meeting as the report(s) 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 and particular person (including the authority holding that information)."

#### **14 Employer Exit from the Pension Fund**

317 - 326

This report outlines the funding position and the process for an employer's exit from the Fund.

#### **15 Date of next meeting**

The provisional dates scheduled for Pension Board meetings in 2023-24 have been identified as follows:

- Monday 24 July 2023 at 6pm
- Wednesday 8 November 2023 at 6pm
- Monday 25 March 2024 at 6pm

Please note these dates are subject to final confirmation with meetings, at this stage, scheduled to continue online.

#### **16 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 her representative before the meeting in accordance with Standing Order 60.

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## **MINUTES OF THE PENSION BOARD**

**Held as an online meeting on Wednesday 9 November 2022 at 6.00 pm**

PRESENT (in remote attendance): Mr David Ewart (Chair), Councillor Kabir, Councillor Akram, 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**

The minutes of the previous meeting held on Monday 25 July 2022 were agreed as an accurate record.

**4. Matters arising (if any)**

None.

**5. Pensions Administration Update**

Sawan Shah (Head of Pensions, Brent Council) introduced the report, which updated the Pension Board on various pensions administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

The first part of the update concerned Pensions Administration Performance, covering the period from April to June 2022. In considering the report the Board noted:

- The Pensions Administration performance update for the Q1 2022-23 monitoring period, as detailed within Appendix 1 of the report.
- The quarterly average percentage of cases processed on time was 94.7%, which whilst below the contractual Service Level Agreement (SLA) target of 95% was within revised targets agreed during the Universal Pensions Management (UPM) migration period.
- In terms of Helpdesk call performance there had been a significant reduction in average call wait times with performance in June at 5 minutes 21 seconds and the average calls answered having increased from 84.6% in April to 94.7% in June.

- Phase 1 of the migration to Universal Pensions Management (UPM) had been completed with 9 LPPA clients now live and Brent scheduled to go live in November as part of the Phase 2 migration.
- The number of complaint cases remained low with 8 new cases received since the previous update and action being taken to ensure these were resolved as swiftly as possible. Following the completion of each case, a process was undertaken to ensure any lessons learned were reviewed and consequently, if necessary, processes and procedures updated.
- The Pension Regulator scores achieved in relation to the accuracy of common and conditional data had improved further since the previous quarter.

Jo Darbyshire (Managing Director, LPPA as the Pension Administration Service for the Fund) then provided the Board with a more in-depth overview of pension administration performance as detailed within the LPPA Q1 Pension Fund Administration Report. Key issues highlighted were as follows:

- Referring firstly to progress with the introduction of the new pension administration system and migration to Universal Pensions Management (UPM) the Board was advised that Phase 1 of the process had been successfully completed with nine out of 18 LPPA clients having 'gone live'. Phase 2 migrations were now underway, which included Brent, who were due to go live in November 2022. The Board were advised of the checks and measures in place to ensure a smooth transition to UPM with regular updates and a detailed technical sign off procedure in place to support the transition to the new system.
- Whilst anticipated and short-term in nature, it was recognised that the operational impacts arising from the phased "go lives" of the UPM migration programme had adversely affected performance against SLA which had been reflected in the Q1 performance data. Whilst overall performance against SLAs was improving it remained below target with the key areas impacting on performance including – increased volumes and spikes of work post go-live, system downtime with a 2 day Altair outage at the end of June and ongoing work and reallocation of resources in support of the Phase 2 migration programme.
- Performance was expected to improve during Q3, with call wait times under the non-contractual target of 4 minutes since June and learning from Phase 1 of the migration coupled with the provision of additional resource, training and systems having benefitted performance in relation to the Helpdesk throughout Phase 2.

Members were then invited to ask questions on the update provided, with responses summarised below:

- An assurance was provided that the "go live" date for the completion of Brent's UPM migration remained on track for 11 November 2022, with the Board advised of the ongoing anticipated impact in terms of Q2 performance (covering July – Sept 22).
- In response to concerns relating to the performance in average call wait times the Board were advised that although non contractual the reasonable average wait time was recognised as 4 minutes which was being delivered prior to Project PACE. The Board were therefore keen to support the priority

identified to continue improving performance in this respect and return to the previously consistent levels of performance once UPM migration had been completed alongside the reassurance provided regarding mitigations to maintain performance throughout Phase 2 of the migration programme.

- In terms of lessons learnt from the Altair outage, the Board were advised of the upgrade made by LPPA in terms of their system architecture and move towards a cloud based infrastructure, resulting in greater robustness.
- The Board enquired about a communications strategy to support Brent's UPM migration. In response members were advised of the measures taken by LPPA to ensure delivery of a full communications programme and strategy involving both employers and members. This included training and self-help guides, direct communication via emails and through the LPPA website and annual benefit statements, with further communications to be rolled out as the functionality of the new portal became available, which were all welcomed by the Board.

Having considered the performance update, the Board then moved on to consider an update on an issue identified in relation to the schemes retirement procedures and data held on pension increase dates affecting deferred members. Having noted the summary of the case identified (as detailed within section 3.12 – 3.15 of the report) the Board was assured of the action taken to review the cause of the issues identified, which had resulted in additional cases and overpayments being identified, and of the action being taken in response to consider how any overpayments would be dealt with on a case by case basis taking account of the individual circumstances and impact on the members concerned.

Members were then invited to ask questions on the update provided, with responses summarised below:

- In response to concerns raised, it was confirmed that the storage data error identified had not constituted a data breach or GDPR issue.
- Having been assured of the actions being taken to address the issue, the Board noted the additional measures being implemented to mitigate against any similar incidents in future, which included additional training for members of the Retirement team; the introduction of an enhanced and more proactive monitoring process and as a longer term solution an upgrade in the way pension increase data was stored and applied based on operational workflows developed as part of the business process reengineering process undertaken as part of migration to the new UPM system.

As a final part of the performance update the Board were 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:

- For active members, an ABS was issued to all members identified on the year end returns from employers by the deadline of 31 August 2022. There were a small number of records where queries from year end returns had not been resolved in time or an annual return had not been completed and sent to the

- Fund by the relevant employer (one of which was now outstanding). Whilst only representing a minority of members, the Board was advised that the number of statements outstanding was higher than the previous year with the outstanding statements due to be provided as soon as the relevant queries had been cleared and relevant information received from the employer.
- Whilst the Pension Administration Strategy (PAS) enabled the scheme manager to take action against employer(s) who did not comply with their statutory and legal obligations to the Fund, it was not felt that no formal action was required, at this stage, in terms of treating the outstanding statements as a material breach that needed to be reported to the Regulator. This view had been reached taking account of the breaches policy operated by the Fund (as set out in Appendix 2 of the report) and as a result of the close work being undertaken with LPPA and the relevant employers to monitor and resolve the outstanding issues and queries as soon possible and as a high priority. It was noted that employers who had not submitted their returns in a timely manner had been contacted multiple times with any significantly overdue submissions having been escalated to senior management of those employers and the PAS providing the Fund with the powers to take action against employers who had not complied with the standards set out within the strategy.
  - In light of the issues experienced during the current year, officers planned to review the Breaches Policy and PAS to see if there were any further areas which could be strengthened, the results of which would be reported back to the Board for future review.

Whilst concerned at the delays identified, the Board recognised the work being undertaken between the Fund and LPPA to closely monitor the position and work with employers to ensure the prompt submission of their returns. Members agreed that the issues identified had not constituted a material breach (based on the reasons outlined) and on the basis that whilst technical in nature, the issues identified were not felt to represent a systemic or continuing breach. The Board were keen, however, to ensure the outstanding queries were resolved as soon as possible.

As a final update the Board noted that the Fund would be holding an Employers Forum on 23 November 2022, which Board members would be welcome to attend and all fund employers and their payroll providers had been invited to participate in. The event would include presentations from the Fund Actuary, Hymans Robertson and LPPA, and will provide updates on the 2022 valuation and other employer responsibilities. Given the importance and issues identified, the Board were keen to ensure that all Fund employers were encouraged to attend the Forum and requested that an update be provided for the next meeting on attendance at the event.

As there were no further questions from Members, the Chair thanked Jo Darbyshire and officers for the update, and it was **RESOLVED** that the report be noted with a further update to be provide for the next meeting on the Employers Forum and resolution of the outstanding issues in relation to the Annual Benefit Statements.

## 6. **Brent Risk Register**

Rubia Jalil (Finance Analyst, Brent Council) 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 have been added to the Risk Register since the previous update in July 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 5.3 (Employer Data – Failure to provide data accurately and on time) being updated to reflect the controls in place including Employer Engagement and Forum and training.
  - Item 5.7 (Data Migration) the likelihood of the risk materialising had been changed from 3 to 2 with the overall score for the risk having changed from 24 to 16 due to the experience gained from early data cuts.
  - Item 6.12 (Pension Plan Events Planning) being updated following completion of GMP reconciliation.
  - Item 9.12 (The Fund's Assets Insufficient to Meet Long Term Liabilities) being updated to reflect the 2022 Fund valuation.

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.

## 7. LGPS Update

Rubia Jalil (Finance Analyst Brent Council) introduced the 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:

- The publication of a factsheet by the Pensions Ombudsman (TPO) in July 2022 on the McCloud judgement setting out the Ombudsman's views on what affected members and schemes could do in response to the original judgement and their present approach to dealing with complaints relating to the impact of the judgement.
- The TPO had recognised the steps being taken by the Government to address the age discrimination issues in relation to public sector schemes as a result of the judgement, with retrospective effect and had therefore advised they would need to carefully look at the facts of any related case before deciding whether or not to investigate, with the factsheet providing examples of where they may decide to do so.
- The launch of a consultation by HM Treasury in August 2022 on public sector exit payments. The consultation covered the proposal and guidance to introduce an expanded approvals process for employee exits and special severance payments, along with additional reporting requirements which whilst not applying to local authorities would apply to academies.

- The publication of a press release by The Pensions Regulator (TPR) warning employers to ensure they were complying with their automatic enrolment duties. This followed a number of in-depth compliance inspections earlier in the year where the Regulator had found several common errors in respect of calculating pension contributions and communications to staff and encouraged employers to also check their systems and processes were up to date and running smoothly as part of the standard re-enrolment process.
- The inclusion of details on the Local Government Association website relating to the cost of living crisis, which included advice on support in relation to living costs, reducing or stopping pension contributions, pension scams and help for pensioners on lower incomes.

The Board welcomed the report and as no further issues were raised it was **RESOLVED** to note the recent developments in the LGPS, as detailed within the report.

## 8. **Quarterly Investment Monitoring Update Report - Q2 2022**

The Board received an update on the Brent Pension Fund Q2 2022 Investment Monitoring Report, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report, the Board noted the impact on the Fund's investment performance as a result of the ongoing challenging economic context and market volatility, with a majority of the Funds asset classes having struggled as a result. The Sub-Committee had been assured, however, that despite the current challenges the Fund remained broadly in line with the interim and longer-term target allocations for growth and cash with relative performance over the three-year period remaining positive.

The Chair thanked officers for the update with the following issues raised in response by the Board:

- In response to concerns regarding the impact that any recession would have on the Fund, the Board were advised that due to the risk profile, longer-term scope and global nature of investments, public sector schemes were not likely to be as adversely impacted by a recession or the recent market volatility than private sector schemes. Whilst recognising that investment performance would be negatively impacted over the short term as asset values were depressed the Board were advised that the Fund was still forecast to remain cash-flow positive with the ability to meet its obligations based on a robust Investment Strategy designed to minimise risk.
- Confirmation was also provided that initial modelling for future cash-flow remained positive.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the Q2 Investment Monitoring Update.

## 9. **Net Zero Roadmap Update and Responsible Investment Policy**

The Board received a report providing an update on progress against the Fund's net zero transition roadmap, Responsible Investment Policy and the LGPS



Consultation on Governance and reporting of climate change risks, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the update to the net zero roadmap, updated Responsible Investment Policy and LGPS Consultation on Governance and reporting of climate change risks, on which members were advised they would be welcome to submit comments for inclusion by officers as part of the final response to be provided on behalf of the Fund.

#### 10. **Brent Pension Fund: Annual Report and Accounts 2021/22**

The Board received a report providing an update on the Pension Fund Annual Accounts for the year ended 31 March 2022, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised that the latest Statement of Accounts and Annual Report (attached as Appendix 1 to the report) contained minor presentational and disclosure changes from those previously presented in July 2022 with the main audit fieldwork now also substantially complete and the anticipated results of the final Pension Fund audit which Grant Thornton (as the Council's External Auditors) were undertaking being an unqualified opinion, as detailed within the draft Brent Pension Fund Audit Findings Report 2021/22 (attached as Appendix 2 to the report).

Whilst recognising that final sign-off of the Pension Fund accounts and audit findings had been delayed, the Chair felt it important to recognise this had not been linked to any issue with the Pension Fund accounts but a wider national accounting issue with officers thanked for the work undertaken to ensure the accounts had been completed and submitted within the necessary deadline.

Members welcomed the report and as no further issues were raised it was **RESOLVED** to note the report along with the Statement of Accounts included within the Annual Report and Brent Pension Fund Audit Findings Report 2021-22.

#### 11. **2022 Valuation - Funding Strategy Statement Update**

The Board received a report providing an update from the Fund Actuary that highlighted the key changes being considered for the 2022 Funding Strategy Statement (FSS) review being undertaken in compliance with the requirement for a formal valuation of the whole Fund to be undertaken every three years, under Regulation 62 (1) of LGPS Regulations, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

Members welcomed the update and as no further issues were raised it was **RESOLVED** to note the report and key changes for the 2022 Funding Strategy Statement (FSS) along with the fact that the draft FSS would be subject to consultation with employers, as required by LGPS Regulations in advance of it being presented to the Brent Pension Sub-Committee for formal ratification at its next meeting in February 2023.

## 12. **Any other urgent business**

Prior to moving into the closed session of the meeting, the Chair took the opportunity to thank Rubia Jahlil (Finance Analyst Brent Council) for her support to the Board given this would be her final meeting as she moved on to take up a new role. In addition, Andrew Phillips (Governance Team) was also thanked for his work to support the Board as he also moved on to take up a new role elsewhere within the Council.

The Board was also reminded of the requirement for all members to have completed their Pension Regulator Member Toolkit, if they have not done so during the past two years.

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

At this stage in proceedings the Board **RESOLVED** that the press and public should 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.*

## 14. **2022 Valuation - Whole Fund Results**

The Board received a report providing an update on the initial 2022 whole fund valuation results as at 31 March 2022, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised of the high level funding results, as detailed in section 3.4 of the report, which showed how (compared to the formal valuation in 2019) the funding position had improved based on liabilities having increased by £193m and asset values by £278m, meaning a reduction in deficit by £85m. Members were also advised that the overall funding level had improved to 87% compared to 78% at the previous valuation and 55% at the 2016 valuation, with the increase reflecting the progress made in the overall financial health of the pension fund, higher than expected investment returns and improved data quality.

In recognising the progress being made in terms of the Funds overall financial health, the Board commended officers for their efforts, particularly in relation to the data cleansing exercise that had been undertaken to improve data quality and prudent approach towards managing the Fund's long term Investment Strategy.

As no further issues were raised it was **RESOLVED** to formally note and welcome the progress made with the Fund valuation, Whole Fund results and improved funding position since the 2019 valuation.

## 15. **2022 Valuation - Employer Contribution Strategy**

The Board received a report presenting an analysis from the Funds Actuary (Hymans Robertson) regarding the contribution rate strategy for the Council for the three years from 1 April 2023, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised of approach taken in relation to the review of the Contribution Rate Strategy which had been based on a modelling exercise for the stabilised employers within the Fund, including Brent Council, local authority schools and most academy schools in Brent. Members were advised of the factors needing to be considered when setting contribution rates along with the need to take a balanced approach between the Fund's need to maintain prudent funding levels and the employers' need to maintain reasonably stable employer contribution rates as a means of managing any downside risk and avoiding any permanent fall in asset values.

The Board were advised that the process had led to a number of different contribution rate scenarios being modelled and reviewed with the recommendations made as a result in relation to the employer contribution rates over each of the next three years from 2023-24 to 2025-26, having been approved by the Pension Fund Sub Committee, as detailed within section 3.15 of the report.

In response to comments raised by the Board on the update, members were assured of the process undertaken to model the different contribution rate scenarios based around a range of future market and economic conditions and in terms of their impact on contributions and asset values, with the detailed results having been set out in the analysis provided by Hymans Robertson (within Appendix 1 of the report).

In recognising and welcoming the carefully designed nature of the approach recommended, the Board **RESOLVED** to note the report and to endorse the decision made by the Brent Pension Fund Sub Committee to approve the employer contribution rate for the next three financial years, as detailed within section 3.15 and Appendix 1 of the report.

## 16. **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 5 October 2022. The update included (as detailed in Appendix 1) the quarterly investment performance review of the following investments held by Brent, namely within London CIV Emerging Market Fund; London CIV Diversified Growth Fund, London CIV Absolute Return Fund and LCIV MAC Fund along with a summary of London CIV environmental, social and governance (ESG) activity. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review for private markets which included Brent's investments in the following funds: LCIV Infrastructure Fund and LCIV Private Debt Fund along with valuation and performance data for the underlying portfolio. 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 7.21 pm

MR. DAVID EWART  
Chair

	<b>Pension Board</b> 22 March 2023
	<b>Report from the Corporate Director,          Finance and Resources</b>
<b>Pensions Administration 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>	One Appendix 1 - Q3 2022-23 Administration Performance Report
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & 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>  Sawan Shah, Head of Pensions 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 updates the Pension Board on various pensions administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

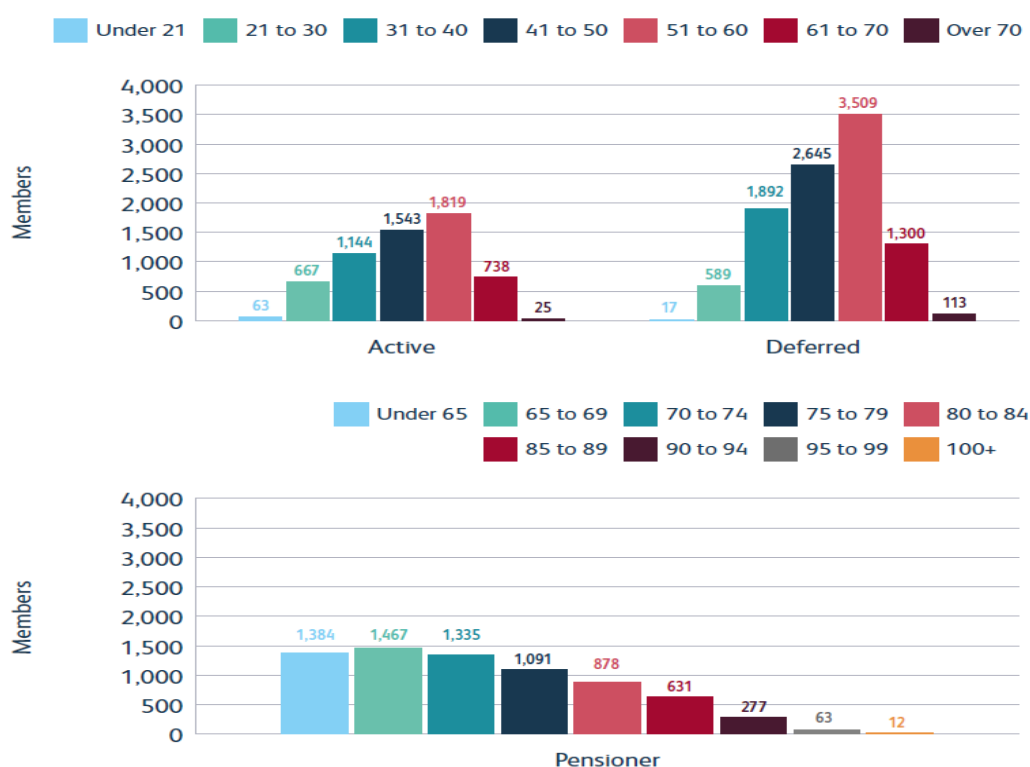
## 2.0 Recommendation(s)

- 2.1 The board is recommended to note the overall report.

## 3.0 Pensions Administration Performance Report

- 3.1 This report reviews the performance of the LPP contract against agreed Service Level Agreements (SLA's) during October to December 2022.
- 3.2 The Pensions administration team hold monthly meetings with LPP to monitor the performance of the contract reviewing both the individual month and trends across months. Full details on the Q3 2022-23 performance report are set out in Appendix 1.
- 3.3 As of 31 December 2022, the Brent Pension Fund had 23,202 members, which was made up of:
- 5,999 active members
  - 7,138 pensioners (including dependants)
  - 10,065 deferred beneficiaries.
- 3.4 Figure 1 shows the current age demographic of the Brent Pension Fund members. This is broken down between active, deferred and pensioner members.

Figure 1:

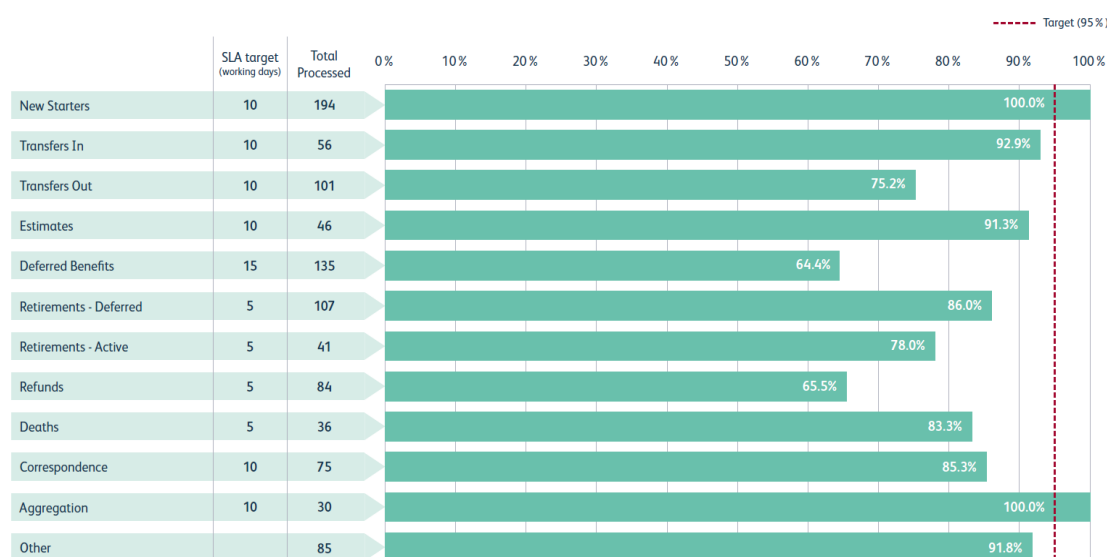


- 3.5 This shows that the majority of the working age active members fall into the 31 to 60 age groups while, as would be expected, 51-60 is the banding with the highest number of deferred members. For pensioner and dependant members, the number of members in the under 65, 65 to 69 and 70 to 74 bands is broadly the same. Number of members declines progressively into the older bands.
- 3.6 The quarterly average percentage of cases processed on time was 84.0%, which is significantly below the usual contractual SLA target of 95% however relaxed

SLAs have been agreed with the Fund during the Universal Pensions Management (UPM) migration period: 90% for payment cases; 70% for other case types. Casework performance for the period was impacted by spikes in work relating to the final Phase 2 Project Pace migrations which included the Brent Fund.

- 3.7 Figure 2 provides detail on the number of cases that have been processed grouped by category.

Figure 2:



- 3.8 Helpdesk call performance measures the average wait time and calls answered. The Fund had a significant increase in its wait times through the quarter with performance of 3 minutes 58 seconds in October, 4 minutes 55 seconds in November and 9 minute 2 seconds in December. Therefore the average wait time across the quarter was approximately 6 minutes with the last 2 months of the quarter above the target time of 4 minutes. The increase in wait times is largely due to an increase in volumes of inbound calls and spikes in caseload related to the Project Pace migration.
- 3.9 Service improvements delivered included the launch of the Help Hub on the LPPA website, a new member help and support section that consolidates all resources (FAQ's, videos, forms and documents, training) into one easily accessible area. The News Hub was launched at the same time, a website page that enables quick and simple access to all LPPA new articles, blogs and research stories.
- 3.10 The LPPA employer toolkit page which includes access to content for internal emails, posters and intranet articles was made available to help all employers communicate the benefits of the PensionPoint member portal to their members in the workplace.
- 3.11 Scheduled updates in the coming months will be focused on encouraging members to register for PensionPoint and employer training sessions will continue with a focus on monthly returns and navigating the UPM employer portal

- 3.12 Since the last Pension Board, 13 new complaint cases have been received. This included 4 new complaints in November, 7 new complaints in December and 2 new complaints in January. Out of the 13 cases, 6 related to delays, 6 related to general service and 1 related to payments. No Internal Dispute Resolution Procedure (“IDRP”) complaints were received. Brent and LPP are taking action to ensure that these cases are resolved swiftly. However the complex nature of some cases means that this is not always possible. In addition, following the completion of each case, a process is undertaken to ensure any lessons learned are reviewed and consequently, if necessary, processes and procedures will be updated.
- 3.13 The Pension Regulator (TPR) acknowledges that complete, accurate scheme records are a vital part of the administrative function. The Regulator defines two types of data held in scheme records:

**Common Data** used to identify scheme members and would include names, addresses, national insurance number and date of birth.

**Conditional Data** essential to calculate benefit entitlements such as, member contributions, pensionable pay, service history.

It also encompasses data relating to events that occur during an individual’s membership, for example transfers, purchase of additional pension and pension sharing orders. Both types are data that are equally important, but are defined separately for the purposes of measurement and relationship to obligations under the Data Protection Act.

Figures 3 below displays the TPR scores achieved in regards to the accuracy of common and conditional data. As at December 2022, Common data has a total accuracy rate of 96.6% compared with 96.8% in September while conditional data has a total accuracy rate of 86.0% compared with 86.3% in September.

Figure 3:



## COMMON DATA

CLIENT SPECIFIC

Data Item	Active	Deferred	Pensioner / Dependant
Invalid or Temporary NI Number	2	79	24
Duplicate effective date in status history	0	0	3
Gender is not Male or Female	0	0	0
Duplicate entries in status history	5	24	15
Missing (or known false) Date of Birth	0	0	0
Date Joined Scheme greater than first status entry	7	0	4
Missing Surname	0	0	0
Incorrect Gender for members title	0	0	0
Invalid Date of Birth	5	0	0
No entry in the status history	0	0	0
Last entry in status history does not match current status	5	0	0
Member has no address	20	525	32
Missing Forename(s)	0	6	1
Missing State Retirement Date	0	0	0
Missing postcode	21	567	58
Missing Date Joined Pensionable Service	0	0	0
<b>Total Fails</b>	<b>65</b>	<b>1,201</b>	<b>137</b>
<b>Individual Fails</b>	<b>43</b>	<b>652</b>	<b>94</b>
<b>Total Members</b>	<b>5,999</b>	<b>10,065</b>	<b>7,138</b>
<b>Accuracy Rate</b>	<b>99.3%</b>	<b>93.5%</b>	<b>98.7%</b>
<b>Total accuracy rate</b>	<b>96.6%</b>		

## CONDITIONAL DATA

CLIENT SPECIFIC

Data Item	Fails
Divorce Records	0
Transfer In	113
AVC's/Additional Contributions	25
Deferred Benefits	2
Tranches (DB)	0
Gross Pension (Pensioners)	58
Tranches (Pensioners)	0
Gross Pension (Dependants)	66
Tranches (Dependants)	70
Date of Leaving	17
Date Joined Scheme	20
Employer Details	3
Salary	235
Crystallisation	218
Annual Allowance	168
LTA Factors	95
Date Contracted Out	1,244*
Pre-88 GMP	469
Post-88 GMP	528
<b>Total Fails</b>	<b>3,331</b>
<b>Individual Fails</b>	<b>3,249</b>
<b>Total Members</b>	<b>23,202</b>
<b>Accuracy Rate</b>	<b>86.0%</b>

\* Date Contracted Out will be migrated to UPM in February.

## 4.0 LPP Business Update

4.1 LPPA have introduced a new pension administration system which is made by Civica and called Universal Pensions Management (UPM). The UPM system replaced 5 different systems including Altair, LPP's workflow management system (CMS), both YourFund employer portals and the My Pension Online member self-service portal. The overall project is called project PACE. The Brent Fund went live on 11<sup>th</sup> November 2022.

4.2 Updates for this quarter include:

- LPPA has successfully migrated all 18 clients on to the UPM platform.
- Performance has been impacted due to spikes in work created by the phase 2 migrations and a project has been launched to ensure that performance is returned to targets as soon as possible.
- Successful implementation includes 67 LPPA operational staff trained and processing work in UPM and 5,225 members have registered successfully to the new member portal, Pension Point.
- Monthly returns: employers will be required to submit monthly returns from May 2023, following the submission of their final annual return for 2022/23 in April. Training sessions for employers covering both the monthly and annual returns are available on the LPPA website.

4.3 John Crowhurst, the Commercial Director at LPPA will be in attendance at the Pensions Board meeting to provide a verbal business update.

## 5.0 LPP Business Update

5.1 The Fund held an Employers Forum on 23rd November 2022 which all fund employers and their payroll providers were invited to attend. Presentations were received from:

- Officers covering developments since the last employers forum in 2019, including investment performance, data quality and employer responsibilities.
- The Fund Actuary, Hymans Robertson, covering the 2022 valuation, the assumptions used, changes since the last valuation, employer level results and next steps.
- LPPA covering an overview of pensions administration, employer statutory requirements, improving member experience and the introduction of monthly returns.

## **6.0 External Payroll Providers**

- 6.1 Most schools in the borough use 3rd party payroll providers, therefore the Council needs to receive data on a timely basis from payroll providers in order to fulfil its pensions responsibilities. Over the last few months, officers have been concerned about a particular payroll provider that is used by many of Brent's schools causing issues across the LGPS and Teachers' Pensions.
- 6.2 The issues the Council has faced include non receipt of data returns by the relevant deadlines, errors on data returns and inability to resolve such issues due to a lack of communication.
- 6.3 The Council has written to schools in the borough who make use of this payroll provider's services to highlight the need to ensure their payroll provider is fulfilling all their responsibilities and ensure that appropriate contract management is taking place. The Council has also highlighted the consequences of the issues including interest charges, the inability to update member pension records and the potential for incorrect pension calculations. The Council is aware that some schools have reviewed their arrangements with the provider and have elected to move to another provider in the coming months.
- 6.4 This issue has also caused issues in relation to the audit of the Council's Teachers' Pensions End of year certificate 2021/22 which has been brought to the attention of the Council's Audit and Standards Advisory Committee. Sign-off of the certificate has been delayed beyond the deadline of 30 November 2022 due to delays in receiving evidence requested by the external auditors from the payroll provider.
- 6.5 Officers have expressed these concerns to the payroll provider and are engaging with them on a regular basis to ensure performance improves and that they fulfil their contractual obligations on behalf of the schools they provide services to.

## **7.0 Financial Implications**

- 7.1 Not applicable.

## **8.0 Legal Implications**

- 8.1 Not applicable.

## **9.0 Equality Implications**

9.1 Not applicable.

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

10.1 Not applicable.

## **11.0 Human Resources**

11.1 Not applicable.

### **Report sign off:**

***Minesh Patel***  
Director of Finance

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# LPP

Local Pensions Partnership  
Administration

Brent Pension Fund

## Quarterly Administration Report

1st October – 31st December 2022

[lppapensions.co.uk](http://lppapensions.co.uk)



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# DEFINITIONS

## Page 9

### Total Fund Membership

Total Fund Membership is the number of Member records held on the LPPA pensions administration system that are contributing to, awaiting benefits, or receiving benefits from the pension fund.

### Current Age Demographic

The age profile of the Membership is split across three types of status:

*Active Members* – Members who are currently contributing toward their pension benefits.

*Deferred Members* – Members who hold a deferred benefit in the fund.

*Pensioner Members* – Pensioners and Dependants who are currently receiving a pension.

## Page 11

### Casework Performance Against SLA

Performance is measured once all information is made available to LPPA, to enable them to complete the process. All casework has a target timescale in which to complete the process, and performance is measured as the % of cases that have been completed within that timescale.

## Page 12

### Casework Performance Against SLA

The category of 'Other' on this page covers cases including, but not limited to:

- Benefit revisions
- Maternity/paternity cases
- Ill Health cases
- Scheme Opt-Out cases
- Cases raised to cover 'Member Online Portal' registration queries
- P60 queries
- 50/50 scheme changes
- APC / AVC queries

Please note the number of cases brought forward, does not match the corresponding number of outstanding cases reported in the previous quarter (due to reasons including the deletion of cases during the current reporting period).

## Page 14 & 15

### Helpdesk Performance

Average wait time measures the time taken from the caller being placed into the queue, to them speaking with a Helpdesk adviser.

The percentage of calls answered does not include calls that are abandoned by the caller where the wait time is less than 2 minutes.

All figures reported in this section are non-client specific, as not all member calls are dispositioned at client level. This means that call volumes and wait times are not at client level - however, as calls are answered (through our various IVR options) in relation to wait time, performance across all LPPA clients is broadly the same

As the needs of our business, Clients and Members change, we adapt our reporting to suit the current trends and ensure sight of common topics. For this reason it is necessary to update and add new topics in the reason for calls. To accommodate the multitude of reasons we have created a "Other" category which includes (but not limited to) 'Information Only', 'Website', 'Resend Documents'.

## Page 17 & 18

### Customer Satisfaction Scores

The overall Helpdesk and Retirement satisfaction scores includes the percentage of people who provided a satisfied or neutral response.

## Page 20

### Member Online Portal

The number and % of Members that are registered for the Member Online Portal, including a quarterly view.

## Page 29

### Common/Conditional Data Fails

The Pension Regulator requires Administrators to keep Member data up to date to ensure benefits are accurately paid. This is split by Common Data (details that are specific to the Member) and Conditional Data (data that is related to the pension).

Individual Fails shows the total number of unique Members that have a single or multiple number of Common Data or Conditional Data fails. On both charts, the Accuracy Rate (%) then compares the number of Individual Fails to the total number of Scheme Members.

For more detail on the Data Items / Error types presented in these charts, please visit either the [TPR](#) or [PASA](#) (The Pension Administration Standards Association) websites.

## OUR CORE VALUES

This administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services.

The report describes the performance of Local Pensions Partnership Administration (LPPA) against the standards set out in the SLA.

Within LPPA, our values play a fundamental role in guiding our behaviour as we grow our pensions services business and share the benefits with our Clients.





# ANNUAL PLAN

✓ COMPLETED

📅 DUE

Page 23

	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23
Annual Benefit Statement and Newsletter to Deferred Members		✓										
Pension Increases		✓										
Annual Benefit Statement and Newsletter to Active Members					✓							
Pension Saving Statements							✓					
HMRC Scheme Returns							✓					
IAS19 data			✓		✓				✓			📅

# EXECUTIVE SUMMARY

Forward thinking...  
Working together...  
Doing the right thing...  
Committed to excellence...

## This performance report covers the reporting period of Q3 2022/23 (October – December 2022)

The second phase of the PACE migration to move to our new pensions administration system is now complete.

Phase 1 clients (9 clients / c300,000 members) successfully migrated between January – March 2022. Phase 2 clients (9 clients / c300,000 members) successfully migrated between October – December 2022.

To help us manage this significant change programme, we agreed a period of temporary relaxed SLAs for all clients between March – May 2022 and then again between November– January 2023.

The usual overall SLA target is 95 %, and this target was relaxed as follows:

- High priority relaxed SLA for 3-months post go live (relaxed to 90 % target SLA)
- Other cases relaxed SLA for 3-months post go live (relaxed to 70 % target SLA – with the exception of no breach in statutory deadlines, disclosure or a guarantee period)
- Ill-health estimates/retirements prioritised
- Helpdesk call and web form wait times are likely to increase and we will manage this by pro-actively updating messages on our website, in the IVR when we receive calls and when a web-form is submitted to us

PRIORITY	CASE TYPE
HIGH	Deaths • Retirements deferred • Retirements active
OTHER	New Starters • Refunds • Transfers Out • Transfers In Divorce • Aggregation • Deferred Benefits • Estimates – member Estimates – employer • Correspondence

### Payroll

No disruption to pensioner payroll or lump sum payments (this equates to over £100m, across all clients, in pension payments per month).

### Statutory Deadlines

Pensions Savings Statements were successfully issued in October 2022.

### Casework SLA Performance

Casework performance for the period was impacted by the final Phase 2 Pace migration, and this migration contained the largest number of clients in a single go live (5 clients). The spikes in work created by the migrations adversely impacts performance. Relaxed SLAs will apply through to the end of January 2023 to support Pace transition.

## EXECUTIVE SUMMARY CONTINUED

Forward thinking...  
Working together...  
Doing the right thing...  
Committed to excellence...

### Satisfaction Scores

Helpdesk satisfaction scores has reduced slightly during the period. At the end of Q2, satisfaction was 83 %, at the end of Q3 satisfaction was 80 %.

Retirement satisfaction scores have decreased during the period. At the end of Q2, satisfaction was 69 %, at the end of Q3 satisfaction was 64 %. Satisfaction scores have been impacted by the phase 2 migrations and spikes in work which we currently have plans in place to work through.

### Pensions Helpdesk

Helpdesk performance for the period has seen average wait times remain slightly higher, average 6 minutes, than our non-contractual target of 4 minutes. In December the average wait peaked at 9 minutes as performance was adversely impacted by higher call volumes at the start of the month, driving up average wait times.



# Fund Membership

## In this section...

- Total Fund membership
- Current Age Demographic

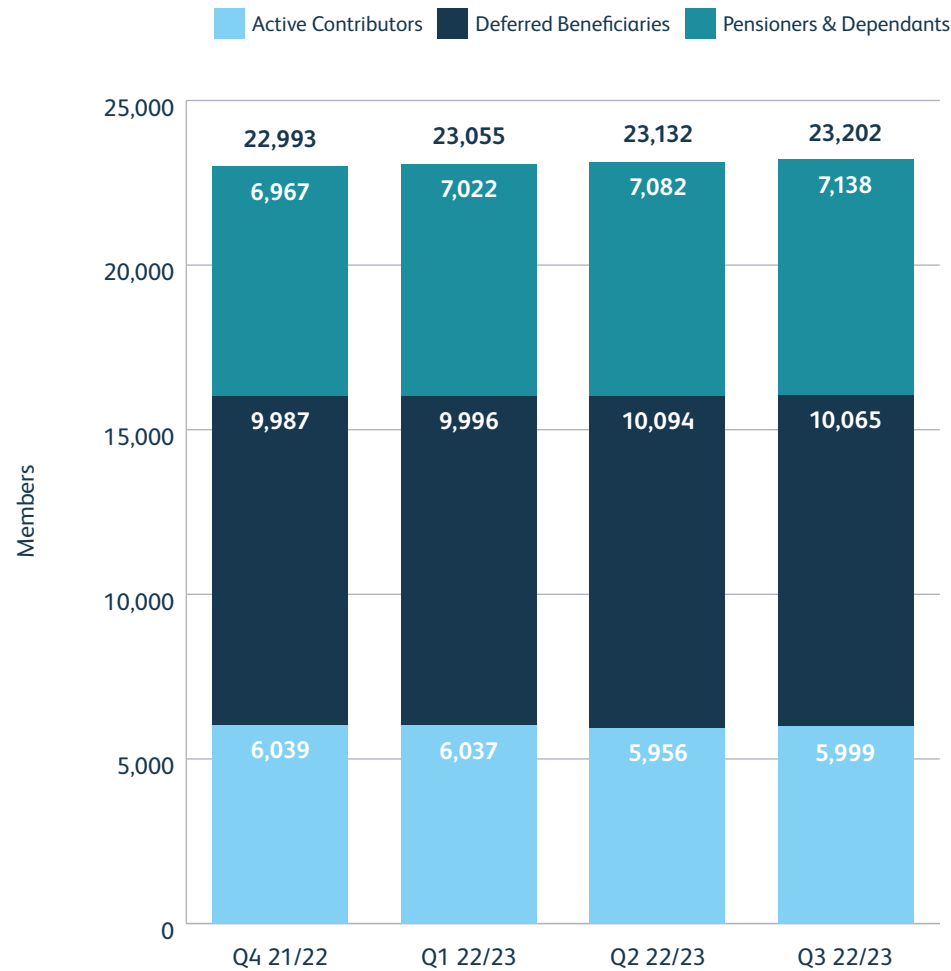
# TOTAL FUND MEMBERSHIP



## TOTAL FUND MEMBERSHIP

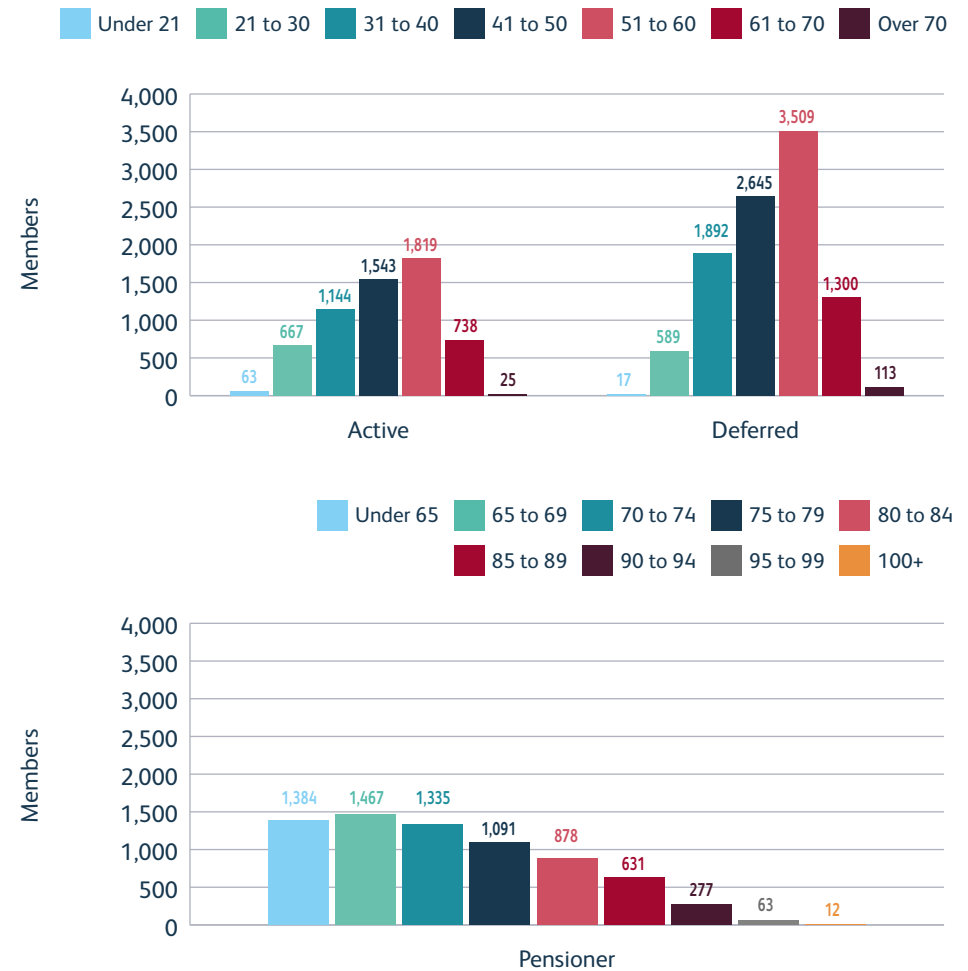
CLIENT SPECIFIC

Page 27



## CURRENT AGE DEMOGRAPHIC

CLIENT SPECIFIC



# Casework Performance Against SLA

## In this section...

- Performance – All cases
- Performance Standard

# CASEWORK PERFORMANCE AGAINST SLA



## PERFORMANCE – ALL CASES

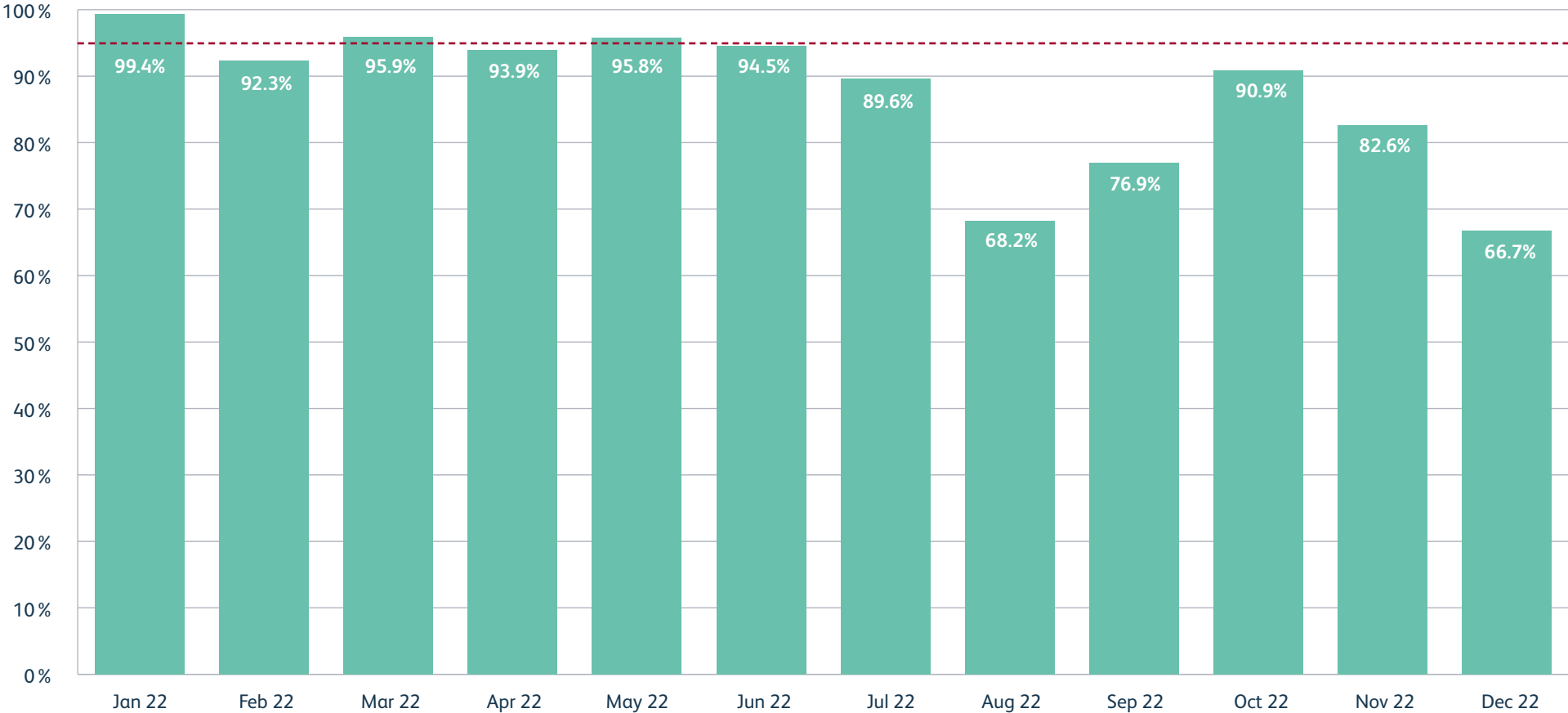
CLIENT SPECIFIC

--- Target (95 %)

The quarterly SLA performance was 84.0%

Page 29

Performance



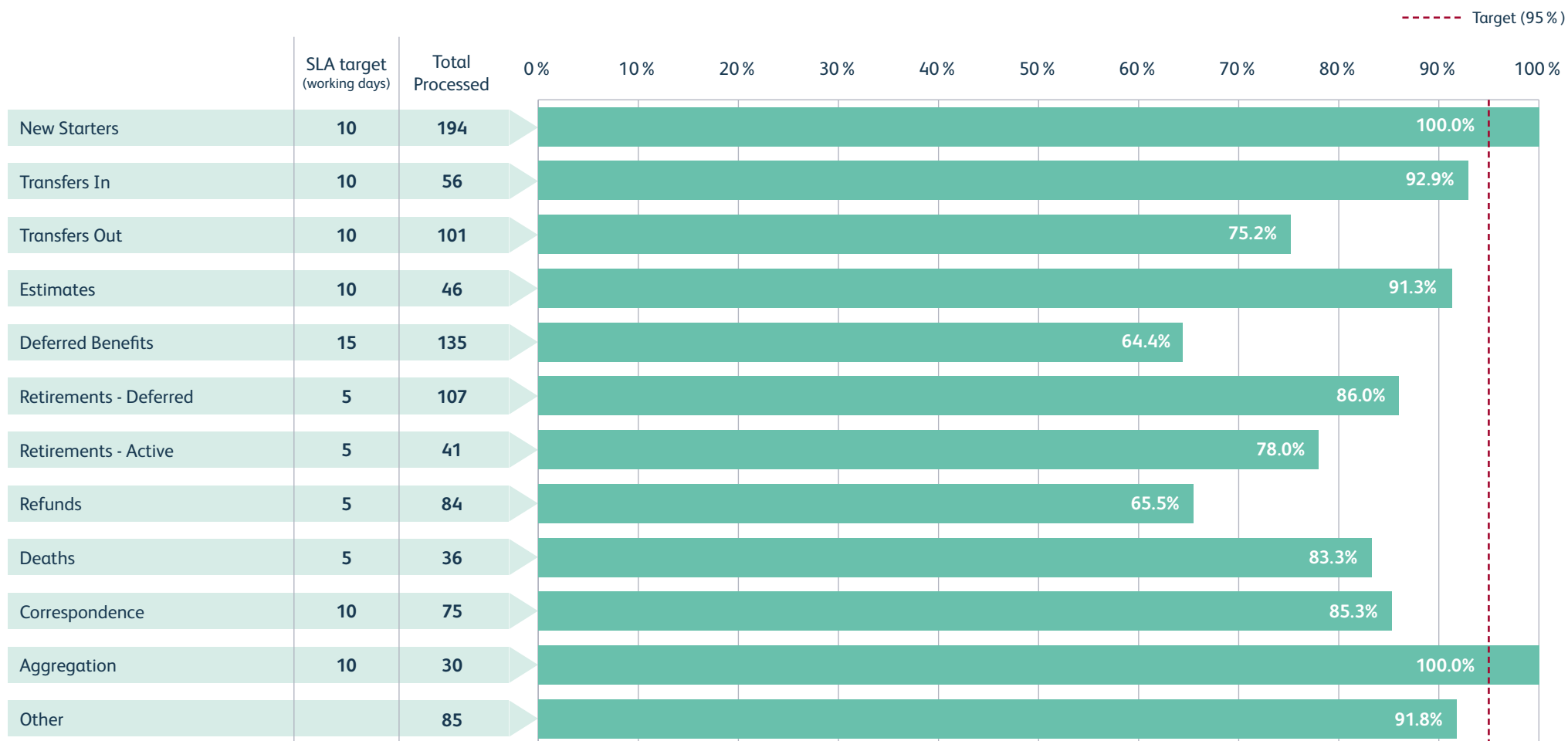
# CASEWORK PERFORMANCE AGAINST SLA



## PERFORMANCE STANDARD

## CLIENT SPECIFIC

Page 30





# Helpdesk Calls Performance

The Helpdesk deals with all online enquiries and calls from Members for all funds that LPPA provide administration services for.

## **In this section...**

- Wait time range
- Calls answered (%)
- Total calls

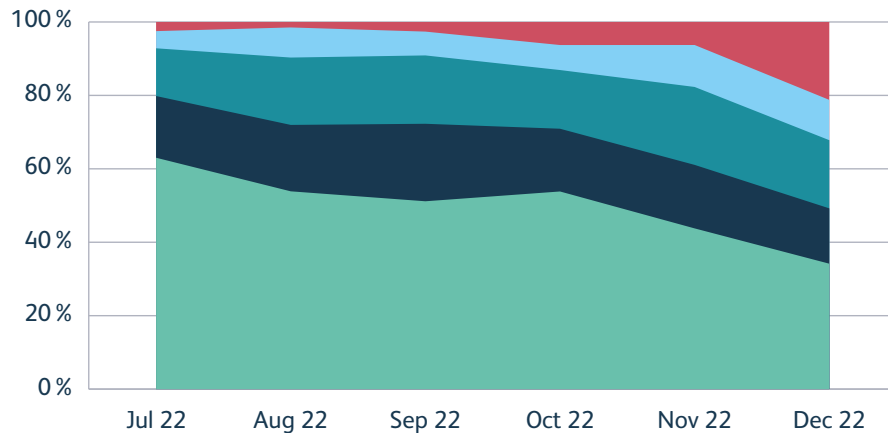
# HELPDESK CALLS PERFORMANCE



## WAIT TIME RANGE

ALL LPPA

Under 2 mins 2 to 5 mins 5 to 10 mins 10 to 15 mins Over 15 mins



	Under 2 mins	2 to 5 mins	5 to 10 mins	10 to 15 mins	Over 15 mins
Jul 22	63.0%	16.8%	13.0%	4.7%	2.5%
Aug 22	53.9%	18.1%	18.3%	8.2%	1.5%
Sep 22	51.2%	21.1%	18.6%	6.5%	2.6%
Oct 22	53.8%	17.1%	16.0%	6.8%	6.3%
Nov 22	43.8%	17.3%	21.2%	11.4%	6.3%
Dec 22	34.2%	15.1%	18.6%	11.0%	21.2%

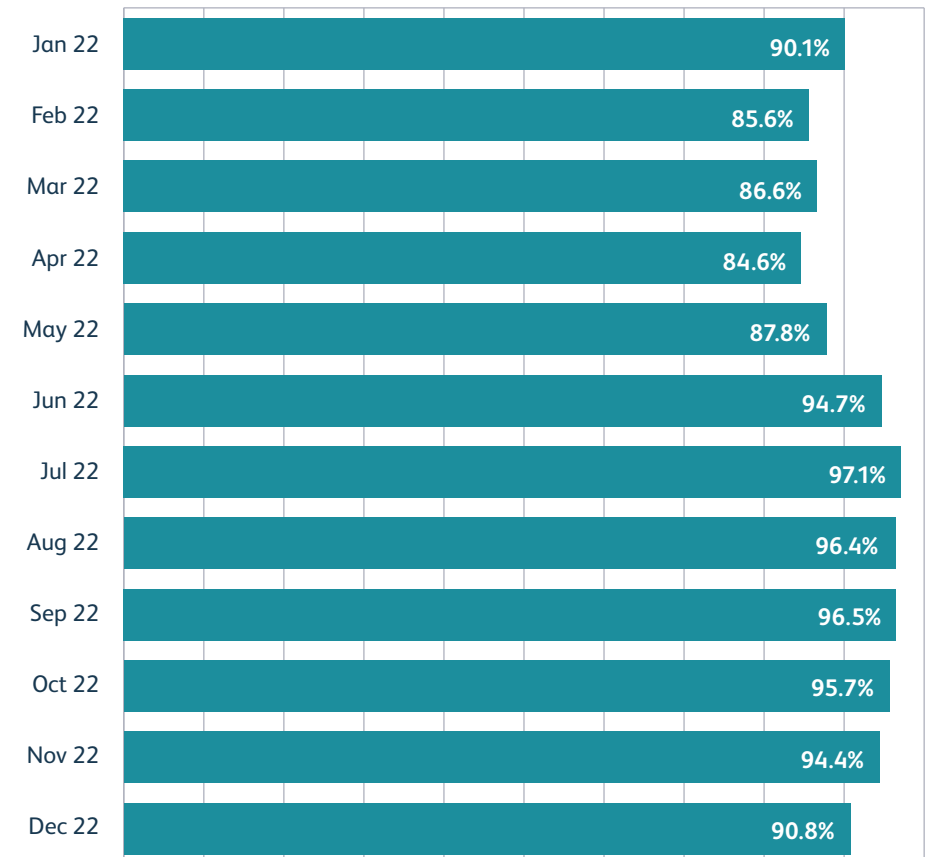


## CALLS ANSWERED (%)

ALL LPPA

Performance

0 % 10 % 20 % 30 % 40 % 50 % 60 % 70 % 80 % 90 % 100 %

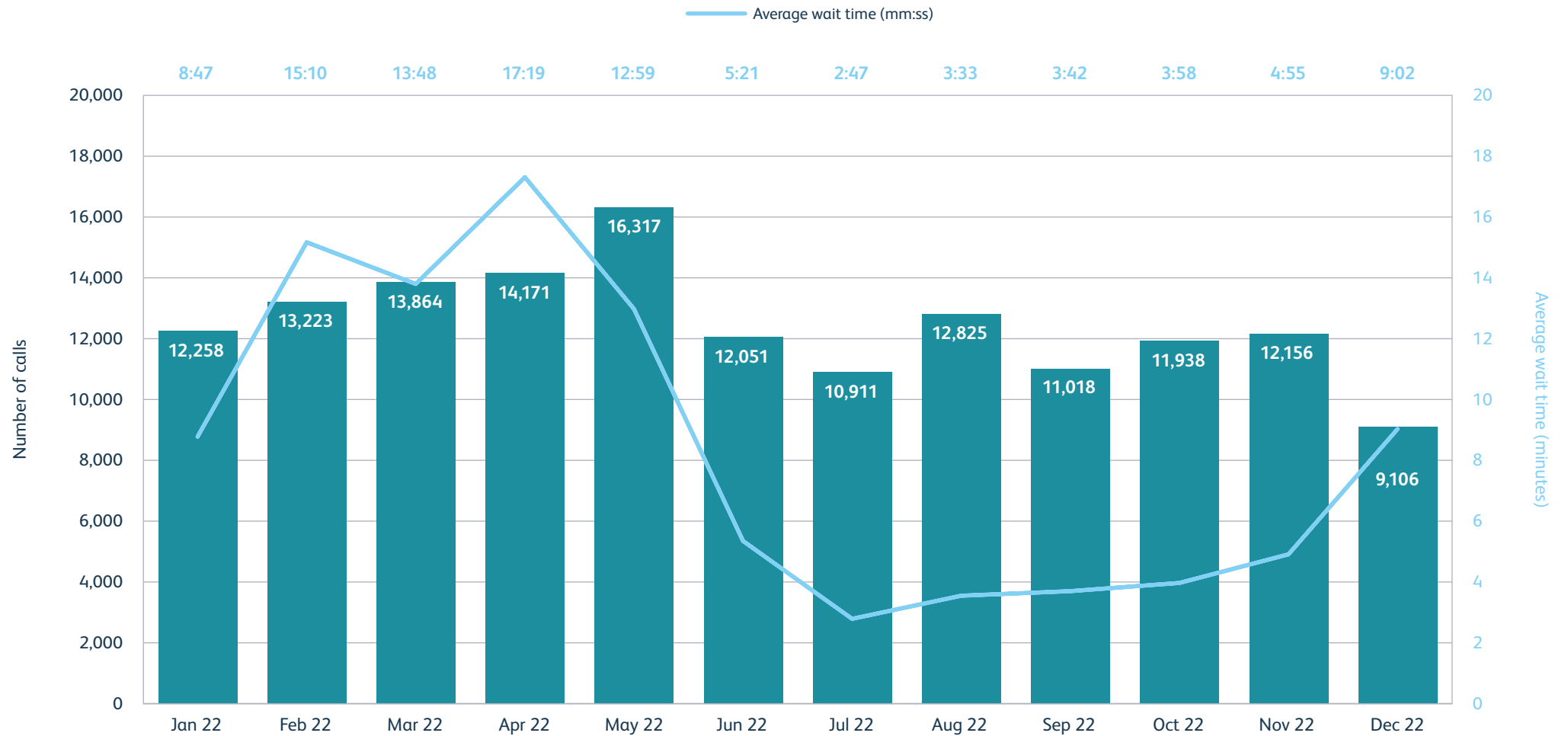


# HELPDESK CALLS PERFORMANCE



TOTAL CALLS

ALL LPPA



# Customer Satisfaction Scores

## In this section...

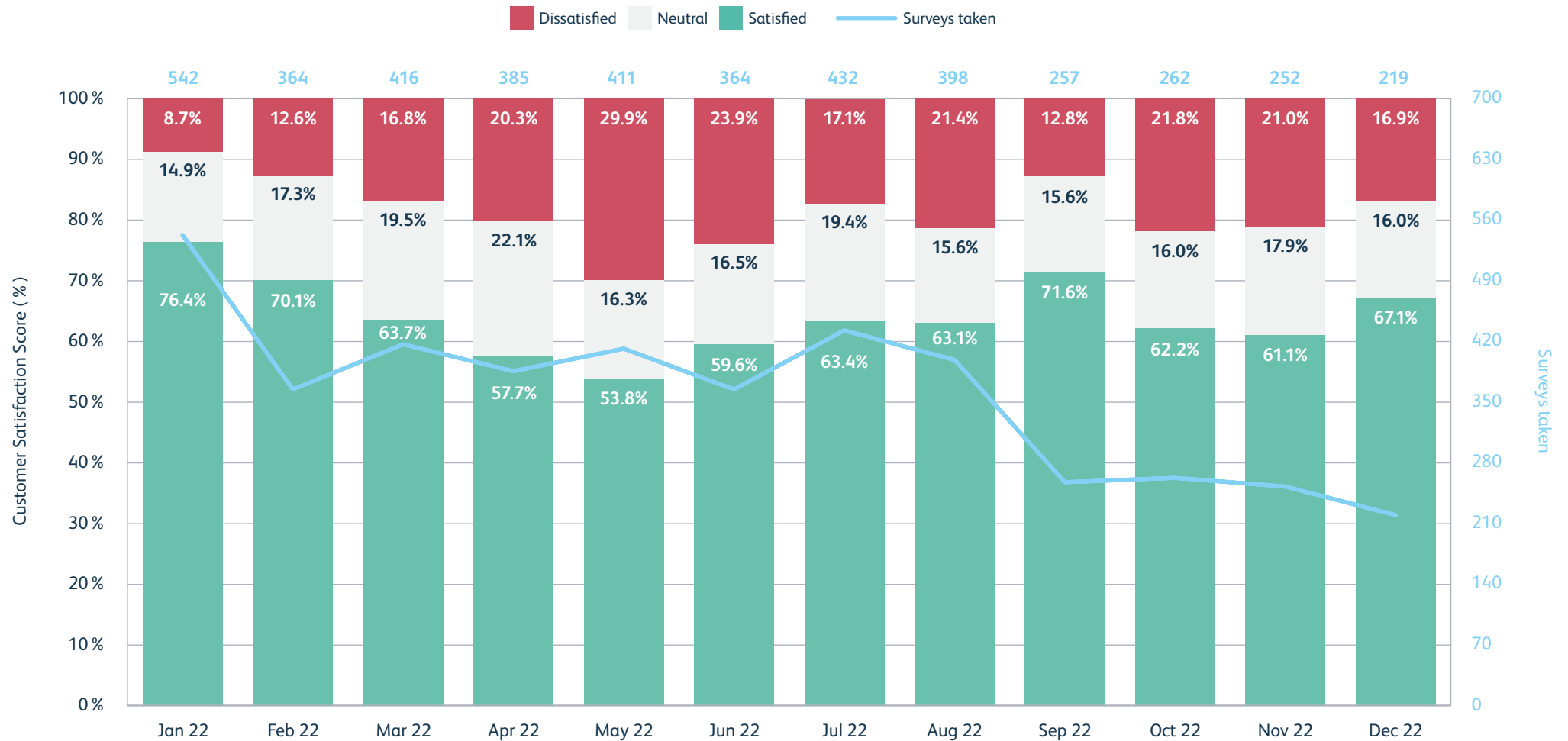
- Helpdesk calls satisfaction
- Retirements

# CUSTOMER SATISFACTION SCORES



## HELPDESK CALLS SATISFACTION

ALL LPPA



# CUSTOMER SATISFACTION SCORES

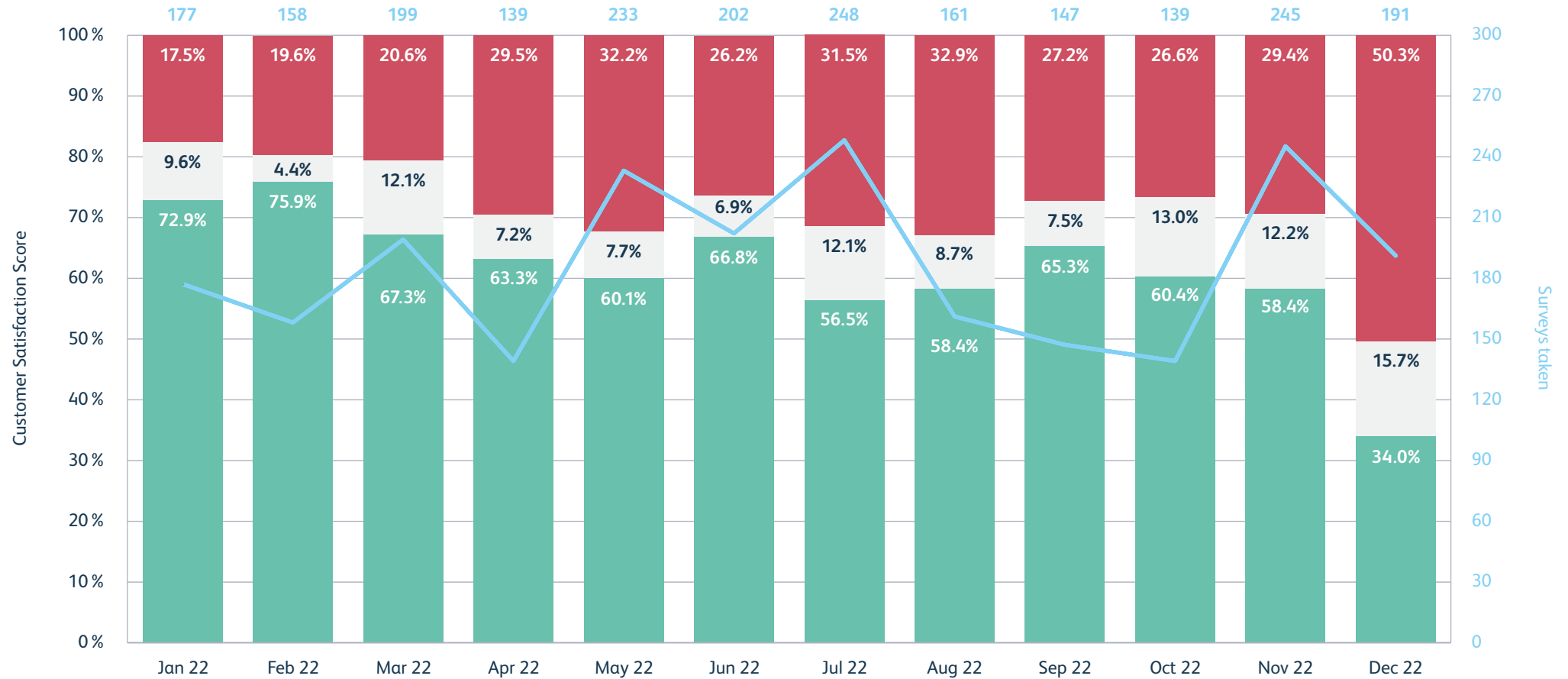


## RETIREMENTS

ALL LPPA

Dissatisfied Neutral Satisfied Surveys taken

Page 36





# PensionPoint

## Member Online Portal

In this section...

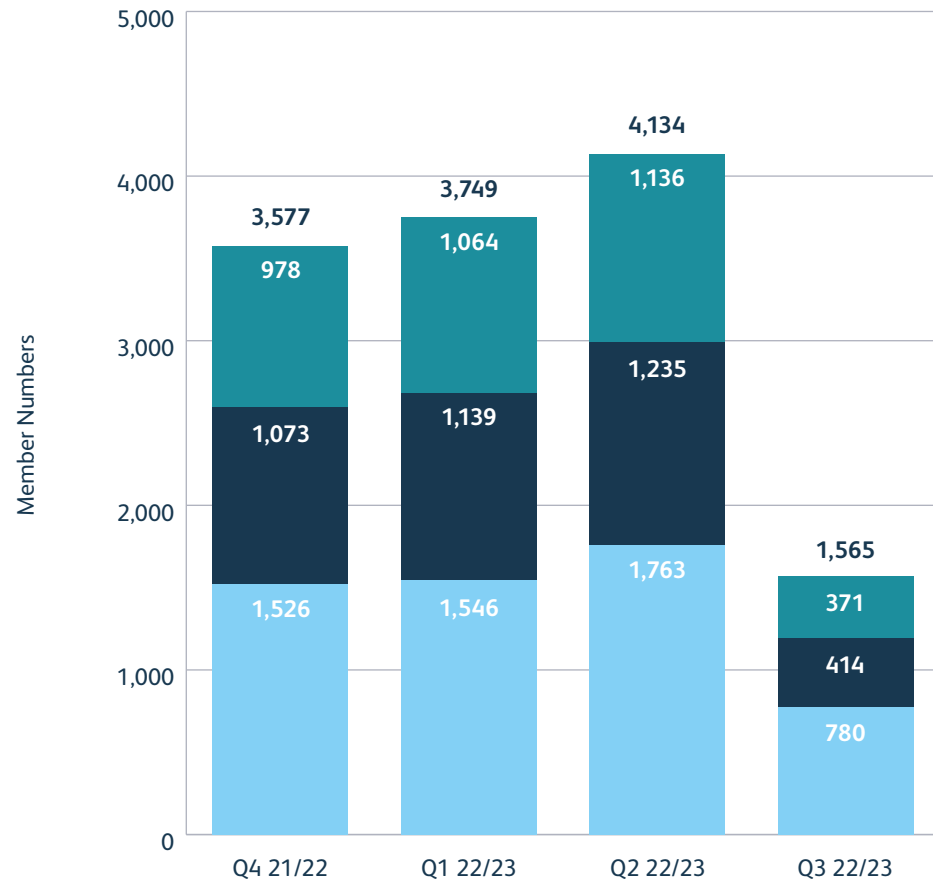
- Members registered



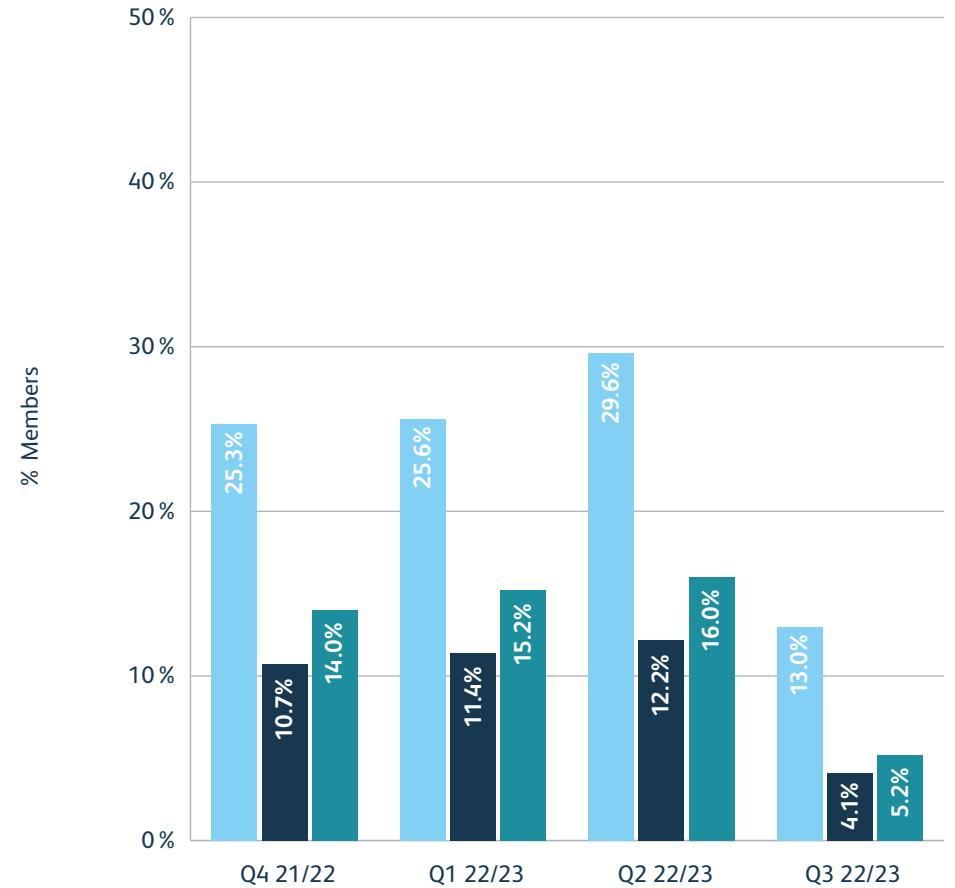
## MEMBERS REGISTERED

CLIENT SPECIFIC

Active Deferred Pensioner



Active Deferred Pensioner





# Employer Engagement & Communication Activity

## In this section...

- Delivered
- Scheduled
- Engagement communications

# EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



DELIVERED

ALL LPPA

1. An [email](#) was issued to members of the LPPA member panel to share results of a survey focusing on the new online newsletter (active and deferred members), whilst also asking for feedback on the FAQ (Frequently Asked Questions) section of the LPPA website.
2. [Help Hub](#) was launched on the LPPA website, a new member help and support section that consolidates all resources (FAQ's, videos, forms and documents, training) into one easily accessible area. The 'search' function has also been improved so that members can access the information they need quicker and easier.
3. [News Hub](#) was launched at the same time, a website page that enables quick and simple access to all LPPA new articles, blogs and research stories. It also includes links to all the latest LPPA newsletters.
4. The [LPPA employer toolkit page](#) was made available to help all employers communicate the benefits of PensionPoint to their members in the workplace. This includes access to content for internal emails, posters and intranet articles.
5. Member Sessions were delivered, all bookable via the LPPA Member Training page, including:

## **Making Sense of your Pension**

These online sessions are aimed at members to help improve their knowledge of their pension, whether they have recently joined the scheme, or have been in the scheme a while.

## **Making Sense of Retirement**

These sessions are aimed at Members who are reaching retirement age (age 55 and over) to help improve their knowledge of the retirement process and claim their pension.

6. [Emails](#) were issued to clients and employers to highlight planned maintenance days and details of system downtime (w/c 31 Oct, with reminders issued w/c 14 and 21 Nov).



## EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



**DELIVERED** CONTINUED

ALL LPPA

7. [Pension Pulse](#) (employer newsletter) was issued in Q3, with features on UPM employer portal training, industry news and links to LGA bulletins.
8. [Training invites](#) were issued both to employers who are currently providing monthly data returns, as well as those which will be submitting from May 23 (training is scheduled every two weeks throughout 2023). The communication also provided employers with access to the monthly returns [online support page](#).
9. Details of the LPPA Christmas opening hours were provided to clients ([email](#)) and employers / members on the LPPA website.

# EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



## SCHEDULED

ALL LPPA

1. Emails will continue to be issued to encourage members to register for PensionPoint (promoting the benefits of online access to their pension).
2. Employer training sessions will continue with a focus on monthly returns and navigating the UPM employer portal, and sessions will include:
  - UPM employer portal training – sessions to support with general navigation and submitting the monthly return data file.
  - Monthly Return Training – regular training sessions will be available for employers to attend, with a demonstration of the upload of Monthly Return files via the UPM employer portal.
  - Remote employer visits will be conducted to support with navigating the UPM employer portal.
  - Employer visits (training sessions and support meetings) will continue to be delivered remotely.
3. Information on pension payment increases (from April 23), as well as pay dates, will be added to the LPPA website to inform retired members.
4. Website development will be completed to improve information (including both content and ease of access) for any new pension scheme joiners.
5. Employer Help Hub – following the launch of the new member help and support resource on the website, LPPA will be developing a corresponding function for employers, with a view to launching in Q4.

# EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



## ENGAGEMENT COMMUNICATIONS

CLIENT SPECIFIC

- Monthly return training sessions were delivered and 6 employers were in attendance across the 2 sessions
- 1 Brent Pension Fund employer attended Scheme Leavers training for employers
- UPM employer portal navigation sessions were held with 8 Brent Pension Fund employers in attendance across 4 sessions
- PensionPoint awareness training session was delivered and 1 employer attended
- Brent Employer Forum was held with 30 employers in attendance



# EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



## EMPLOYERS

### CLIENT SPECIFIC

Date	Employer	Activity	Number in attendance
05 Oct	Brent Pension Fund Employers	UPM Employer Portal Training	3
06 Oct	Brent Pension Fund Employers	Monthly Returns Training	4
12 Oct	Brent Pension Fund Employers	UPM Employer Portal Training	2
03 Nov	Mazars Payroll Provider	UPM Employer Portal Training	1
23 Nov	Brent Pension Fund Employers	Brent Employer Forum	30
08 Dec	Mazars Payroll Provider	Monthly Returns Training	1
08 Dec	LB of Brent	Monthly Returns Training	1
13 Dec	CompassLP Payroll Provider	Scheme Leavers Training	1
14 Dec	Preston Park Primary	PensionPoint Awareness Training	1
15 Dec	Oliver Goldsmith	UPM Employer Portal Training	1
15 Dec	LB of Brent	UPM Employer Portal Training	1

# EMPLOYER ENGAGEMENT & COMMUNICATION ACTIVITY



## EMAILS – EMPLOYERS

CLIENT SPECIFIC

### October

- Blackout period

### November

- Welcome to UPM / UPM now live
- Important reminder about your move to UPM
- Planned maintenance reminder
- November Pension Pulse
- Essential system maintenance reminder
- Monthly return (update)

### December

- December opening hours
- Invite: book on monthly returns training



## EMAILS – MEMBERS

CLIENT SPECIFIC

### October

- PensionPoint (teaser)

### December

- PensionPoint (go-live)

# Data Quality

## In this section...

- Common data
- Conditional data



# DATA QUALITY (TPR SCORES)



## COMMON DATA

CLIENT SPECIFIC

Data Item	Active	Deferred	Pensioner / Dependant
Invalid or Temporary NI Number	2	79	24
Duplicate effective date in status history	0	0	3
Gender is not Male or Female	0	0	0
Duplicate entries in status history	5	24	15
Missing (or known false) Date of Birth	0	0	0
Date Joined Scheme greater than first status entry	7	0	4
Missing Surname	0	0	0
Incorrect Gender for members title	0	0	0
Invalid Date of Birth	5	0	0
No entry in the status history	0	0	0
Last entry in status history does not match current status	5	0	0
Member has no address	20	525	32
Missing Forename(s)	0	6	1
Missing State Retirement Date	0	0	0
Missing postcode	21	567	58
Missing Date Joined Pensionable Service	0	0	0
<b>Total Fails</b>	<b>65</b>	<b>1,201</b>	<b>137</b>
<b>Individual Fails</b>	<b>43</b>	<b>652</b>	<b>94</b>
<b>Total Members</b>	<b>5,999</b>	<b>10,065</b>	<b>7,138</b>
<b>Accuracy Rate</b>	<b>99.3%</b>	<b>93.5%</b>	<b>98.7%</b>
<b>Total accuracy rate</b>	<b>96.6%</b>		



## CONDITIONAL DATA


CLIENT SPECIFIC

Data Item	Fails
Divorce Records	0
Transfer In	113
AVC's/Additional Contributions	25
Deferred Benefits	2
Tranches (DB)	0
Gross Pension (Pensioners)	58
Tranches (Pensioners)	0
Gross Pension (Dependants)	66
Tranches (Dependants)	70
Date of Leaving	17
Date Joined Scheme	20
Employer Details	3
Salary	235
Crystallisation	218
Annual Allowance	168
LTA Factors	95
Date Contracted Out	1,244*
Pre-88 GMP	469
Post-88 GMP	528
<b>Total Fails</b>	<b>3,331</b>
<b>Individual Fails</b>	<b>3,249</b>
<b>Total Members</b>	<b>23,202</b>
<b>Accuracy Rate</b>	<b>86.0%</b>

\* Date Contracted Out will be migrated to UPM in February.

# LPP

Local Pensions Partnership  
Administration

	<b>Pension Board</b> 22 March 2023
	<b>Report from the Corporate Director, Finance and Resources</b>
<b>LGPS Update</b>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Seven Appendix 1 - LGPC Bulletin 230 – October 2022 Appendix 2 - LGPC Bulletin 231 – November 2022 Appendix 3 - LGPC Bulletin 232 – December 2022 Appendix 4 - LGPC Bulletin 233 – January 2023 Appendix 5 - LGPC Bulletin 234 – February 2023 Appendix 6 - Briefing note on annual revaluation date change Appendix 7 - Minister response to SAB letter on External Audit
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & 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>  Sawan Shah, Head of Pensions 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 The purpose of this report is to update the committee 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.

## **2.0 Recommendation(s)**

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

## **3.0 Detail**

### **LGPS statistics for 2021/22**

3.1 In October 2022, Department for Levelling Up, Housing and Communities (DLUHC) published the Local Government pension scheme statistics for 2021/22. Highlights include:

- Total expenditure of £14.4 billion, an increase of 6.6 per cent on 2020/21. This was driven in part by an increase in lump-sum retirement payments.
- Total income of £15.9 billion, a decrease of 8.1 per cent on 2020/21.
- Employer contributions decreased by 24.3 per cent on 2020/21 to £7.8 billion. This decrease in total income and employer contributions is common in the final year of the three-year valuation cycle due to employers making early payment of contributions in the previous two years.
- The market value of LGPS funds on 31 March 2022 was £364 billion, an increase of 8 per cent.
- There were 6.3 million scheme members on 31 March 2022: 2.0 million active members, 1.9 million pensioners and 2.3 million deferred members.

### **SAB statement on employer contributions**

3.2 At its meeting on 10 October 2022, the SAB discussed emerging results from the 2022 valuations. The Board understands and recognises the extremely challenging position for local government finance. However, it asks administering authorities and other Scheme employers to have regard to the desirability of long-term stability in pension contributions when considering whether reductions in employer contributions are desirable as a result of an improved funding position.

3.3 The Fund has discussed this statement with the Fund actuary and there is no reason to have concern over the contents of the statement or cause the Fund to review or alter the assumptions, funding plans and contribution rates that have been agreed. Also, the Fund uses a prudent discount rate and operates an explicit stabilisation mechanism for the Council, schools and academies.

### **2023/24 employee contribution bands and Pensions in Payment**

3.4 Table 1 below shows employee contribution bands, which will be effective from 1 April 2023. These are calculated by increasing the 2022/23 employee contribution bands by the September CPI figure of 10.1%. Details of the 2023/24 pay award are not yet known, however in 2022/23 the average pay

award was significantly lower than the prevailing rate of CPI inflation. As the employee contribution bands are being uplifted by a higher rate than the average pay award there is likely to be more members of staff dropping into a lower band than in previous years. This will reduce the contributions payable to the Fund by members. This will have a small negative impact on the cashflow position of the Fund in the short term, higher inflation expectations have been factored into the 2022 valuation therefore it is not a cause for concern in the longer term.

Table 1: Contribution table England and Wales 2023/24

<b>Band</b>	<b>Actual pensionable pay for an employment</b>	<b>Main section contribution rate for that employment (%)</b>	<b>50/50 section contribution rate for that employment (%)</b>
1	Up to £16,500	5.5	2.75
2	£16,501 to £25,900	5.8	2.90
3	£25,901 to £42,100	6.5	3.25
4	£42,101 to £53,300	6.8	3.40
5	£53,301 to £74,700	8.5	4.25
6	£74,701 to £105,900	9.9	4.95
7	£105,901 to £124,800	10.5	5.25
8	£124,801 to £187,200	11.4	5.70
9	£187,201 or more	12.5	6.25

- 3.5 LGPS pensions are adjusted each April in line with the cost of living. The increase is measured by the September to September adjustment in the Consumer Price Index (CPI) and is applied to pensions from the following April. The increase that will be applied from 10 April 2023 is 10.1%.

### **Consultation on the annual revaluation date change**

- 3.6 DLUHC issued a consultation on changing the in scheme revaluation date from 1 to 6 April, with effect from 1 April 2023 and thereafter on each 6th of April. The proposed change will remove the impact of high inflation on the annual allowance (AA) and reduce the number of members incurring a tax charge. The consultation ran for two weeks and closed on 24 February 2023.
- 3.7 The AA should reflect the increase in a member's pension benefits above inflation and as things currently stand, the allowance for inflation in the AA calculation does not match the annual revaluation applied to pension accounts. Until now this has not been a significant issue because inflation has been low.
- 3.8 However, the imbalance for tax year 2022/2023 is 7 per cent. Consequently, without changes to scheme regulations, there will be a significant increase in the number of LGPS members breaching the annual allowance and potentially incurring a tax charge. By moving the annual revaluation to 6 April the imbalance is removed. The Fund's actuarial advisors have produced a briefing note on this subject which is attached in Appendix 6.

### **Minister responds to SAB letter on External Audit**

3.9 Lee Rowley MP, Minister for Local Government, has responded to a letter written to him in August 2022 by the Scheme Advisory Board. He welcomed the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts and has asked his officials to consider the scope for developing this further. The full contents of the letter are attached in Appendix 7.

#### **4.0 Financial Implications**

4.1 This report is for noting, so there are no direct financial implications.

#### **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

## LGPC Bulletin 230 – October 2022

Local Government Pensions Committee (LGPC)  
Secretary, Lorraine Bennett

This bulletin contains updates for all LGPS stakeholders. It includes the following important articles which need action by certain stakeholders:

- [Survey on upcoming climate risk reporting regime](#) (not relevant for Scotland) – administering authorities should complete the survey by 2 November 2022
- [Annual and lifetime allowance event report data 2021/22](#) – administering authorities should review the email and follow the instructions when submitting the annual and lifetime allowance event report data for 2021/22
- [Data request on opt outs](#) - administering authorities should provide the data by 4 November 2022.

If you have any comments or articles for future bulletins, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

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## **LGPS England & Wales Scheme Advisory Board (SAB)**

### **SAB Chair writes to LGPS minister**

Councillor Phillips, Chair of the Board, has recently sent two letters to Paul Scully, LGPS Minister.

The first letter invites the minister to attend a future SAB meeting.

The second letter asks the minister for an update on the Fair Deal consultation. The Government has yet to respond to the Fair Deal consultation which ran between 10 January 2019 and 4 April 2019. We covered the consultation in [Bulletin 181](#).

For more information on these letters, see [the news](#) page of [www.lgpsboard.org](http://www.lgpsboard.org).

### **SAB responds to HM Treasury's consultation on exit payments**

The SAB recently responded to HM Treasury's consultation on public sector exit payments.

Between 8 August 2022 and 17 October 2022, HM Treasury consulted on proposals introducing new controls for high exit payments. These will apply to all bodies classified as 'central government'. We covered the consultation in [Bulletin 228](#).

You can access the consultation documents and the SAB response on the [non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org).

### **Survey on upcoming climate risk reporting regime**

On 5 October 2022, Gareth Brown emailed administering authorities in England and Wales, inviting them to complete a [survey on the upcoming climate risk reporting regime](#). The survey should take no longer than 10 minutes to complete and closes on 2 November 2022.

The Department for Levelling Up, Housing and Communities launched a consultation on 1 September 2022. The consultation proposes to introduce a climate risk reporting regime for administering authorities in England and Wales, which we covered in [Bulletin 229](#). The consultation closes on 24 November 2022.

The SAB is undertaking the survey to understand administering authorities' readiness or apprehension about the proposed changes. The results from the survey will shape the SAB's response to the consultation.

## Action for administering authorities

Complete the survey by 2 November 2022.

### SAB update

You can use the links below to find out about the latest updates on the work of the SAB and its committees:

- the latest [SAB meeting and agenda papers](#)
- the latest [committee meetings and agenda papers](#)
- the latest [Responsible Investment Advisory Group meetings and agenda papers](#)
- the [latest news items](#).

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## LGPS England & Wales

### Academy guarantee information

On 14 October 2022, the Department for Education published an updated version of [its policy paper on the academy guarantee](#). It also recently published a [departmental minute on the issue](#).

The information is aimed at academy trusts, administering authorities and actuaries.

The information follows the Government's recent review of the guarantee, which we covered in [Bulletin 227](#).

### LGPS statistics for 2021/22 published

On 26 October 2022, DLUHC published the [Local government pension scheme statistics](#) for England and Wales: 2021 to 2022.

Highlights include:

- total expenditure of £14.4 billion, an increase of 6.6 per cent on 2020/21
- total income of £15.9 billion, a decrease of 8.1 per cent on 2020/21
- employer contributions decreased by 24.3 per cent on 2020/21 to £7.8 billion
- employee contributions of £2.6 billion, an increase of 4.8 per cent
- the market value of LGPS funds on 31 March 2022 was £364 billion, an increase of 8 per cent
- there were 6.3 million scheme members on 31 March 2022: 2.0 million active members, 1.9 million pensioners and 2.3 million deferred members

- there were 94,724 retirements in 2021/22, an increase of 14.2 per cent compared with 2020/21.

The decrease in total income and employer contributions is common in the final year of the three-year valuation cycle. This is due to employers making early payment of contributions in the previous two years.

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## LGPS Scotland

### Second TPO webinar cancelled

On 3 October 2022, the Scottish Public Pensions Agency (SPPA) announced the second Pensions Ombudsman webinar on the ill health retirement process will not go ahead. This was due to a lack of attendees.

The first webinar was held on 22 September 2022. The second webinar was scheduled for 4 October 2022 and was aimed at those who could not attend the first one.

SPPA emailed a link to a recording of the first webinar to administering authorities. SPPA encourages authorities to share the link with those employers who were unable to attend.

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## HMRC

### Annual and lifetime allowance event report data 2021/22

On 20 October 2022, Lorraine Bennett forwarded an email from HM Revenue and Customs (HMRC) to all administering authorities.

The email confirms that HMRC will accept the annual allowance event report data for 2021/22 on an excel spreadsheet, rather than through the event report. You must submit this data by 31 January 2023.

HMRC has not yet updated the event report to include lifetime allowance protections that members applied for online. You can also submit these details to HMRC on a password-protected spreadsheet. You must submit this by 31 January 2023.

Further information about providing the data was included in the email.

If you choose to supply information to HMRC in this way, this is at your own risk.

### **Action for administering authorities**

Review the email and follow the instructions when submitting the annual and lifetime allowance event report data for 2021/22.

### **Newsletter 143**

HMRC published [Newsletter 143](#) on 30 September 2022.

The newsletter includes articles:

- confirming that schemes can use the pension scheme tax reference number when paying charges if they do not have a specific charge reference. HMRC had previously announced in April 2022 that schemes were unable to do so
- confirming that Government has decided against introducing a new reportable event for certain public service pension schemes from April 2023
- confirming that HMRC expects to release the event report for 2023/24 on the Managing pension schemes service in summer 2023. HMRC had previously expected to release this in spring 2023.

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## **TPO**

### **A day in the life of TPO**

The Pensions Ombudsman (TPO) published [an article setting out a day in the life of Anthony Arter](#) on 13 October 2022. Anthony is the current Pensions Ombudsman.

The article was published to mark the fifth annual Ombuds Day. The Ombuds Day aims to educate and raise awareness among the public about the history and practices of the ombuds profession. This year's theme was resilience, respect and resolve.

Dominic Harris will replace Anthony Arter as Pensions Ombudsman in January 2023.

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## **TPR**

### **Enforcement and prosecution policies updated**

On 25 October 2022, the Pensions Regulator (TPR) published the following:

- [revised enforcement policy](#)
- [updated prosecution policy](#)
- [new enforcement strategy](#).

These aim to give clarity on what those who are subject to enforcement action can expect from TPR.

The enforcement policy sets out TPR's approach to investigating cases and any subsequent enforcement action. It is web-based and divided into standalone chapters, each with links to other relevant documents. The policy also consolidates previous policies in respect of defined benefit, defined contribution and public service pension schemes.

The prosecution policy explains how TPR will approach prosecuting workplace pension criminal offences. The policy has been brought up to date to reflect the new criminal powers in the Pensions Schemes Act 2021 and other developments.

The enforcement strategy sets out the overarching aims of TPR's enforcement work (excluding automatic enrolment). It also provides an insight into the framework TPR applies when selecting cases for enforcement action.

TPR ran a consultation on the revised enforcement and prosecution policies between 4 May 2022 and 24 June 2022 and responded on 25 October 2022. You can access the consultation documents on [the consultations page of TPR's website](#).

For more information, see the [press release from TPR](#). Erica Carroll, TPR's Director of Enforcement, also published [a blog setting out the reasons for the changes](#).

### **TPR speech at PLSA conference**

Charles Counsell, Chief Executive Officer at TPR, delivered a speech at the recent Pensions and Lifetime Savings Association (PLSA) conference. The speech was titled 'Looking Ahead: Regulating for the Saver'.

The speech covered a wide range of issues, including dashboards, liability-driven investments and the cost-of-living crisis.

TPR has published [an extract of the speech](#).

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## **Pensions dashboards**

### **Draft guidance on deferring staging date published**

On 17 October 2022, the Department for Work and Pensions (DWP) published [draft guidance on applying to defer the staging deadline](#). DWP also published a [template application form](#).

The draft Pensions Dashboards Regulations 2022 propose allowing trustees / managers of a pension scheme to apply to DWP to defer their staging deadline.

They set out the time limits in which to apply and the circumstances where DWP may accept applications. DWP may only agree to defer the staging deadline once for each scheme and for a period of up to 12 months.

DWP has produced the draft guidance to aid understanding of the application process. This includes:

- what DWP will consider when reviewing applications
- what evidence should be submitted to support an application
- how to apply, including a recommendation to use the template application form
- how DWP will let schemes know whether they have accepted the application and how schemes can appeal.

DWP will finalise the draft guidance once the dashboard regulations come into force.

### **Draft dashboard regulations laid for approval**

On 17 October 2022, DWP laid a draft of [The Pensions Dashboard Regulations 2022](#) before each House of Parliament.

DWP can only make the regulations if each House approves the draft by a resolution. The House of Lords will consider the regulations on 15 November 2022. As yet, no date has been set for this to happen in the House of Commons.

DWP consulted on draft dashboard regulations between 31 January 2022 and 13 March 2022. They responded on 15 July 2022, which we covered in [Bulletin 227](#). The draft regulations laid before each House have been amended to reflect the consultation response. They have also been amended to reflect the response to the further consultation (see next article).

You can access the consultation documents on:

- [the non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org)
- [the non-scheme consultations](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **DWP responds to further consultation on dashboards**

On 17 October 2022, DWP responded to the further consultation on dashboards. This ran from 28 June to 19 July 2022, see [Bulletin 226](#) for more information.

The response confirms that the DWP will:

- give pension schemes six months' notice of the point at which pensions dashboards will be available to the public, the 'Dashboard Available Point'. This is an increase to the 90 days proposed in the consultation
- go ahead with the second proposal allowing the Money and Pensions Service (MaPS) and the Pensions Regulator (TPR) to share information about dashboards.

You can access the consultation documents on:

- [the non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org)
- [the non-scheme consultations](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **Progress update report**

On 26 October 2022, the Pensions Dashboards Programme (PDP) published its [sixth progress update report](#).

The report covers:

- programme activity in the six-month period from April 2022,
- focus areas to April 2023
- updates from PDP's partners: DWP; the Financial Conduct Authority (FCA); and TPR.

To complement the report, PDP will be hosting a webinar on 3 November 2022. You can sign up for the webinar on [the registration page of the PDP's website](#).

### **Research on public value of dashboards published**

PDP has published the results of research carried out by Ipsos. PDP commissioned Ipsos to carry out quantitative research into the value that people attach to pension dashboards and their likelihood to use them.

PDP will use the results to inform development of the central digital architecture.

For more information, including a link to the results, see [the press release from PDP](#).

### **Update on connecting early participants to the dashboard ecosystem**

On 17 October 2022, the PDP published [an update on the programme](#).

The update outlines the next three steps for early participants connecting to the pensions dashboards ecosystem. Early participants are those who volunteered to help test and develop the ecosystem.



## Videos published

On 13 October 2022, PDP published two short videos.

The first video is called '[Get your data ready for pensions dashboards](#)'. The video provides guidance to schemes on how to cleanse data so that it is accurate and up-to-date.

The second video is called '[An introduction to find and view data](#)'. The video explains the important differences between find data and view data.

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## Other news and updates

### Data request on opt outs

On 11 October 2022, Gareth Brown emailed administering authorities in England, Scotland and Wales with a request for data on the number of members opting out or moving to the 50/50 section. The email was sent on behalf of the Scheme Advisory Board (SAB) for England and Wales.

More detail about the request was included in the email. Authorities are asked to respond by 4 November 2022.

The data will allow the SAB to understand the extent to which the cost of living crisis is changing members' behaviour. The data will also help the SAB to decide whether a more substantial data gathering exercise is required. This would capture data that is only likely to be held by employers.

The SAB expects to rerun the exercise early next year and possibly again in spring 2023.

### Action for administering authorities

Provide the data by 4 November 2022.

### FAQ added to member websites

We recently added a new FAQ to the member websites. The FAQ considers whether a member's pension is affected by uncertainty in the financial markets.

You can access the new FAQ on:

- the [About your pension FAQ](#) page of [www.lgpsmember.org](http://www.lgpsmember.org)
- the [About your pension FAQ](#) page of [www.scotlgpsmember.org](http://www.scotlgpsmember.org).

## **FCA warns that cost-of-living crisis could increase pension scams**

The Financial Conduct Authority (FCA) recently issued a [press release warning that the cost-of-living crisis could cause an increase in pension scams](#).

The warning follows FCA research that a quarter of consumers would consider withdrawing money from their pension earlier than planned to cover the cost of living, making them vulnerable to pension scammers.

## **FRC publishes new version of AS TM1**

On 7 October 2022, the Financial Reporting Council (FRC) published [version 5.0 of the Actuarial Standard \(AS\) TM1](#).

The purpose of AS TM1 is to specify the assumptions and methods to be used for calculating statutory money purchase illustrations (SMPs). SMPs are included in annual benefit statements. This includes statements for AVCs. The Department for Work and Pensions intends for AS TM1 to make pension projections more consistent and reliable when shown on pension dashboards. AS TM1 does not apply to defined benefit schemes.

The new version applies to illustrations issued on or after 1 October 2023. Version 4.2 will continue to apply until then.

For more information, see [the press release from the FRC](#).

## **GAD blog on LDIs**

The Government Actuary's Department (GAD) has recently published a [blog on liability driven investments \(LDIs\)](#).

The blog explains what LDI is and the recent issues with this type of investment during market volatility.

## **September 2022 CPI rate announced**

On 19 October 2022, the Office for National Statistics announced [the Consumer Prices Index \(CPI\) rate of inflation for September 2022 as 10.1 per cent](#).

Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI in September of the previous year. We await confirmation from Government that the revaluation and pensions increase that will apply to LGPS active pension accounts, deferred pensions and pensions in payment in April 2023 will be 10.1 per cent.

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## Training

### LGPS Governance Conference 2023

Our recently released [conference flyer](#) contains an updated programme with confirmed speakers.

The conference will take place on 19 and 20 January 2023 at the Cardiff Marriott Hotel. You can attend the conference in person or join us online. If you wish to attend in person, we recommend you book early as places are limited.

The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. Past delegates include elected members, trades union representatives, member and employer representatives, as well as a variety of officers who attend and support committees.

You can book using the links below. We are unable to take manual bookings.

- [book to attend in person](#)
- [book to attend virtually](#).

The booking page for all LGA events is [www.local.gov.uk/events](http://www.local.gov.uk/events).

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## Wider landscape

### PASA publishes defined contribution (DC) transfer guidance

The Pensions Administration Standards Association (PASA) recently published [Good Practice Guidance on DC Transfers](#).

The guidance is aimed at transfers from trust based DC schemes.

The guidance primarily aims to improve the overall saver experience through faster and more secure transfers.

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## Legislation

### Statutory Instruments

[The Pension Schemes Act 2021 \(Commencement No.7 and Transitory Provision\) Regulations 2022](#) [2022/1044]

## Useful links

[LGA Pensions page](#)

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

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

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

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

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

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

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## LGPS pensions section contact details

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

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## Further information

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## LGPC Bulletin 231 – November 2022

Local Government Pensions Committee (LGPC)  
Secretary, Lorraine Bennett

This bulletin contains updates for all LGPS stakeholders. It includes important articles on:

- [SAB statement on employer contributions](#) (England and Wales)
- [Further education reclassification](#) (England)
- [Consultation on tax rules for the McCloud remedy](#)
- [Pensions dashboards regulations](#)
- [Updated pensions dashboards standards](#)
- Last chance to book to attend the [January 2023 Governance Conference](#) in person

which need action by certain stakeholders. If you have any comments or articles for future bulletins, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

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

### **SAB statement on employer contributions**

At its meeting on 10 October 2022, the SAB discussed emerging results from the current round of triennial local fund valuations. The Board understands and recognises the extremely challenging position for local government finance. However, it asks administering authorities and other Scheme employers to have regard to the desirability of long-term stability in pension contributions when considering whether reductions in employer contributions are desirable as a result of an improved funding position.

The [SAB statement on employer contributions](#) gives more detail about the Board's discussions and the reasons behind making the statement.

### **Action for administering authorities**

Discuss the SAB statement with your actuary and have regard to it when setting primary contribution rates for employers.

### **SAB responds to climate risk reporting consultation**

The SAB has submitted its response to the Department for Levelling Up, Housing and Community's (DLUHC) climate risk reporting consultation. The consultation closed on 24 November 2022. The response included:

- some over-arching observations on the role of pension funds, as well as their limitations
- the production of climate risk reports
- responses to DLUHC's specific questions on governance, scenario analysis, metrics and risk management.

The Board welcomed the opportunity to engage with DLUHC's proposals and believes that pension funds should be able to make a positive contribution by supporting the just transition to a sustainable future.

You can read [SAB's response to the climate risk reporting consultation](#) in full. You can find links to the original consultation on the [Scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org).

## 2021/22 annual reports

The Board is aware that some pension fund audits are likely to be delayed again this year, largely due to issues with auditing the host authority's accounts. There is a statutory duty under regulation 57 of the LGPS Regulations 2013 for administering authorities to publish an annual report 'on or before 1 December'.

The Board has written to the minister with proposals to help improve the timely completion of audit. In the meantime, the SAB urges administering authorities to publish their 2021/22 annual reports based on the best data available to them by the statutory deadline.

Ideally, the report would be based on audited data. But if that is likely to result in a significant delay, the SAB asks funds to produce and publish reports based on unaudited data (labelled as draft), and to re-publish an amended annual report with the external auditor's opinion and revised data after audit, where necessary.

### Action for administering authorities

Produce and publish the 2021/22 annual report based on unaudited data by 1 December 2022, if audited data will not be available by that date.

## SAB update

You can use the links below to find out about the latest updates on the work of the SAB and its committees:

- [SAB meeting and agenda papers](#)
- [committee meetings and agenda papers](#)
- [Responsible Investment Advisory Group meetings and agenda papers](#)
- [news items](#).

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## LGPS England & Wales

### New LGPS minister

[Lee Rowley MP](#) was appointed Parliamentary Under Secretary of State in the Department for Levelling Up, Housing and Communities on 7 September 2022. It has now been confirmed that he has taken over ministerial responsibility for the LGPS.

[Michael Gove MP](#) was re-appointed Secretary of State for Levelling Up, Housing and Communities on 25 October 2022. He previously held this role between 15 September 2021 and 6 July 2022.

## Further education reclassification

Following a review into the classification of further education sector, the Office for National Statistics has reclassified colleges and their subsidiaries in England into the central government sector. You can read more about [Further education reclassification](#) on the Government's website.

Thank you to all administering authorities that provided additional data on colleges. We reported this request for data in [Bulletin 229](#). The Department for Education is considering offering additional covenant assurances for colleges and will use the data supplied when making their decision. We will let you know as soon as a decision has been made.

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## HMRC

### Pension schemes newsletter 144

HMRC published [Pension schemes newsletter 144](#) on 3 November 2022. The newsletter includes articles about:

- Requesting a refund from the Managing Pension Schemes Service. You can find out more information on how to [Request a pension scheme refund or reallocation](#) online.
- Migrating from the Pension Schemes Online service to the Managing Pension Schemes service.
- AFT returns for any quarter from 1 April 2020 onwards can only be submitted on the Managing Pension Schemes service.
- The Accounting for Tax (AFT) return for 1 July to 30 September 2022 must have been submitted through the Managing Pension Scheme Service by 14 November 2022 to avoid interest and penalties.
- The [Managing Pension Schemes user panel](#) that gives feedback on the service and helps to inform future developments.

### Consultation on tax rules for the McCloud remedy

On 24 November 2022, HMRC launched a [consultation on how pension tax will apply to members protected by the McCloud remedy](#). HMRC is seeking views on draft legislation: The Public Services Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023. The legislation is planned to take effect from 6 April 2023. Some provisions will have retrospective effect.

The remedy that will apply in the LGPS is very different from the remedy that will apply in the unfunded schemes. As the draft legislation will cover all public service pension schemes, not all provisions are relevant to the LGPS. The draft regulations in Part 2 that will apply to the LGPS are:

- 14: how any underpin increase is treated for annual allowance purposes
- 17 and 23: whether any additional pension commencement lump sum paid after the normal deadline is an authorised payment
- 18,19 and 24: how an underpin increase affects a past trivial commutation payment and whether any additional amount due is an authorised payment
- 20, 21 and 25: serious ill health lump sums
- 22: whether arrears of pension payments in respect of a deceased Scheme member are authorised payments
- 26: whether a pension remains authorised where it is reduced due to a retrospective lifetime allowance debit
- 27 and 28: whether overpaid pensions and lump sums which are not recovered are authorised payments
- 30: whether additional amounts of death grants paid after the normal two-year time limit are taxable payments
- 37 and 38: valuing benefits for individual protection 2016
- 40: the impact of an underpin increase on fixed protection 2016.

Some of these provisions will have no effect or limited effect on LGPS members due to the Scheme rules and the design of the remedy. For example, it is not possible to pay a serious ill health lump sum to a member in scope of remedy. We will outline our views on whether the draft regulations will be effective for LGPS members in our response to the consultation.

The consultation documents also include an explanatory memorandum and guidance for administrators on the draft regulations.

We will respond to the consultation and share our response before the consultation closes on 6 January 2023. You can find links to the consultation on the:

- [Non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org) and
- [Non-scheme consultations](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **Action for administering authorities**

Read the consultation documents and submit your consultation response by 6 January 2023.

## Public service pensions remedy newsletter

On 25 November 2022, HMRC published a [Public service pensions remedy newsletter](#). The newsletter summarises the draft regulations and guidance that they are currently consulting on (see previous article) and confirms that HMRC is not able to respond to member queries related to the remedy.

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## HMT

### Autumn Statement 2022

The Chancellor of the Exchequer delivered his Autumn Statement to Parliament on 17 November 2022. Pensions policies rumoured in advance of the statement such as changes to tax relief and the removal or suspension of the State Pension triple lock did not emerge. The statement confirmed the following policies that have a direct or indirect impact on LGPS members:

- The State Pension triple lock was maintained and working age benefits will increase in line with inflation in April 2023. Next year's increase will be 10.1 percent.
- [The DWP review of the State Pension age](#) will be published early in 2023. The review is currently underway to consider whether the existing timetable to increase the State Pension age remains appropriate. The Government must publish the review by 7 May 2023.
- No changes to the annual allowance, tapered annual allowance or Money Purchase Annual Allowance in 2023/24.
- No changes to the Lifetime Allowance which will remain at its current level of £1,073,100 until the end of the 2025/26 year.
- Current personal tax thresholds for income tax and national insurance (in England and Wales) will be frozen until April 2028. Increases to wages, benefits and pensions at a time of high inflation will mean that more of the lowest earners will start to pay tax and more people will be drawn into the 40 percent tax band.
- The additional rate threshold (in England and Wales) will reduce from £150,000 to £125,140 from April 2023. This is the threshold beyond which individuals pay income tax at 45 percent.

You can find the [Autumn Statement 2022 documents](#) on the Government's website. The lifetime allowance and annual allowance figures are confirmed in the [Autumn Statement 2022: Policy Costings](#).

HM Treasury (HMT) also published an [Autumn Statement 2022: Cost of living support factsheet](#) that provides information on support to help households meet the rising cost of living.

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## Pensions dashboards

### TPR consultation on dashboard enforcement

On 24 November 2022, the Pensions Regulator (TPR) launched a consultation on its draft dashboards compliance and enforcement policy.

TPR is responsible for ensuring that occupational pension schemes comply with their dashboard duties. The draft policy sets out how it intends to do so. The policy covers:

- the key risk areas it will focus on
- what it expects schemes to do when complying with their dashboard duties
- how it will monitor compliance
- how it will approach non-compliance.

The policy reiterates the powers TPR has to deal with non-compliance. This includes compliance notices and penalty notices. These can also be issued to third parties, such as employers, administrators and Integrated Service Providers (ISPs).

The policy also includes illustrative scenarios, setting out how it may approach particular examples of non-compliance.

The consultation closes on 24 February 2023. You can find links to the consultation on the:

- [Non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org), and
- [Non-scheme consultations](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### Action for administering authorities

Submit a response to the consultation before 24 February 2023 if you have comments to make about the proposed compliance and enforcement policy.

## **The Pensions Dashboards Regulations 2022**

On 21 November 2022, the Department for Work and Pensions made [The Pensions Dashboards Regulations 2022](#) – the Regulations. They come into force on 12 December 2022.

The Regulations set out requirements for relevant occupational pension schemes to connect to pensions dashboards, and what organisations must do to provide a qualifying pensions dashboard service.

The regulations apply to England, Scotland and Wales. Different [Pensions Dashboards Regulations for Northern Ireland](#) have been made.

To help administering authorities implement pensions dashboards, we intend to publish an LGPS specific guide to connection early in 2023.

## **Pensions Dashboards Programme (PDP) publishes updated standards**

On 16 November 2022, the [PDP published its revised standards](#) for connecting to the dashboards ecosystem. They cover the technical and operational detail that underpins dashboards legislation. The revised standards incorporate feedback from the consultation published in July 2022 – see [bulletin 228](#) for more information.

Although the revised standards are pending final approval by the Secretary of State for Work and Pensions, they have been published to give schemes advance notice of the duties that they will need to comply with.

PDP also confirmed the process for updating the standards going forward, including the principles for decision-making and the notice period for industry.

A consultation on the draft design standards for qualifying pensions dashboards will take place in the winter.

### **Action for administering authorities**

Administering authorities should consider how they will comply with the standards. We recommend discussing the standards with their software provider or third party administrator, for those funds administered externally.

## **PDP Webinars**

PDP will host the following webinars on:

- 5 December 2022 - Dashboards standards: data, reporting and technical standards

- 7 December 2022 – Dashboards standards: code of connection, early connection and governance
- 8 December 2022 – Dashboards standards: design standards consultation.

Visit [PDP's events and meetings webpage](#) to sign up for their webinars.

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## TPO

### TPO factsheets

TPO published two new factsheets in November:

- [Determination by the Ombudsman factsheet](#) explains what happens after TPO has issued a determination including complying with the direction and how to appeal on a point of law
- [Privacy and Personal Information Policy](#) explains why and when TPO collects personal information about third parties.

You can find and search [all TPO publications](#) on their website.

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## TPR

### Regulators issue scam warning to pension schemes and savers

The Pensions Regulator (TPR) joined forces with the Financial Conduct Authority and the Money and Pensions Service to issue a [scam warning to pension schemes and savers](#) on 11 November 2022. The statement warns of an increased risk from scammers because of the current economic uncertainty.

The warning urges savers to:

- contact [MoneyHelper](#) for free, impartial advice before making any hasty decisions
- check that they are dealing with a legitimate firm by visiting the [ScamSmart website](#)
- know [how to spot pension scams](#) and avoid them.

### TPR blogs

TPR published two blogs in November 2022:

- [TPR blog on automatic enrolment](#) considers the successes of ten years of automatic enrolment, urges employers to ensure they comply with their re-enrolment duties and looks forward to improved member engagement



- [TPR blog on equality diversity and inclusion](#) outlines TPR's strategy to move towards a fairer and more inclusive culture within their organisation and across the pensions industry.

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## Other news and updates

### New pensions minister

[Laura Trott MP](#) was appointed Parliamentary Under Secretary of State at the Department for Work and Pensions (DWP) in October. In November, it was confirmed that she will have ministerial responsibility for pension policy.

Guy Opperman MP returned to the DWP as Minister of State on 27 October 2022. He has ministerial responsibility for employment policy. He held ministerial responsibility for pension policy from 2017 to 2022.

### Investment management consultancy services framework

The National LGPS Frameworks launched the Investment Management consultancy services framework in November. This is the third iteration of this procurement framework which offers efficient access to specialist investment consultancy-related services. This iteration of the framework has been expanded to include a fourth Lot:

Lot 1: investment consultancy services

Lot 2: manager/fund search, selection, monitoring and review services

Lot 3: investment managements consultancy related specialist services

Lot 4: investment management cost monitoring and reporting.

You can read more about this launch in the [National LGPS Frameworks press release](#). Visit the [National LGPS Frameworks](#) website for more information about this and all the other frameworks available.

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## Training

### Training programme 2023

We are pleased to announce that we have set our 2023 training programme.

We will be running busy schedule of online and in-person courses for both practitioners and employers.

Full details of the 2023 training programme can be found in [Appendix 1](#). The courses with confirmed dates will be open for booking on the [LGA events page](#) from mid-December. We will send an email to funds when the courses are available to book.

## **LGPS Governance Conference 2023**

The LGPS Governance conference will take place on 19 and 20 January 2023 at the Cardiff Marriott Hotel. Our [conference flyer](#) contains an updated programme with confirmed speakers.

The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. Past delegates include elected members, trades union representatives, member and employer representatives, as well as a variety of officers who attend and support committees.

You can attend the conference in person or join us online. If you wish to attend in person, we recommend you book as soon as possible because places are filling up fast.

You can book using the links below. We are unable to take manual bookings.

- [book to attend in person](#)
- [book to attend virtually](#).

### **Action for administering authorities**

If any officers, committee members or board members would like to attend the conference in person, please book your place as soon as possible.

## **Fundamentals 2022**

Day three of our Fundamentals training programme will take place in December. The course will be run face to face in London and online.

Fundamentals is a three-day training course aimed at elected members and others who attend pension committees and local pension boards. Day three focusses on duties and responsibilities and will include sessions delivered by experts in their fields.

Each event below has a link to take you directly to the booking page for that session. We are unable to take manual bookings.

- [Fundamentals Day 3 – 6 December 2022 Westminster](#)
- [Fundamentals Day 3 – 20 December 2022 online](#)

The booking page for all LGA events is: [www.local.gov.uk/events](http://www.local.gov.uk/events).

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## Wider landscape

### GAD blog on public service pension schemes

The Government Actuary's Department (GAD) has published a blog about the pressures faced by administrators of public service pension schemes. [GAD's blog 'Looking ahead in public service pension administration'](#) considers:

- the challenges of translating the McCloud remedy into administration processes
  - the importance of data quality for pensions dashboards
  - the complexity of administration provider or administration system procurement.
- 

## Legislation

### Statutory Instruments

[The Pensions Dashboards Regulations 2022](#) [SI2022/1220]

[The Police, Fire and Crime Commissioner for Cumbria \(Fire and Rescue Authority\) Order 2022](#) [SI2022/1230]

### Northern Ireland Statutory Rules

[The Pensions Dashboards Regulations \(Northern Ireland\) 2022](#) [2022/296]

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## Useful links

[LGA Pensions page](#)

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

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

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

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

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

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

## [Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## LGPC Bulletin 232 – December 2022

This bulletin contains updates for all LGPS stakeholders. It includes important articles on:

- [Pension schemes newsletter 145](#) – remind members to declare annual allowance charges
- [Pensions dashboards deferring connection guidance published](#) – consider if you wish to defer your connection
- [Pensions dashboards early connection guidance updated](#) – consider if you wish to connect early
- [LDI resilience](#) – review TPRs statement and take appropriate action
- [Employer role training](#) - share information about the employer role training with your Scheme employers

which need action by certain stakeholders. If you have any comments or articles for future bulletins, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

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## **LGPS England & Wales Scheme Advisory Board (SAB)**

### **Chancellor announces the ‘Edinburgh Reforms’**

On 9 December, the Chancellor of the Exchequer announced a set of reforms to drive growth and competitiveness in the financial services sector. In the statement, the Chancellor also confirmed that the Government will consult on:

- new guidance to the LGPS on asset pooling in early 2023
- requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.

You can read the full written statement using the link below:

[Financial services statement – 9 December 2022](#)

### **SAB Chair and Secretary meet the minister responsible for the LGPS**

Cllr Roger Phillips and Board Secretary Jo Donnelly had a useful meeting with Lee Rowley MP on 7 December 2022. Topics discussed included asset pooling, progress on the good governance recommendations, climate risk and reporting regulations for the LGPS and the impact of National Living Wage increases in the coming years on local government.

### **Summary note of Board meeting**

A summary note of the 5 December 2022 Board meeting is available to view on the [Board updates page](#) of [www.lgpsboard.org](http://www.lgpsboard.org). Topics discussed include:

- the Board budget for 2022-23 is still awaiting approval from the Minister
- levy invoices have not yet been issued to funds but will be sent in the new year as soon as the budget is approved
- the secretariat expects significant upwards pressure on the levy for 2023-24 due to various active items on the workplan for the coming year
- McCloud remedy
- pooling and good governance consultations
- next steps on the Code of Transparency.

The Board also received a presentation on GAD’s proposals on scheme level assumptions for the cost control mechanism and the standardised valuation assessment. These were accepted by the Board. The Board also gave approval for GAD to provide some initial analysis of the gender pensions gap early in the New Year.

## SAB updates

You can use the links below to find out about the latest updates on the work of the SAB and its committees:

- [SAB meeting and agenda papers](#)
  - [committee meetings and agenda papers](#)
  - [Responsible Investment Advisory Group meetings and agenda papers](#)
  - [news items](#).
- 

## LGPS England & Wales

### TPS McCloud remedy and the LGPS

The implementation of the McCloud remedy in the Teachers' Pension Scheme (TPS) means that some teachers will be retrospectively eligible for the LGPS for the period from 1 April 2015 to 31 March 2022.

The Department for Education (DfE) is in the process of identifying affected members. Officials from DfE will, in some cases, need to confirm the employment status of members during the remedy period with their employer. They plan to start this process in January 2023 and will be contacting relevant schools.

To confirm, affected TPS members are those with a part time employment in addition to a full time employment who are being rolled back into the legacy scheme as part of the McCloud remedy. See [bulletin 229](#) for more information.

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## LGPS Scotland

### SAB publishes November 2022 bulletin

On 13 December 2022, the SAB published '[Bulletin November 2022](#)'.

The SAB publishes a bulletin after each of its meetings, updating stakeholders on key decisions taken. The bulletin looks at decisions the SAB took at its last meeting on 30 November 2022:

- section 13 and scheme valuations
- annual allowance
- climate reporting
- good governance
- guidance on deferred debt and cessation
- structure changes
- specialist support to the Board.

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## HMRC

### Pension schemes newsletter 145

HMRC published [Pension schemes newsletter 145](#) on 30 November 2022. Articles in the newsletter cover:

- the public service pensions remedy newsletter, which we covered in [Bulletin 231](#)
- the Managing Pension Schemes service, including information on enrolling, viewing lists of schemes, managing user access and viewing interest charges
- reminding schemes that they cannot submit new Accounting for Tax returns for any quarter from April 2020 on the Pension Schemes Online service
- asking administering authorities to remind their members who exceeded their annual allowance for tax year 2021 to 2022 without sufficient carry forward to report this to HMRC through self-assessment – even if the authority is going to pay the tax charge.

#### Action for administering authorities

Remind members who are liable for an annual allowance tax charge for 2021/2022 to declare this on their self-assessment tax return.

---

## HMT

### Treasury Direction - McCloud

On 14 December 2022, HM Treasury (HMT) made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022. They come into force on 19 December 2022 and apply to England, Northern Ireland, Scotland and Wales.

The Directions set out how certain powers in the Public Service Pensions and Judicial Offices Act 2022 must be exercised. The Act gives relevant government departments powers to rectify McCloud discrimination.

For the LGPS, the Directions apply to the following powers in the Act:

- Section 82: an administering authority's power to pay compensation
- Section 83: the power to make regulations compensating members by paying additional LGPS benefits

- Section 84(1)(a): the power to make regulations setting out how interest should be calculated and paid on amounts due to the McCloud remedy, and
- Section 84(1)(B): the power to make regulations setting out the process to follow for paying amounts due to the McCloud remedy.

The making of the Directions now allows relevant departments to start consulting on regulations exercising these powers.

We have added the Directions to the directions and guidance folder on the:

- [Related legislation](#) page of [www.lgpsregs.org](http://www.lgpsregs.org),
- [Related legislation](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

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## Pensions dashboards

### Approach to governance of the standards

PDP recently published its [approach to the governance of the standards](#). This sets out how PDP developed the standards, outlines their scope and describes how they will go about setting and managing any future changes.

In [Bulletin 231](#), we let you know the Pensions Dashboards Programme (PDP) had published revised standards for connecting to the dashboards ecosystem.

### Consultation on regulatory framework for dashboard operators

On 1 December 2022, the Financial Conduct Authority (FCA) published a [consultation on the regulatory framework for dashboard operators](#).

Under these proposals, operators will be able to offer savers additional services that have the potential to improve pension outcomes. These could include investment advice (including robo-advice) or guidance, modellers, calculators and other similar tools. Before doing so, operators will need to meet rigorous conduct standards.

The consultation closes on 16 February 2023.

### Deferred connection guidance published

On 12 December 2022, the Department for Work and Pensions (DWP) published guidance on [how to defer connection to pensions dashboards](#).

Administering authorities must connect to the dashboards ecosystem within a connection window of 1 September 2024 to 30 September 2024. Authorities can apply to DWP to defer this in limited circumstances. Authorities must do so before 11 December 2023, though DWP requests this is done as soon as possible.

If an application for deferral is granted, DWP will specify the date of the new deadline in a written notice. The deadline will be no more than 12 months after the original connection deadline.

### **Action for administering authorities**

If your authority plans to make an application for deferred connection, apply as soon as possible, and before 11 December 2023, by emailing [pensionsdashboard@DWP.gov.uk](mailto:pensionsdashboard@DWP.gov.uk).

### **Early connection guidance updated**

On 21 November 2022, the PDP published [updated statutory guidance on early connection](#).

As mentioned above, administering authorities must connect to the dashboards ecosystem within a connection window from 1 September 2024 to 30 September 2024. Integrated service providers (ISP) may ask authorities to consider connecting earlier to reduce the number of clients connecting within the same window.

If an authority wishes to connect early, it must apply to MaPS, who will consult with the Pensions Regulator before deciding. Application forms will be published soon.

### **Action for administering authorities**

Speak to your ISP and decide if you wish to connect early. If you do, apply to MaPS when the application forms are available.

### **PDP Newsletter**

On 15 December 2022, [PDP published its December 2022 newsletter](#).

The newsletter contains articles on the design standards consultation, cleansing data in readiness for dashboards, a new updated glossary, access to recordings and Q&As for the standards webinars and a blog looking back at 2022.

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## **TPO**

### **Deputy Pensions Ombudsman**

On 9 December 2022, the chair of the Pensions Ombudsman (TPO) announced that Anthony Arter will remain at TPO as part time Deputy Pensions Ombudsman. Anthony's term as Pensions Ombudsman ends on 15 January 2023.

This is an interim appointment for up to 12 months. Anthony will remain to complete certain cases and ensure a smooth transition. See [the press release for more information](#).

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## TPR

### Maintaining LDI resilience

On 30 November 2022, TPR published [a statement on maintaining liability-driven investment \(LDI\) resilience](#).

The statement is aimed at defined benefit trustees and advisers. It sets out recommended actions in light of recent events in the gilt markets.

### Action for administering authorities

Review TPR's statement and take any appropriate action.

### Joint regulatory strategy update

On 7 December 2022, TPR and the Financial Conduct Authority published an [update to their 2018 joint regulatory strategy](#).

The strategy sets out how the two bodies work together to tackle issues in the pensions sector.

The update outlines their progress on the strategy's regulatory objectives and next steps in light of their new respective strategic priorities. The update sets out eight ongoing workstreams covering:

- productive finance
- value for money
- regulatory framework for effective stewardship
- pension scams strategy
- defined benefit (DB) transfer advice
- DB schemes and transfer activity
- pensions dashboards
- supporting consumer decision-making.

### TPR appoints new chief executive

TPR has appointed Nausicaa Delfas as its new chief executive. She will take over from Charles Counsell who will remain in post until March 2023. Ms Delfas joins TPR having held senior positions with the Financial Conduct Authority and the Financial Ombudsman Service.

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## Other news and updates

### LGPC minutes published

The draft minutes of the LGPC meeting held on 5 December 2022 were published on 16 December 2022.

Topics discussed include updates on regulations for England & Wales, Scotland and Northern Ireland, scheme advisory board England & Wales and training.

The draft minutes will be approved at the next meeting on 20 February 2023.

You can find the minutes on the:

- [LGPC minutes](#) page of [www.lgpsregs.org](http://www.lgpsregs.org), and
- [LGPC minutes](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### National LGPS Technical Group minutes published

The minutes of the National LGPS Technical Group meeting held on 9 December 2022 were published on 13 December 2022.

Topics discussed included McCloud, pensions dashboards and AVCs.

Transfers out were referred to the regional pension officer groups for further discussion. This concerns how administering authorities process a transfer out where the member has deferred benefits with more than one authority. It also suggests that if a transfer company requests transfer information on behalf of a member, authorities should let the company know when they have sent the information to the member – a simple email to the company will suffice.

The next meeting will be held on 10 March 2023.

You can find the minutes on the:

- [Technical group page](#) of [www.lgpsregs.org](http://www.lgpsregs.org), and
- [Technical group page](#) of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### National LGPS Frameworks news bulletin

National LGPS Frameworks has published its [December 2022 news bulletin](#). The bulletin contains all the latest news regarding the National LGPS Frameworks. It includes information about new frameworks launched in 2022, plans for 2023 and mentions that the team received the outstanding contribution of the year award at the LAPF Investment awards 2022.

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## Training

### Training programme 2023

All 2023 training events are available to book via the [LGA events website](#). The link for each course contains course details and how to book.

Bookings are on a first come, first serve basis. For fairness, each course is capped at five delegates per organisation.

If you are unable to book a place on a course, email [training.lgps@local.gov.uk](mailto:training.lgps@local.gov.uk) with details of the course you would like to attend. Include how many places you require and the format - online or in person. If you require in person training, state the location you would prefer. We will keep a waiting list and will consider running additional training if the demand is high enough.

#### Aggregation training (England and Wales)

- [16 February 2023 - Online](#)
- [23 March 2023 - London](#)
- [30 March 2023 - Birmingham](#)

#### Survivor benefits training (England and Wales)

- [25 April 2023 - London](#)
- [4 May 2023 - Online](#)
- [10 May 2023 - Liverpool](#)

#### Employer role training (England and Wales)

- [25 April 2023 - Online](#)
- [27 April 2023 - Online](#)
- [30 May 2023 - Online](#)
- [1 June 2023 - Online](#)
- [20 June 2023 - London](#)
- [27 June 2023 - Birmingham](#)
- [25 July 2023 - Online](#)
- [31 August 2023 - Online](#)
- [26 September 2023 - Online](#)
- [24 October 2023 - Online](#)
- [7 November 2023 - Online](#)

#### Insight residential course (England and Wales)

- [15 – 18 May 2023 - York](#)
- [4 – 7 September 2023 - Bournemouth](#)



### **Action for administering authorities**

Share information about the Employer Role training with your Scheme employers.

### **LGPS Governance Conference 2023**

The LGPS Governance conference will take place on 19 and 20 January 2023 at the Cardiff Marriott Hotel. Our [conference flyer](#) contains an updated programme with confirmed speakers.

The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. Past delegates include elected members, trades union representatives, member and employer representatives, as well as a variety of officers who attend and support committees.

You can attend the conference in person or join us online. If you wish to attend in person, we recommend you book as soon as possible because places are filling up fast.

You can book using the links below. We are unable to take manual bookings.

- [book to attend in person](#)
- [book to attend virtually](#).

### **Action for administering authorities**

If any officers, committee members or board members would like to attend the conference in person, please book your place as soon as possible.

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## **Wider landscape**

### **Consultation – NHS pension scheme flexibilities**

On 5 December 2022, the Department for Health and Social Care [published a consultation](#) amending the National Health Service (NHS) Pension Scheme in England and Wales. The consultation closes on 30 January 2023.

Proposals aim to bolster the NHS workforce and retain senior doctors. They include:

- fixing the interaction between the pensions tax system and inflation – to ensure more headroom against the £40,000 annual allowance limit
- a new partial flexible retirement option
- removing working hours limits on recently retired staff
- allowing retired staff to re-join the pension scheme
- allowing staff working in primary care networks access to the scheme.

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## Legislation

### Statutory Instruments

[The Pensions Act 2004 \(Disclosure of Restricted Information by the Pensions Regulator\) \(Amendment of Specified Persons\) Order 2022 \(SI 2022/1285\)](#)

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## Useful links

[LGA Pensions page](#)

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

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

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

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

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

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

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## LGPS pensions section contact details

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

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## Further information

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## LGPC Bulletin 233 – January 2023

Local Government Pensions Committee (LGPC)  
Secretary, Lorraine Bennett

This bulletin contains updates for all LGPS stakeholders. It includes important articles on:

- [SAB Scheme Valuation Report 2022 \(England and Wales\)](#) - send the valuation report to Gareth Brown when the final version is available
- [Consultation on changes to the SAB's cost management process](#) – review consultation and consider whether to respond
- [unpaid LGPC subscriptions](#) – check outstanding payments list
- [New version of TPR transfer guidance](#) – ensure template letters are in line with this
- [National LGPS frameworks – call for founders](#) – consider whether to volunteer as a founder on two new frameworks
- [Training programme 2023 \(England and Wales\)](#) – share information about the Employer Role training with Scheme employers

which need action by certain stakeholders.

If you have any comments or articles for future bulletins, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

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

### SAB Scheme Valuation Report 2022

The Board's Secretariat is currently planning for the Board's 2022 Scheme Valuation Report. The report is aggregated using data from individual fund valuation reports.

It would be a great help if administering authorities send their valuation reports to the Board's Data Analyst, Gareth Brown, as soon as they have a final version. These will be treated confidentially and only shared on the Board's website once published by the administering authority.

#### Action for administering authorities

Send your valuation report to Gareth Brown when the final version is available. Gareth's email address is [gareth.brown@local.gov.uk](mailto:gareth.brown@local.gov.uk).

### SAB updates

You can use the links below to find out the latest updates on the work of the Board and its committees:

- [SAB meeting and agenda papers](#)
- [committee meetings and agenda papers](#)
- [Responsible Investment Advisory Group meetings and agenda papers](#)
- [news items](#).

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## LGPS England & Wales

### 2023/24 employee contribution bands

Table 1 sets out the employee contribution bands effective from 1 April 2023. These are calculated by increasing the 2022/23 employee contribution bands by the September 2022 CPI figure of 10.1 per cent and then rounding down the result to the nearest £100.

**Table 1: Contribution table England and Wales 2023/24**

<b>Band</b>	<b>Actual pensionable pay for an employment</b>	<b>Main section contribution rate for that employment</b>	<b>50/50 section contribution rate for that employment</b>
1	Up to £16,500	5.50%	2.75%
2	£16,501 to £25,900	5.80%	2.90%
3	£25,901 to £42,100	6.50%	3.25%
4	£42,101 to £53,300	6.80%	3.40%
5	£53,301 to £74,700	8.50%	4.25%
6	£74,701 to £105,900	9.90%	4.95%
7	£105,901 to £124,800	10.50%	5.25%
8	£124,801 to £187,200	11.40%	5.70%
9	£187,201 or more	12.50%	6.25%

### **Consultation on changes to the SAB's cost management process (CMP)**

On 30 January 2023, the Department for Levelling Up, Housing and Communities launched a consultation on changes to the Scheme Advisory Board's (SAB) CMP. The consultation closes on 24 March 2023.

The consultation follows the report from the Government Actuary's Department into changes to the HM Treasury CMP, and the resulting policy and legislative changes set out in HM Treasury's response to that report (covered in [Bulletin 215](#)). It acknowledges the differences between these two processes but proposes measures suggested by SAB in its consultation response to better integrate the SAB process within the statutory HM Treasury mechanism.

You can find the consultation documents on the [Scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org)

#### **Action for administering authorities**

Review consultation and consider whether to respond.



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## HMRC

### **LGA response to consultation on tax rules for McCloud remedy**

On 6 January 2023, we responded to HMRC's consultation on the draft Public Services Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023.

HMRC consulted on the regulations from 24 November 2022 to 6 January 2023, which we covered in [Bulletin 231](#).

You can find the consultation documents, including our response, on the:

- [Non-scheme consultations](#) page of [www.lgpsregs.org](http://www.lgpsregs.org)
- [Non-scheme consultations](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

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## DWP

### **New environment for TUO users**

DWP is currently working to move all TUO users onto their Change Reporting System Application Service Management environment (CRS ASM). The new environment will allow administering authorities to access:

- management information
- bulk downloading/printing
- marital status/surviving spouse details.

The change will not alter the way users log in (with their unique ID and token) but the login screen will look slightly different. Administering authorities will need to take certain actions before they are moved onto the new environment. A member of the Tell Us Once team will be in touch soon to progress this piece of work.

DWP would like to thank all administering authorities for the ongoing commitment, support and passion they demonstrate on a daily basis to deliver Tell Us Once.

If you have any questions about the change, please contact [emma.moralee2@dwp.gov.uk](mailto:emma.moralee2@dwp.gov.uk).

### **Automatic enrolment trigger remains the same**

On 26 January 2023, DWP published its [review of the automatic enrolment thresholds for 2023/24](#).

The Pensions Act 2008 requires DWP to annually review various thresholds relevant for automatic enrolment rules. The earnings trigger remains at £10,000 for 2023/24.

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## **TPO**

### **Dominic Harris starts as Pensions Ombudsman**

On 16 January 2023, Dominic Harris started as the Pensions Ombudsman. Dominic's term of office is five years.

Dominic recently sent an introductory message to TPO's contact list:

"The New Year has brought with it a "New Ombudsman", and so I thought I would take this opportunity to introduce myself and say how excited I am to be joining TPO.

This is an organisation that is so important in ensuring that pension scheme members and their dependants have access to support and justice, for free, in what can often be complex and stressful disputes. It really does level the playing field. I have looked on from the other side of the fence at the work TPO does – and am proud to be a part of it over the next few years. Clearly, Anthony Arter has done a sterling job over his tenure, and I am looking forward to building on his great work.

I look forward to understanding better how TPO works and some of the challenges we face. It is so important that we continue to work collaboratively to improve dispute resolution across the industry. I hope I will be able to meet many of you over the coming months."

You can find out more about Dominic on the ['who we are' page of TPO's website](#).

Please email [stakeholder@pensions-ombudsman.org.uk](mailto:stakeholder@pensions-ombudsman.org.uk) if you would like to join TPO's contact list.

### **Presentations to regional POGs**

Mairi Dearden, Head of Engagement at TPO, recently attended several LGPS regional pension officer groups (POGs) to talk about TPO's work and share tips on avoiding the Ombudsman.

Mairi plans to attend the other POGs over the next few months.

## **TPO orders TPS to reinstate deferred benefits**

TPO recently upheld a complaint against the Teachers' Pension Scheme (TPS) about a transfer out.

Mrs G transferred her TPS benefits to the London Quantum Pension Scheme (LQPS) in 2015. It appears the benefits were invested in high risk, unregulated assets.

In 2018, Mrs G triggered the TPS's internal dispute resolution procedure. She unsuccessfully argued that TPS did not carry out adequate due diligence checks and warn her about any concerns. She then appealed to TPO.

In [a recently published judgment](#), TPO upheld Mrs G's appeal. It found that TPS failed to put in place proper processes to conduct adequate checks and enquiries in relation to the LQPS and warn Mrs G of the potential consequences of transferring. It also concluded that if TPS had done so, on the balance of probabilities, Mrs G would not have proceeded with the transfer. To put matters right, TPS must reinstate Mrs G's benefits and pay £1,000 for serious distress and inconvenience.

The judgment is a useful case study for LGPS administering authorities for understanding how TPO approaches this type of appeal.

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## **Pension dashboards**

### **PDP publishes consumer protection video**

The Pensions Dashboards Programme (PDP) recently published [an explainer video on consumer protection](#). The video explains what protections will be in place to ensure dashboards are safe and secure.

Please see [the consumer protection page of PDP's website](#) for more information on this topic.

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## **TPR**

### **New version of transfer guidance**

On 12 January 2023, TPR published a new version of [the Dealing with transfer requests guidance](#), with updates made to the 'Direct members to mandatory guidance from MoneyHelper' section.

The guidance assists pension schemes when applying the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021.

When telling members they must receive guidance about scams from MoneyHelper, schemes should provide [a link to book online or by telephone](#). The guidance now makes it clearer that members must use this link to book a MoneyHelper safeguarding guidance appointment. Otherwise, they may accidentally book a Pension Wise appointment or obtain general MoneyHelper advice.

The guidance also asks pension schemes to advise members who are transferring multiple pensions to wait until they have requested all transfers before booking their MoneyHelper safeguarding guidance appointment. This will avoid them having to book more than one.

We recently published a new version (2.3) of the non-Club transfers out guide to reflect these changes. You can find the guide (including a tracked version) on the:

- [Administrator guides and documents](#) page of [www.lgpsregs.org](http://www.lgpsregs.org)
- [Administrator guides and documents](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

#### **Action for administering authorities**

Ensure that your template transfer letters are in line with these changes.

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## **Other news and updates**

### **Unpaid LGPC subscriptions**

Our finance team has recently informed us that 35 administering authorities have yet to pay their LGPC subscription fee for 2022/23. The invoices were issued in August 2022. We have been unable to chase for payment up to now due to the installation of a new finance system at the LGA. If you have any queries about this please email [Elaine English](#).

#### **Action for administering authorities**

Please check the [outstanding payment list](#) to see if your fund's invoice remains unpaid and make payment as soon as possible if it is.

### **Communications Working Group minutes published**

We published the minutes of the Communications Working Group meeting held on 10 January 2023. At the meeting the Group discussed:

- the news and FAQ sections of the member websites
- accessibility audit of the member websites
- digital engagement survey

- engagement methods for younger members
- McCloud remedy
- dashboards
- aggregation template letters
- the Group's work plans for 2022/23 and 2023/24
- lifetime allowance forms
- annual benefit statements.

You can find the minutes from this and earlier meetings and the Group's workplan on the:

- [Communications Working Group](#) page of [www.lgpsregs.org](http://www.lgpsregs.org) and
- [Communications Working Group](#) page of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **National LGPS frameworks – call for founders**

We forwarded an email to administering authorities from the National LGPS Frameworks on 30 January 2023. It is looking for administering authorities to volunteer to act as founders for two new frameworks: Integrated Service Providers (ISP) / Member Data Services and Additional Voluntary Contributions (AVCs). Both frameworks are intended to launch this year.

For the AVC framework, the National LGPS Frameworks is also inviting employers to volunteer. This is because the framework will include salary sacrifice AVCs.

Administering authorities and employers can find out more by contacting:

- Leon Thorpe ([leon.thorpe@norfolk.gov.uk](mailto:leon.thorpe@norfolk.gov.uk) / 01603 495922)
- Jo Quarterman ([jo.quarterman@norfolk.gov.uk](mailto:jo.quarterman@norfolk.gov.uk) / 01603 223950).

### **Action for administering authorities**

Consider whether you would like to volunteer. Also, ask your employers if they would like to volunteer for the AVC framework.

### **Update on McCloud data issues guidance**

We are currently working on guidance to assist administering authorities with McCloud data issues.

The guidance will set out what options administering authorities in England and Wales may consider if they are unable to collect the data needed to implement the McCloud remedy. It will cover both missing data and data the authority is not confident is accurate.

The Scheme Advisory Board (England and Wales) hope to publish the guidance by the end of February 2023.

The McCloud data issues scoping group was set up to inform this guidance. The group has met three times and includes representatives from:

- each of the regional pension officer groups
- LGA
- actuaries
- Department for Levelling Up, Housing and Communities
- Department of Communities
- Scottish Public Pensions Agency, and
- the Government Actuary's Department.

The scheme advisory boards in Scotland and Northern Ireland will decide whether to publish similar guidance.

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## Training

### Training programme 2023

All 2023 training events are available to book via the [LGA events website](#). The link for each course contains course details and how to book.

Bookings are on a first come, first served basis. For fairness, each course is capped at five delegates per organisation.

If you are unable to book a place on a course, email [training.lgps@local.gov.uk](mailto:training.lgps@local.gov.uk) with details of the course you would like to attend. Include how many places you require and the format - online or in person. If you require in person training, state the location you would prefer. We will keep a waiting list and will consider running additional training if the demand is high enough.

#### Aggregation training (England and Wales)

- [23 March 2023 - London](#)
- [30 March 2023 - Online](#)

#### Survivor benefits training (England and Wales)

- [25 April 2023 - London](#)
- [10 May 2023 - Liverpool](#)

#### Employer role training (England and Wales)

- [25 April 2023 - Online](#)

- [27 April 2023 - Online](#)
- [30 May 2023 - Online](#)
- [1 June 2023 - Online](#)
- [20 June 2023 - London](#)
- [27 June 2023 - Birmingham](#)
- [25 July 2023 - Online](#)
- [31 August 2023 - Online](#)
- [26 September 2023 - Online](#)
- [24 October 2023 - Online](#)
- [7 November 2023 - Online](#)

### **Insight residential course (England and Wales)**

- [4 – 7 September 2023 - Bournemouth](#)

### **Action for administering authorities**

Share information about the Employer Role training with your Scheme employers.

### **LGPS Governance Conference 2024**

The 2024 LGPS Governance Conference will be held in York on 18 and 19 January 2024. This will retain the popular lunchtime to lunchtime format with the option to attend either in person or online. More details including the programme and booking information will be released later in 2023.

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## **Wider landscape**

### **Consultation on holiday entitlement for part-year and irregular hours workers**

On 12 January 2023, the Department for Business, Energy and Industrial Strategy launched [a consultation on calculating holiday entitlement for part-year and irregular hours workers](#). The consultation closes on 9 March 2023.

The consultation proposes to pro-rata holiday entitlement for these workers based on the annual hours they work. The proposals follow a recent Supreme Court judgment: *Harper Trust v Brazel*. We covered this in [Bulletin 228](#). The proposals apply to England, Scotland and Wales. Employment law is devolved in Northern Ireland.

### **Government response to committee report published**

On 23 January 2023, the Work and Pensions Committee published the responses it received from Government to its report ‘Protecting pension savers – five years on

from the pension freedoms: saving for later life'. This also included responses from the Financial Conduct Authority, the Pensions Regulator and the Money and Pensions Service.

The Committee originally published the report in September 2022. The report looked at who is not saving enough for retirement and how to address this. This included recommendations on:

- evaluating the stronger nudge policy
- building a consensus on what an adequate income in retirement is
- implementing the 2017 automatic enrolment reforms (we covered this in [Bulletin 165](#))
- maximising take-up of the government's solution to the pension tax relief anomaly for low earners (we covered this in [Bulletin 227](#))
- defining and reducing the gender pensions gap
- producing regular and reliable statistics on pension sharing orders
- clarifying the boundary between advice and guidance.

You can view the report and response [on the relevant page of Parliament's website](#).

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## Useful links

[LGA Pensions page](#)

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

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

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

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

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

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

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.



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## LGPS pensions section contact details

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

**Joanne Donnelly (Head of Pensions)**

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Email: [joanne.donnelly@local.gov.uk](mailto:joanne.donnelly@local.gov.uk)

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

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## **Further information**

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Whilst every attempt is made to ensure the accuracy of the bulletin, it would be helpful if readers could bring to the attention of the Secretariat any perceived errors or omissions by emailing [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

## LGPC Bulletin 234 – February 2023

This bulletin contains updates for all LGPS stakeholders. It includes important articles on the following which need action by certain stakeholders:

- [Consultation on annual revaluation date change](#) – make sure the relevant parties are aware of the proposals and the intended effective date
- [TPS pensions survey](#) - complete the survey by 30 April 2023
- [Pensions schemes newsletter 146](#) – awareness about changes to reporting and filing returns and migrating your LGPS fund to the Managing Pension Schemes service
- [Contacting the LGPS pensions team](#) – a reminder about when to contact us
- [National LGPS AVC framework](#) – call for employer founders
- [Training focus group](#) – new way of deciding face to face training locations
- [TPS McCloud remedy survey](#) – complete the survey by 30 April
- [The Bereavement Benefits \(Remedial\) Order 2022](#) – share the information with relevant beneficiaries and employers

If you have any comments or articles for future bulletins, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk).

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

### Climate risk reporting

In 2022 the Government consulted on new requirements for all administering authorities to put in place governance and risk management arrangements. This included setting and reporting against various metrics and targets on climate risk and opportunity. See [bulletin 231](#) for more information.

The new functions present new challenges and come at a time when there are many other competing pressures. Consequently, the SAB commissioned a survey to gauge the preparedness of administering authorities for this change. A summary of the outcome of the survey can be found on the [News page](#) of [www.lgpsboard.org](http://www.lgpsboard.org).

### Minister responds to SAB letter on external audit

Lee Rowley MP, Minister for Local Government, [responds](#) to a letter written to him in August 2022 by SAB on delays in the external audit of local authority accounts, including pension fund accounts. He welcomes the advice and recommendation to consider the separation of main authority accounts and pension fund accounts. He has asked his officials to consider the scope for developing this further.

### Updates

You can use the links below to find out the latest updates on the work of the SAB and its committees:

- [SAB meeting and agenda papers](#)
- [committee meetings and agenda papers](#)
- [Responsible Investment Advisory Group meetings and agenda papers](#)
- [news items](#).

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## LGPS England & Wales

### Consultation on the annual revaluation date change

On 10 February 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation and draft regulations on changing the annual revaluation date in the LGPS. If laid, the regulations will take effect from 31 March 2023.

The consultation closed on 24 February 2023. You can find our response on the [Scheme consultations page](#) of [www.lgpsregs.org](http://www.lgpsregs.org). Our response states that whilst

we agree in principle with the change, we do not agree with the timing. We also comment that whilst the policy aim is mostly addressed by the draft regulations, some technical amendments are required.

The proposals seek to remove the impact of inflation on the annual allowance. It does so by changing the annual revaluation from the 1 to 6 April 2023, and thereafter on each 6th of April, for all members. It is intended there is no change in the outcome for:

- all members whose benefits in payment would increase on 1 April
- death grants for deferred and pensioner members who die in the period 1 to 5 April.

When DLUHC respond to the consultation we will produce a special bulletin covering the changes and their impact.

## **Background**

The annual allowance (AA) should reflect the increase in a member's pension benefits above inflation. However, since HM Treasury realigned the period over which pension growth is measured with the tax year in 2015/16, inflationary increases are taken into account.

As things currently stand, the allowance for inflation in the AA calculation does not match the annual revaluation applied to pension accounts. To date the imbalance has been negligible because inflation has been low.

However, the imbalance for tax year 2022/2023 is 7 per cent. This is the difference between the allowance for inflation in the AA calculation of 3.1 per cent and the annual revaluation of 10.1 per cent. Consequently, without changes to scheme regulations, there will be a significant increase in the number of LGPS members breaching the annual allowance and potentially incurring a tax charge.

By moving the annual revaluation to 6 April the imbalance is removed. Both the AA inflation and the annual revaluation will use the same September CPI, meaning that only members pension savings will count towards the AA.

## **Action for stakeholders**

Make sure the relevant parties in your organisation are aware of the proposals and the intended effective date.

## **GAD 2022 data request**

GAD confirms it will be requesting valuation data as at 31 March 2022. This is primarily for the Section 13 exercise, but also to assist with other projects including DLUHC and SAB policy work. GAD will send a formal request to all administering authorities in the next few months.

## **Teachers' pensions survey – McCloud remedy and the LGPS**

Teachers' Pensions need your help with the group of teachers who will be retrospectively eligible for the LGPS as part of the McCloud remedy in the Teachers' Pension Scheme (TPS).

Please provide the information below by completing the [survey](#):

- your contact information
- the local authority areas that fall within your remit
- clarification about whether certain establishments are LGPS employers.

Affected TPS members are those with a part time employment in addition to a full time employment who are being rolled back into the TPS legacy scheme as part of the McCloud remedy. See [bulletin 229](#) for more information.

### **Action for administering authorities**

Complete the [TPS survey](#) by 30 April 2023.

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## **LGPS Scotland**

### **Potential consultation on the annual revaluation date change**

On 7 February 2023, Kimberly Linge from the Scottish Public Pensions Agency (SPPA) emailed administering authorities seeking their views on the merits and value of changing the annual revaluation date.

The changes are likely to be similar to the changes proposed by the Department for Levelling Up, Housing and Communities in England and Wales ([see earlier article](#)).

We understand SPPA will launch a consultation shortly on draft regulations.

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## DWP

### DWP appoints new chair of MaPs

The Department for Work and Pensions

([DWP](#)) [announces the appointment of Sara Weller](#) CBE as the new permanent Chair of the Money and Pensions Service (MaPS).

Since September 2022 Sara has been serving as a non-executive board member. Sara will formally take up the role of permanent Chair on 29 March 2023.

### DWP appoints Mary Starks to lead review of TPR

The [review of the Pensions Regulator](#) (TPR) will examine how it's performing its role and where it can improve, providing greater efficiency and value to taxpayers. The report into the review is due in May 2023.

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## HMT

### Confirmation of annual revaluation, earnings and pensions increase

On 20 February 2023, [HM Treasury \(HMT\)](#) [published a written ministerial statement](#) confirming the rates of annual revaluation, earnings and pensions increase (PI) due to apply in April 2023.

The statement confirms:

- public service pensions will increase on 10 April 2023 by 10.1 per cent, in line with the Consumer Prices Index (CPI) up to September 2022
- annual revaluation of 10.1 per cent plus any local addition will be used to revalue the 2014 / 2015 CARE accounts in April 2023 for those public service pension schemes (PSPS) that rely on prices as the measure for revaluation
- annual revaluation of 7 per cent will be used to revalue the 2015 CARE accounts in April 2023 for those PSPSs that rely on earnings as the measure for revaluation.

When applying annual revaluation to earned pension credited from a Club transfer, the following rates will apply:

- Police – 11.35 per cent
- Firefighters – 7 seven per cent
- Civil service – 10.1 per cent
- National Health Service – 11.6 per cent
- Teachers – 11.7 per cent



- Armed forces 7 per cent
- Judicial – 10.1 per cent

### **Pensions Increase multiplier tables**

On 20 February 2023, HMT published the 2023 pensions increase [multiplier tables](#).

These can be found in the:

- [Related legislation page](#) of [www.lgpsregs.org](http://www.lgpsregs.org), and
- [Related legislation page](#) of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

### **Tax rules for McCloud remedy laid**

On 6 February 2023, the Public [Service Pension Schemes \(Rectification of Unlawful Discrimination\) \(Tax\) Regulations 2023](#) were laid. They apply to relevant public service pension schemes and are in force on 6 April 2023. See [bulletin 231](#) for more information.

We will provide a commentary on the impact of the changes in due course.

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## **HMRC**

### **Pension schemes newsletter 146**

On 31 January 2023, HMRC published [pension schemes newsletter 146](#). It contains articles on:

- reporting and filing returns
- migrating to managing pension schemes service
- helping HMRC
- pension scheme transfers.

### **Action for administering authorities**

Make sure you are aware of the changes to reporting and filing all returns and pension transfers.

Migrate your LGPS fund to the Managing Pension Schemes service as soon as possible.

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## Pension dashboards

### Newsletter

Earlier this month, the Pensions Dashboards Programme (PDP) published [February 2023 newsletter](#).

The newsletter contains articles on:

- their new connection hub, which provides useful resources and information to prepare for connection to the ecosystem
- their pensions dashboards myth busting video, which demystifies some of the topics around dashboards
- understanding the dashboards available point and how it's different from connecting to dashboards
- inviting PDP to an event such as a regional pension office meeting
- following PDP on Twitter and LinkedIn and signing up for newsletters.

### TPR Dashboards compliance and enforcement consultation

On 14 February 2023, we responded to the Pensions Regulator's (TPR) dashboards compliance and enforcement consultation. Our response can be found on the:

- [Non-scheme consultations page](#) of [www.lgpsregs.org](http://www.lgpsregs.org), and
- [Non-scheme consultations page](#) of [www.scotlgpsregs.org](http://www.scotlgpsregs.org).

See [bulletin 231](#) for more information about the consultation.

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## Other news and updates

### Bob Holloway retires

The LGA pensions team would like to wish Bob Holloway, Pensions Secretary to the Scheme Advisory Board (SAB), a long and happy retirement. Bob retired on 24 February 2023.

Bob joined the LGA pensions team in October 2016 after 42 years' service with the Department for Local Government and Communities (DCLG) and its various predecessors.

During his time at the LGA, Bob was a member of the secretariat team that supports the SAB and its various sub-committees.

## Contacting the LGPS pensions team

One of our pensions advisers, Rachel Abbey, is currently working with DLUHC to help deliver the McCloud remedy in the LGPS. This means resources are stretched and we may take a little longer to respond to your technical queries.

We would like to take this opportunity to remind you about guidance we have previously published on contacting the LGA pensions team:

### Technical queries

If you have a technical query, please email [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) and one of the team's LGPS pension advisers will get back to you. Please do not email individual members of the team directly.

Before raising a query, please can you discuss the subject with colleagues to avoid duplicating a query that might have previously been raised by your organisation.

We have published lots of information to help you administer the scheme. Before raising a query:

- check to see if the answer is in one of our technical guides - these can be found in the Administrator resources and Employer resources pages of [www.lgpsregs.org](http://www.lgpsregs.org) or [www.scotlgpsregs.org](http://www.scotlgpsregs.org)
- check to see if the answer is in one of our bulletins - these can be found in the Bulletin pages of [www.lgpsregs.org](http://www.lgpsregs.org) or [www.scotlgpsregs.org](http://www.scotlgpsregs.org). There is a summary document of all the topics we have reported on throughout the year – making this easier for you to search for articles
- check to see if a [recommendation](#) or [agreement](#) made by the National LGPS Technical Group can answer the question
- check to see if there is an [outstanding technical query with DLUHC](#) or an [outstanding technical query with SPPA](#)
- check to see if there is an [outstanding query with GAD England & Wales](#) or an [outstanding query with GAD Scotland](#).

### Your LGPS contacts

Administering authorities are responsible for updating their own contacts using the '[Your LGPS contacts](#)' system. We receive a high volume of undeliverable messages when we send out communications, particularly to finance and political contacts. Please can you regularly review your contacts to make sure they are up to date.

If you are a pensions manager, please make sure to record your 'type' as pensions manager. That way when we send confidential information to pensions managers you can be sure to receive it.

## **NI database**

Almost all queries concerning the National Insurance (NI) database relate to lost access. Losing access is usually due to a local change in IP address. Users can only access the NI database from approved IP addresses. If you have any problems accessing the NI database, please check with your IT department whether your public facing IP address(es) has changed.

If your IP address(es) has changed, please contact [query.lgps@local.gov.uk](mailto:query.lgps@local.gov.uk) to let us know the new address(es). We will then arrange for your new address to be approved.

### **Action for administering authorities**

Make sure your organisation is aware of this guidance before contacting the LGPS pensions team.

## **National LGPS frameworks – call for founders’ reminder**

In [bulletin 233](#), we let you know that National LGPS Frameworks is looking for employer volunteers to join the AVC framework. This is because the framework will include salary sacrifice AVCs.

The team at Norfolk have asked us to mention they are still keen to find a couple more employers to get involved.

### **Action for administering authorities**

Ask your employers if they would like to volunteer for the AVC framework.

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## **Training**

### **Training focus group**

The training focus group met on 24 January 2023. Feedback from the group indicates demand for face to face training is high, although bookings do not reflect this. We would like to investigate this disparity by changing how we decide on the location for face to face training.

We would be grateful if all pension officer groups (POGs) would add ‘training’ to their agendas and discuss face to face training requirements on a regional basis. This can then be fed back to us by emailing [training.lgps@local.gov.uk](mailto:training.lgps@local.gov.uk). We hope this will help us to arrange training in more suitable locations. See our [2023 training programme](#) for information on the training we are offering this year.

We are, of course, happy to continue to provide online training courses and will continue to advertise these in the usual way. Face to face will continue, but only if commissioned by POGs.

We hope this new way of working will meet your requirements more effectively.

### **Action for administering authorities**

Add 'training' to the agenda for each POG meeting.

Determine regional training needs and email [training.lgps@local.gov.uk](mailto:training.lgps@local.gov.uk) – we will contact you to arrange dates and venues.

### **Training programme 2023**

All 2023 training events are available to book via the [LGA events website](#). The link for each course contains course details and how to book.

Bookings are on a first come, first served basis. For fairness, each course is capped at five delegates per organisation.

If you are unable to book a place on a course, email [training.lgps@local.gov.uk](mailto:training.lgps@local.gov.uk) with details of the course you would like to attend. Include how many places you require and the format - online or in person. If you require in person training, state the location you would prefer. We will keep a waiting list and will consider running additional training if the demand is high enough.

#### **Aggregation training (England and Wales)**

- [23 March 2023 - London](#)

#### **Survivor benefits training (England and Wales)**

- [25 April 2023 - London](#)
- [10 May 2023 - Liverpool](#)

#### **Employer role training (England and Wales)**

- [1 June 2023 - Online](#)
- [20 June 2023 - London](#)
- [25 July 2023 - Online](#)
- [31 August 2023 - Online](#)
- [26 September 2023 - Online](#)
- [24 October 2023 - Online](#)
- [7 November 2023 - Online](#)

## Insight training (England and Wales)

- [27 November – 1 December 2023 - Online](#)

### Action for administering authorities

Share information about the Employer role training with your Scheme employers.

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## Wider landscape

### GAD calculator for McCloud published

On 17 February 2023 [GAD published their retirement calculator](#), developed by pensions experts following the McCloud legal ruling. The calculator is not for members of local government pension schemes.

The calculator helps eligible members in unfunded public service pension schemes make an informed decision on which scheme is most suitable. Either the legacy scheme (the final salary scheme) or the reformed scheme (the 2015 CARE scheme).

### The Bereavement Benefits (Remedial) Order 2022

On 15 December 2022, the Department for Work and Pensions [re-laid the above order and published their response to last year's consultation](#).

The Order extends eligibility for Widowed Parent's Allowance (WPA) and the higher rate of Bereavement Support Payment (BSP). Eligibility now includes surviving cohabiting partners with dependent children, who were not in a legal union with the deceased on the date of death. It has retrospective effect back to the 30 August 2018.

Before the changes, only those who had been married to, or in a civil partnership with, their deceased partner would be eligible for WPA or BSP.

Currently:

- WPA is up to £126.35 per week
- BSP is a one off amount of up to £3,500 and 18 monthly payments of up to £350.

Eligible beneficiaries can claim back to 30 August 2018.

### Action for administering authorities

Consider sharing this information with survivors receiving a cohabiting partner's pension and your employers to help publicise the change.

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## Statutory instruments

- The Bereavement Benefits (Remedial) Order 2023 [SI 2023/134]
- The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 [SI 2023/113]

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## Useful links

[LGA Pensions page](#)

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

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

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

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

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

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

[Public Sector Transfer Club](#)

[Recognised Overseas Pension Schemes](#) that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## Further information

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# Briefing note

What a difference 5 days makes: DLUHC consult on changing the date on which CARE benefits are revalued in the LGPS



Ian Colvin  
Head of Benefits Consulting

## Key messages:

- DLUHC consult on moving the CARE revaluation date from 1 April to 6 April
- If implemented, many more members will avoid an Annual Allowance tax charge
- Very short time scales to implement changes

Having been heavily trailed, it was no surprise to see DLUHC announce a [consultation](#) on changing the date on which Career Average pensions are revalued from 1 April to 6 April. The move is designed to bring the revaluation of LGPS CARE benefits into line with the Pension Input Period (PIP) used for Annual Allowance tax calculations.

## Why is the change being proposed?

The Annual Allowance calculation measures the increase in pension benefits over the PIP. If growth exceeds the Annual Allowance of £40,000<sup>1</sup> then a tax charge may be payable. The calculation of the growth allows for benefits to increase in line with a cost-of-living increase without being measured against the £40,000 limit.

The problem that has been identified is that this cost-of-living increase is different from the increase that is actually applied to CARE benefits, so a mismatch arises. In periods of fairly steady, low inflation this mismatch was shrugged off as just one of those things. However, the rapid increase in prices that occurred in 2022, resulting in a jump in the CPI measurement which is used to revalue pensions, has brought the issue to the fore.

If the changes outlined in this consultation were not applied, then the inflationary allowance allowed for in the 2022/23 Annual Allowance calculation would be 3.1% while CARE benefits would be increasing by 10.1%. This would see significantly more people breaching the Annual Allowance and paying a tax charge.

## The consultation

This is a 'blink and you'll miss it' consultation, lasting only 2 weeks from 10 February 2023 to 24 February 2023. The tight timescale is likely to mean that, if the changes are implemented, pension administration systems will not be updated in time for April's increases to be applied.

<sup>1</sup> A different Annual Allowance figure can apply in certain circumstances.

We'll be replying to the consultation soon and will share our thoughts more widely, but in this Briefing Note we explore what the changes will mean for those individuals affected.

In the interests of simplicity these examples ignore pence and are rounded to the nearest whole number. This means that, from time to time, rounding discrepancies appear in the numbers.

## Scenario 1 – the 2022-23 Pension Input Period assuming the consultation changes are not implemented

### Opening value of benefits at 6 April 2022

Final pay	£60,056
1/80 service	12 years
1/60 service	6 years
Final salary pension	£15,014
Lump sum	£27,025
CARE pension	£8,000

Opening value (before inflation) =  $16 * (£15,014 + £8,000) + £27,025 = £395,247$

This value is then uplifted by the CPI figure for the previous September (i.e. September 2021) which was 3.1%

Total opening value =  $£395,247 * 1.031 = \text{£407,500}$

### Closing value of benefits at 5 April 2023

Final pay	£64,024
1/80 service	12 years
1/60 service	6 years
Final salary pension	£16,006
Lump sum	£28,811
CARE accrual up to 31 March 2023	£9,288
Revaluation to be applied to CARE accrual on 1 April 2023 (based on Sept 2022 CPI)	10.1%
5 days CARE accrual from 1 April 2023 to 5 April 2023	£18
Total CARE at 5 April 2023	£10,245

Closing value =  $16 * (£16,006 + £10,245) + £28,811 = \textbf{£448,820}$

Growth over the PIP =  $£448,820 - £407,500 = \textbf{£41,321}$

In this example the individual has exceeded the Annual Allowance. Part of that growth is the result of an increase in pay that increases the value of the final salary benefits but a fair proportion of it (more than £10k) results from the fact that CARE benefits go up by 10.1% while the CPI allowance applied at the start of the PIP is only 3.1%.

## Scenario 2 – the 2022-23 Pension Input Period assuming the consultation changes are implemented

If the changes outlined in the consultation are implemented, there will be no impact on the way that the 2022-23 opening value is calculated.

### Starting value of benefits at 6 April 2022

Total opening value = **£407,500**

### Closing value of benefits at 5 April 2023

Final pay	£64,024
1/80 service	12 years
1/60 service	6 years
Final salary pension	£16,006
Lump sum	£28,811
CARE accrual up to 31 March 2023	£9,288
5 days CARE accrual from 1 April 2023 to 5 April 2023	£18
<b>Total CARE at 5 April 2023</b>	<b>£9,307</b>

The revaluation date is now 6 April, meaning that the 2023 CARE revaluation does not fall in the 2022-23 PIP, so no revaluation is applied to the CARE benefits.

Closing value =  $16 * (£16,006 + £9,307) + £28,811 = \textbf{£433,811}$

Growth over the PIP =  $£433,811 - £407,500 = \textbf{£26,311}$

In this example the fact that no revaluation has occurred to the CARE benefits during the 2022-23 PIP means that the closing value is markedly reduced. In this case there is no breach of the Annual Allowance.

## Scenario 3 - the 2023-24 Pension Input Period assuming the changes are implemented

The opening value for 2023-24, will be the closing value of the 2022-23 PIP (ie the value of benefits accrued up to and including 5 April 2023) plus the cost of living increase based on CPI as at September 2022.

### Starting value of benefits at 6 April 2023

Closing value of 2022-23 benefits = £433,811

September 2022 CPI = 10.1%

Total opening value = £433,811 \* 1.101 = **£477,62**

### Closing value of benefits at 5 April 2024

<b>Final pay</b>	£65,704
<b>1/80 service</b>	12 years
<b>1/60 service</b>	6 years
<b>Final salary pension</b>	£16,426
<b>Lump sum</b>	£29,567
<b>CARE accrual up to 31 March 2023</b>	£9,288
<b>Revaluation to be applied to CARE accrual up to 31 March 2023 on 6 April 2023 (based on Sept 2022 CPI)</b>	10.1%
<b>CARE accrual from 1 April 2023 to 31 March 2024</b>	£1,341
<b>CARE accrual from 1 April 2024 to 5 April 2024</b>	£18
<b>Total CARE at 5 April 2024</b>	11,586

Closing value = 16 \* (£16,426 + £11,586) + £29,567 = **£477,759**

Growth over the PIP = £477,759 - 477,626

Growth over the PIP = **£133**

In this case the growth in the value of pension benefits over the PIP is very low at only £133. The reason for this is the significant cost of living increase that is applied to the starting value of 10.1%. This increase is applied to all benefits, final salary and CARE, however, it is only the CARE benefits that are actually increased by 10.1% on 6 April 2023. The final salary benefits actually increase in proportion to the increase in final salary over the PIP, which is closer to 2.6%.

## Conclusions

The move to apply revaluation to CARE benefits on 6 April will have the desired effect of aligning the increase that is applied to the starting value for Annual Allowance purposes with the revaluation that is applied to CARE benefits. This will see fewer members affected by the Annual Allowance in 2022-23 than would otherwise be the case if the move was not made.

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Department for Levelling Up,  
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**Lee Rowley MP**

*Parliamentary Under-Secretary of State for Local  
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**Department for Levelling Up, Housing and  
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Fry Building  
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Our Ref:20072812

15 February 2023

Dear Roger,

Thank you for your letter dated 3 August to Paul Scully MP regarding delays in the external audit of local authority accounts, including pension fund accounts. I am replying as since 1 November, this matter falls within my ministerial responsibilities. Please accept my apologies for the delay in responding to you.

I recognise the scope and complexity of issues affecting external local audit, and the impact that this is having on reporting by local authorities and LGPS funds. The Pension Fund Annual Reports and the Scheme Annual Report are vital in maintaining transparency and accountability of the LGPS to members, employers, and taxpayers, and in informing the work that the Scheme Advisory Board does to help maintain the scheme.


I welcome the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts, in addition to the package of support for local audit already in place. I have asked my officials to consider the scope for developing this further.

I would like to thank you and the Scheme Advisory Board for your hard work, and commitment to making the LGPS a valuable part of the lives and futures for millions of workers.

Yours sincerely,

**LEE ROWLEY MP**

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	<b>Pension Board</b> 22 March 2023
	<b>Report from the Corporate Director,          Finance and Resources</b>
<b>Brent Risk Register</b>	

<b>Wards Affected:</b>	N/A
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Two Appendix 1 – Brent Risk Register March 2023 Appendix 2 – Brent Risk Management Strategy
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & 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>  Sawan Shah, Head of Pensions 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 the updated Risk Register for the Brent Pension Fund Pensions Administration Service.

## 2.0 Recommendation(s)

- 2.1 The board is asked to note the overall report including the key changes set out in section 3.5.

## 3.0 Background

- 3.1 Effective risk management is the foundation of sound corporate governance and for the LGPS the focus should be on all aspects of the scheme's operation, not

just investment matters. Having a strategy and register in place is a way for the scheme manager to identify and manage scheme risks and it is considered good practice to have a strategy and register in place alongside established reporting mechanisms.

- 3.2 Using guidance from The Pensions Regulator and CIPFA, together with Brent's internal risk management resources, a process was undertaken in 2018 to produce a risk management strategy that was unique to Brent's circumstances. This involved a workshop that identified all of the relevant risks, assessed those risks in terms of likelihood, understanding risk management and contingency planning, monitoring risks and documentation in a register.
- 3.3 It is recognised that risk management works well when the administering authority, the Pension Board and employers work together. All parties then understand each other's capacity and appetite for risk. Key elements of this strategy were discussed at a recent working party set up with the scheme manager, administrator and select employers for feedback and comment. The Risk Strategy is attached to this report in Appendix 2.
- 3.4 It has been agreed in previous Board meetings that the Risk Register would become a standing agenda item at these meetings, with new risks and any changes to classifications of risks being reported to the Board.
- 3.5 Key changes to the Risk Register:
  - A new risk in relation to inflation being significantly higher than expected has been added – item 9.7.
- 3.6 There have been other changes made to the Risk Register at Appendix 1 to keep the document up to date. The changes are:
  - Item 1.21 - Operational Disaster Recovery Plans LPP – update to comment;
  - Item 2.1 – LPP Financial Standing – update to the comment;
  - Item 5.7 – Transfer of LPP Administration System from Heywoods to Civica – Update to comment following move to UPM.
  - Item 5.7 – Data Migration – Update to comment following move to UPM. - the likelihood of the risk has changed from 2 to 1, and the overall score of the risk has changed from 16 to 8;
  - Item 6.4 – Year End Return – add training sessions to the control and update to the comment;
  - Item 9.11 and 9.12 – The Fund's Assets Insufficient to Meet Long Term Liabilities - update to the comment to reflect 2022 valuation;
  - Item 9.6 – Pension Plan Accounting - update to the comments to reflect delay in signing the Council's accounts for 2021/22;
  - Item 9.6.1 and Item 9.6.2 – Pension Plan Accounting - update to the comment to reflect 2022 valuation;
  - Next review dates are continually updated.
- 3.7 The Board is asked to notify the scheme manager if it disagrees with these classifications and present any new risks that they would like to be considered.

3.8 The revised Risk Register is attached at Appendix 1 and it is proposed to present any changes or updates to this document to the Pension Board at every meeting.

#### **4.0 Financial Implications**

4.1 There are no specific financial implications associated with this report.

#### **5.0 Legal Implications**

5.1 None arising directly from this report

#### **6.0 Equality Implications**

6.1 None arising directly from this report

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

7.1 Not applicable for this report.

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

8.1 None arising directly from this report

**Report sign off:**

***Minesh Patel***

Corporate Director Finance and  
Resources

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The London Borough of Brent Pension Fund Risk Register 2023										
Index	A	B	C	D	E	F	G	H	I	J
1	Risk Area Disaster Recovery	Risk & Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
1.1	Operational Disaster Recovery Plans Brent	Loss of or unable to access admin systems for: a) Pensions b) Payroll c) Pensioner payroll	1	10	10	Brent Council Business Continuity Procedures	Brent	Annual	2023	Brent Council disaster recovery plan in place
1.11		Pension Systems I.T.	1	10	10	Database of all: a) Advisors b) Suppliers c) Contracts	Brent	Annual	2023	Held as hard copy by Brent Council's Legal Department
1.2	Operational Disaster Recovery Plans LPP	Loss of or unable to access LPP admin systems for pensions	1	6	6	LPP Shared Service Agreement.	LPP	Annual	2023	From 1 October 2018 LPP disaster recovery plan in place as part of their Shared Service Agreement with Brent Council
1.21		LPP Pensions Admin System (Altair) used by Brent Council Employers, Maintained Schools and Academies	1	6	6	LPP Shared Service Agreement	LPP	Annual	2023	<a href="#">LPP have a recovery plan in place for their pension admin platform UPM (External provider Civica)</a>
<u>2</u>	<b>Risk Area Business Continuity Planning</b>	<b>Risk &amp; Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
2.1	Business Continuity	LPP Financial Standing	1	10	10	LPP Service Contract	Brent	Quarterly	Q2 2022/23	<a href="#">Brent Council discuss LPP budget at regular contract monitoring meetings. Q1-3 2022/23 reviewed, full year 2022/23 update awaited from LPPA.</a>
<u>3</u>	<b>Risk Area Risk Planning</b>	<b>Risk &amp; Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
3.1	Risk Planning And Monitoring	Not monitoring: a) Risk and the risk plan b) And amending it as required c) Or adding new areas of risk as they appear  Will lead to the risk plan being: a) Inaccurate b) Known risks not being accounted for c) No plans to address these risks	1	10	10	Risk Plan	Brent	Quarterly	Q4 2022/23	The Risk Register is monitored and reviewed by the Scheme Manager and the Pensions Board.  Areas of risk are when required: a) Updated b) Amended c) New risks added if identified
<u>4</u>	<b>Risk Area Data Security</b>	<b>Risk &amp; Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
4.1	Data Security	External attack, loss of data, locked out of data, poor internal procedures can lead to an increased risk of attack from: a) outside b) or internal fraud	2	10	20	Brent Council Data Security Procedures	Brent	Annual	2023	Procedures on data security in place, systems kept up to date with latest security updates
4.12		Not backing up data regularly using secure backup systems	2	10	20	Data Back Up Procedures.	Brent	Annual	2023	Data is backed up on an incremental basis daily and fully backed up weekly, data kept in secure sites.
4.13		a) Clean desk polices not being adhered to: b) Cabinets left open or not locked c) Documents left out overnight d) Documents left on colleagues desk when they are away e) Computer not locked when operator leaves their desk	2	5	10	Brent Council Data Security Procedures	Brent	Annual	2023	Possibility of: a) Sensitive data being seen by unauthorised persons b) Data theft c) GDPR breached e) Brent Council's reputation put at risk
4.14		Taking laptops away from desk that are not password protected with encryption, using them on public transport  Not storing laptops in secure location when not in use	1	5	5	Brent Council Data Security Procedures	Brent	Annual	2023	This can lead to: a) Large losses of sensitive data b) Unauthorised people seeing sensitive data while on public transport c) Breach of GDPR d) Breach of Council's policies and dismissal from service
4.2	General Data Protection Regulations	General Data Protection Regulations (GDPR) came into effect 25 May 2018, failure to comply with GDPR will lead to: a) Complaints b) Data breaches c) Possible fines d) Loss of reputation	1	10	10	Brent GDPR Policies	Brent	Annual	2023	Brent has GDPR policies in place and publishes GDPR privacy notices: a) Online b) Yammer c) In news letters d) In communications to its members, employers, academy's, maintained schools
4.21		Sending sensitive data by email ensuring it will be sent to the right recipient and encrypted, or using a secure transmission system	2	8	16	Brent GDPR Policies	Brent	Annual	2023	Sensitive data being sent to an unauthorised person or business leading to breach of GDPR
4.3	Cyber Security	Unlawful cyber access or attacks could be serious for a scheme and its members, and could in the end result in identity theft, loss of data or even loss of financial assets	3	10	30	Brent Council Data Security Procedures  LPP Cyber Security Procedures	Brent	Annual	2023	Both Brent and LPP have significant cyber security policies and procedures in place to prevent and deter cyberattacks.  The impact of a cyber attack could be significant, so it is important for these to be permanently up to date. Brent Officers periodically review the current cyber security strategy ensuring that extensive measures are in place and up to date in order to safeguard the integrity, confidentiality and availability (ICA) of information.
<u>5</u>	<b>Risk Area Pension Administration</b>	<b>Risk &amp; Outline</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Control</b>	<b>Owner</b>	<b>Test</b>	<b>Next Review</b>	<b>Comment</b>
5.1	(Scheme Data)  Scheme Data Provided to LPP by Capita for: Maintained Schools Academies Employers	Missing common and Scheme Specific data not provided by employers, maintained schools and academies leads to delay in progressing administration for members	5	10	50	LPP Data Check	Brent	Quarterly	Q4 2022/23	LPP run a test of the data each month. These scores are included in the administration update report taken to each Pension Board meeting.

5.2	Record Keeping Planning	Not updating the record keeping plan to take into account changes of circumstances thorough the year could lead to a failure to take corrective action leading to a drop in the quality of scheme data or delays in processing member benefits	3	7	21	TPR Data Scores, Data cleanse project	Brent	Quarterly	Quarterly	Brent record keeping plan have been created to deal with poor common data and scheme. Phase 2 of data cleanse project was completed in Q4 2021/22. 1,385 missing leaver queries were identified within the scope of the project. A total of 1,219 queries have been resolved (88%). Of the outstanding 166 cases, 55 are now active cases within "business as usual" and the remaining 111 cases have been passed over to Brent and will be followed up with employers at the 2021-22 year end. Data quality has improved and is now being monitored quarterly.
5.3	(Employer Data) Maintained Schools Academies Employers Supplied Data to Capita	Failure by Maintained Schools, Academies, Employers to provide data accurately and on time to the LPP results in poor scheme data held by the LPP	5	10	50	Employer Engagement Employers Forum PAS 2021	Brent	Annual	2023	Employers to export data annually to LPP system highlighting data problems by import validation, also reporting from the admin systems of missing files leads to early indication of employers having data problems. Monthly returns planned for FY 2023/24 to improve timeliness of data.  Training to be provided to employers by the LPP on using the systems and what LPP requires from employers.  The Pensions Administration Strategy allows the scheme manager to take action against employers that do not comply with their statutory and legal obligations to the Pension Fund. These actions will be considered should employers not respond to requests for information in a timely manner.
5.4	Loss of Key Staff Members	Specialist nature of the work means there are relatively few staff members with knowledge of the Local Authority Pensions Regulations and Pensions Administration requirements. Significant knowledge gap left if specialist staff leave, likely to cause short-term disruption.	4	8	32	Training Plan  Knowledge sharing and transfer	Brent	Annual	Ongoing	Key Officers to ensure processes are documented and knowledge is being passed on to other members of the team, to ensure limited disruption in the event of an unexpected absence or leaving the position.  Training events delivered by external parties are available and staff are encouraged to attend  External Support is available to mitigate this risk, both from external advisors and LPP who manage the fund's administration
5.5	Impact of Coronavirus (COVID-19)	Increase in staff who are unwell leading to: a) Delays in administrative processing and increase in backlog cases b) Member benefits being delayed c) Increase in complaints d) Difficulties in meeting key deadlines such as year-end  Delays in implementing the agreed investment strategy due to volatile financial markets.	5	2	10	Brent Council Business Continuity Procedures  LPP Business Continuity Procedures  Hymans Robertson Business Continuity Plan (as Fund Actuary and Investment Advisors)	Brent	Ongoing	Ongoing	Situation is being monitored on an ongoing basis. Staff to observe Government and NHS guidance.  Increased use of flexible and remote working technologies are now in place to enable staff to operate in an efficient and effective manner. The Pensions Administration and Finance team are able to work from home and in offices.
5.6	Transfer of LPP Administration System from Heywoods to Civica	Risk in transferring of LPP Admin systems from Heywoods to Civica: a) Delays in timely completion of transfer leading to delayed administrative processing b) Inaccurate transfer of scheme data from one system to the other leading to incorrect calculations of member benefits c) Members benefits being delayed d) Increase in complaints e) Places an unwarranted and costly drain on Brent resources of providing service to its members	1	7	7	Risk and Project Plan	LPP	Ongoing	Ongoing	<a href="#">LPPA have rolled out a new pension administration system which is made by Civica and called Universal Pensions Management (UPM). The UPM system replaced 5 different systems including Altair, LPP's workflow management system (CMS), both YourFund employer portals and the My Pension Online member self-service portal. The overall project is called project PACE.</a>  <a href="#">Project PACE is being delivered by a dedicated team of project managers and ringfenced project roles to ensure no impact to the day to day performance of the business. LPPA has successfully migrated all 18 clients on to the UPM platform. The Brent Fund went live on 11th November 2022.</a>  <a href="#">Performance has been impacted due to spikes in work created by the phase 2 migrations and a project has been launched to ensure that performance is returned to targets as soon as possible. LPP are providing Brent officers with regular updates in monthly meetings. Updates are also being provided to the Pension Board.</a>
5.7	Data Migration	The data is not transferred across or is transferred across incorrectly leading to: a) Delays in the calculation of member benefits b) Member payments being delayed c) Increase in complaints d) Difficulty in meeting key deadlines e) Reputational damage to the fund	1	8	8	Regular meetings with LPP	LPP	Ongoing	Ongoing	<a href="#">LPPA completed five separate data cuts for the migration of data from Altair into UPM. Each data cut was completed and signed off before the next data cut is completed. The data will be fully reconciled before UPM go live.</a>
6	Risk Area Plan Events	Risk Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
6.1	Pension Plan Events Planning	Plan events such as: a) Annual benefits statements b) Year end reporting to the TPR c) Accounting d) Pension increases e) Plan valuations	4	10	40	Plan Calendar	Brent	Annual	2023	Plan Calendar to identify events: a) What work is required b) What recourses will be used c) Completion and sign off
6.12		Pension projects such as: a) Changes in legislation that needs to be actioned b) GMP equalised for men and woman	5	10	50	Plan Calendar	Brent	Annual	2023	To allow longer term planning for items such as: a) New legislation coming in to effect b) Ensure Plan events are completed on time c) Prepare for GMP equalisation
6.2	Annual Benefits Statements 2021/22	Failure to have the necessary correct and accurate data will lead to: a) Statements not being sent b) Possible delay sending statements whilst this data is obtained and systems updated	6	10	60	LLP Shared Service Agreement and PAS	Brent	Annual	2023	It is a statutory responsibility for the scheme manager to issue an annual benefit statement (ABS) to all eligible active and deferred members by 31 August each year.  Scheme employers are required to submit an end of year return in order to be able to produce an ABS. Following submission of the return, employers may be required to respond to queries to clarify any data on the return before an ABS can be produced. It is therefore important that end of year returns are received promptly. Delays in submission of returns can lead to a risk that the ABS are not issued by the deadline. Where returns have not been promptly received, Brent and LPP will work together directly with employers to ensure prompt and accurate submission of end of year returns.



6.21		Annual Benefits Statement dependant on: a) Common Data b) Scheme Specific data c) Data being improved from the Record Keeping Plan (RKP)	5	10	50	LLP Shared Service Agreement	Brent	Annual	2023	Improvement to common and Scheme Specific data being carried out under RKP.
6.3	Deferred Member Benefit Statements 2021/22	Incorrect Statutes, no address, missing data to calculate leads to: a) Statements not being issued b) Statements inaccurate c) Incorrect valuation and liabilities for the Plan.	5	10	50	LLP Shared Service Agreement	Brent	Annual	2023	Member data is being dealt with under the Record keeping Plan.
6.4	Year End Return	Failure to complete year end return and submit on time leads to fines	4	10	40	PAS Employer Training Sessions	Brent	Annual	2023	End of year process for 2023 has been communicated to employers. Pro active action to get employers to provide data on time is in place. Training sessions are provided to employers to assist completion.
6.5	Admission Agreements	Failure to process an admission agreement within the time frames set on in LGPS regulations can lead to transferring employers pension entitlements being delayed, legal issues stopping the agreement from being implemented and costs incurred that can not be recovered	5	10	50	Internal Controls	Brent	Quarterly	2023	Admission agreements are regularly reviewed by officers in finance and legal to resolve issues encountered in the admission agreement process and progress to completion.
6.52		Not having procedures and processes to processes and monitor agreements are on track and any reason for delayed identified and acted on could lead to delays in implementation of the agreement	5	10	50	Internal Controls	Brent	Quarterly	2023	Admission agreements are regularly reviewed by officers in finance and legal to resolve issues encountered in the admission agreement process and progress to completion.
6.53		Oversight of the legal team and ensuring that they are processing the legal agreements in the time set out in the procedures and requirements of admission agreements is a major factor on processing an admission agreement on time	5	10	50	Internal Controls	Brent	Quarterly	2023	Overseeing of the legal team on admission agreement by the Scheme Manager to ensure no delays and prompt processing of agreement becomes a priority
6.54		Failure to keep to rules and regulation on admission agreement will require this failure to be reported to the TPR	5	10	50	Internal Controls	Brent	Quarterly	2023	Breaches log to bring attention of failing and lessons learned in processing admission agreements
7	Risk Area Auto Enrolment	Risk Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
7.1	Auto Enrolment	Failure to process auto enrolment on time leads to: a) Member complaints b) Members unable to opt out or in c) Delayed administration d) Possible action by the regulator to improve or be fined	1	10	10	Auto Enrolment Procedures	Brent	Ongoing	Ongoing	Auto enrolment checked monthly for: a) Enrolment b) Opt outs c) Opt Ins d) Auto Enrol Renewal, as part of Brent procedures for pensions and payroll
8	Risk Area Regulatory	Risk & Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
8.1	Anti Fraud Initiatives Mortality Existence	Benefits paid to people not entitled to benefits from the LGPS	2	5	10	2019 Anti Fraud Plan	Brent	Annual	2023	Administration processes check for fraud
8.2	Pension Board Training	Pension Board members not having the appropriate degree of knowledge and understanding to perform their duties.  Pension Board member not having the right knowledge to make informed decisions and challenge Officers of the Council.	1	5	5	Pension Board Training Plan	Brent	Annual	2023	Regular training is provided via a training programme for Pension Board members  All Pensions Board members to complete and pass the TPR public pensions course online
8.3	Pension Board Conflict Of Interest	Conflicts of interest must be declared in the Register of Interests  Failure to declare an interest can lead to serious consequences and pose a risk to the Plan and possibly member	1	5	5	Conflict of Interest Register	Brent	Annual	2023	The register of interests and other relevant documents are circulated to the Pension Board for ongoing review and are published on the Brent Council's website
8.4	Governance	Failure to have good governance plans in place which are reviewed and monitored can lead to: a) Poor administration b) Increased administration costs c) Poor investment outcomes d) Increased levels of risk e) Not understanding what the risks are and having plans to manage the risk f) Statutory requirements not being met such as: g) Annual benefits statements not being produce and sent out h) Pension saving statements not being produce and sent out i) Year end returns being done late	1	3	3	Multi areas cover governance: a) Plan Rules b) Business Plan c) PAS 2018 d) Scheme Manager e) Pensions Board f) Pensions Sub Committee.	Brent	Ongoing	2023	Governance is monitored by: a) Scheme Manager b) Pensions Board c) Pensions Sub Committee d) Internal and External Controls
8.5	Failure to make provision for oversight of the administration of the Plan	Failure to ensure that overall oversight is in place and carried out can lead to: a) Breaches of the law b) Poor administration and record keeping c) Unauthorised payments d) Poor administration being allowed to continue e) Failure to meet deadline on time f) Possible fines g) Fraud to occur h) Loss of confidence and reputation for the Council	1	2	2	The Pension Board assists the Scheme Manager in the provision of oversight of how the Plan is administered	Brent	Ongoing	2023	The oversight of the plan is carried out by the Scheme manager with assistance from the Pension Board
8.6	Discretions	A decision to add pension or disregard a reduction on pension for early payment leads to increased costs to the employer	1	5	5	Corporate Director, Finance and Resources	Brent	Annual	2023	Discretions under review on early retirement with actuarial reduction, Discretions are covered under LGPS Rule 30 (2&5)  In preparing such a statement the Council must have regard to the extent to which the discretions are exercised to avoid a loss of confidence in the service provided.

8.7	Data Protection Breaches	Breaches not recorded and failure to report a breach to the regulator can lead to fines and loss of reputation	3	6	18	Breaches Log	Brent	Monthly	Monthly	Breaches log to monitor all breaches and report of breached to the regulator
9	Risk Plan Funding & Accounting	Risk & Outline	Likelihood	Impact	Score	Control	Owner	Test	Next Review	Comment
9.1	The Fund's Assets Insufficient to Meet Long Term Liabilities	Pension Fund Assets not sufficient to pay: a) Pension benefits b) Transfers c) Death benefits d) Could lead to raising of pensions contributions e) Plan has to reduce benefits f) Reassessment of the funding strategy	2	10	20	Public Sector Payroll Controls	Brent	2020	Monthly	Contributions are checked on a monthly basis Overdue Contributions: Employers Academies Maintained Schools Are actively chased
9.11			1	10	10	The Funding Strategy Statement	Brent	Tri Annual	2022	<a href="#">A report on the 2022 Triennial Review (including the Funding Strategy Statement) is on the agenda.</a>
9.12			1	10	10	Fund's Funding Level Assessment	Brent	Monthly	Monthly	<a href="#">The Fund receives regular performance reports on its investments from the custodian. The Fund actuary, Hymans Robertson, completes a valuation of liabilities every 3 years. Draft Whole Fund results for the 2022 valuation presented to the Pension Sub-committee in October 2022 and the proposed final valuation report was presented to the Pension Sub-committee in February 2023.</a>
9.2	Investments in Russia, Belarus and Ukraine	Due to the impact of the UK government sanctions on the Ukraine invasion by Russia, the exposure of the Brent Pension Fund to Russian, Ukrainian and Belarusian assets is set out below:  Total Fund Value (31/1/22) £1.1 billion Total Exposure £1.6 million Exposure 0.14%  The Fund has relatively minimal exposure to Russian, Ukrainian and Belarusian holdings.	2	1	2	The Fund holds a well-diversified portfolio of assets, which has been invested in line with the investment strategy statement	Brent	Ongoing	Ongoing	Officers, in conjunction with our investment advisors, fund managers, London CIV and actuary, are monitoring the situation on an ongoing basis and continually assessing risks. It is understood that most Russian, Ukrainian and Belarusian holdings have been removed from the relevant indexes and have been written down to zero.
9.3	Impact of McCloud judgement on Long Term Liabilities	Court of Appeal ruling that transitional protections were unlawful on the grounds of age discrimination could increase employer contributions.	8	6	48	Triennial valuation/ Funding Strategy Statement	Brent	Quarterly	Ongoing	Following the close of the McCloud consultation, Brent Officers have now provided a response to MHCLG following discussions with the Fund's actuary, Hymans Robertson and the Fund's admin provider LPP. At this stage, it is likely that greater admin resource will be required and it is expected that there will be a cost to the Pension Scheme. Officers are now in discussions with LPP and Hymans to prepare for the impact as we await the government's formal response to the consultation and the subsequent change in regulations enacted in law.
9.4	Exit Pay Reforms	There is potential for new legislation to be introduced which will alter the way redundancy benefits are carried out for members aged 55 and over.	2	6	12	Governance & Compliance	Brent	Quarterly	Ongoing	On 12 February 2021, The Chancellor of the Exchequer determined that the Restriction of Public Sector Exit Payments Regulations 2020 Regulations should be withdrawn, this was revoked on the 25th February 2021. On 8 August 2022, HM Treasury (HMT) launched a new consultation on public sector exit payments proposing to introduce an expanded approvals process for employee exits and special severance payments, and additional reporting requirements. In light of this, Brent Officers will continue to monitor such updates, liaise with the Fund actuary and update the Pensions Board accordingly.
9.5	Pension Contributions not Paid by:	Effects the Plans abilities to: a) Pay out benefits b) Braking the law on pension contribution collections c) Unnecessary costs for chasing for contributions d) Continuing non payment for pension contributions will lead to: e) Breaches for the payment of pension contribution regulations f) Being reported for breaches as required by law g) Delay benefits beginning paid h) Can lead to delays in accounting for pension contributions	2	10	20	PAS	Brent	2021	Ongoing	Procedures in place to deal with pension contributions not being made or late
9.51	Maintained Schools Academies Employers		2	10	20	PAS	Brent	Annual	2023	Engaging with: a) Employers b) Academies c) Maintained Schools d) With working parties and employer forums e) LPP to provide more support in this area
9.52	a) On time b) Or not at all c) Refusal to pay		2	10	20	PAS	Brent	Annual	2023	Contributions are monitored on a monthly basis and late or non payers reported. 2018 Revised PAS includes fines for non compliers.
9.6	Pension Plan Accounting	Failure to comply with accounting regulations will lead to serious consequences: a) Possible fines b) Loss of reputation	2	10	20	Annual audit	Brent	Annual	2023	<a href="#">Draft accounts for 2021/22 have been published and the audit fieldwork for the Pension Fund is complete. The PF accounts audit cannot be signed off to due delays in the audit of the Council's accounts.</a>
9.61			1	10	10	Triennial valuations	Brent	Tri Annual	2022	<a href="#">2019 Triannual completed. The 2022 valuation is nearing completion.</a>
9.62			1	10	10	The Funding Strategy Statement	Brent	Tri Annual	2022	<a href="#">A report on the 2022 Triennial Review (including the Funding Strategy Statement) is on the agenda.</a>
9.63			1	10	10	Fund's Funding Level Assessment	Brent	Annual	Annual	The Fund receives regular performance reports on its investments from the custodian. A valuation of assets and liabilities on an accounting basis is completed annually. The Fund actuary, Hymans Robertson, completes a valuation of liabilities every 3 years.
9.7	Inflation is higher than expected	Price inflation is significantly more than anticipated in the actuarial assumptions. High inflation: a) increases the Fund's liability as pensions in payment are linked to CPI inflation b) places short-term pressure on the Fund's cashflows to meet increased benefit payments and increase the demand for investment income.	10	4	40	Triennial valuations Investment Strategy Cashflow modelling	Brent	Ongoing	Ongoing	<a href="#">Inflation has risen significantly over the last 2 years due labour shortages, supply chain issues, and high energy prices.</a>  Inflation is reviewed at each triennial valuation and the actuary is challenged as required. The Fund's investment strategy is routinely reviewed and the Fund is a long-term investor and takes a long-term view on market conditions and inflation. A significant proportion of the Fund's assets are growth assets which are expected to outperform inflation over the longer term.

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

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# Brent

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## **London Borough of Brent Risk Strategy**

# Brent Risk Strategy July 2018

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## 1. Introduction

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

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

- the risk approach adopted for the management of the Fund, attitudes to risk, how risk is managed and implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund

## 2. Strategy objectives

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

## 3. Purpose of the strategy

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

#### 4. Effective date

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

#### 5. Review

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

#### 6. Scope

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

#### 7. Risk Management Philosophy

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

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

##### 8.1 CIPFA Managing Risk Publication

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

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



## 8.2 The Pension Regulator's Code of Practice

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

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

- 1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed: (a) in accordance with the scheme rules, and (b) in accordance with the requirements of the law.
- 2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.
- 3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.” Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

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

The risk assessment should begin by:

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

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

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

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process

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will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

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

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

## 9. Responsibility

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

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

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

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

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

### 10.2 Risk identification (1)

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

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

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

### 10.3 Risk analysis (2)

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

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

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

#### 10.4 Risk control (3)

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

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

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

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

The Fund's risk register details all further action in relation to a risk and the owner for that action.

Where necessary the Administering Authority will update the Fund's business plan (Due Q4 2018) in relation to any agreed action as a result of an identified risk.

## 10.5 Risk monitoring (4)

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

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

## 11. Reporting and monitoring

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

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

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

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

## 12. Key risks to the effective delivery

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

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


### 13. Risk Register Appendix A

The Risk Register Appendix A :

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

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	<b>Pensions Fund Sub-Committee</b> 20 February 2023
	<b>Report from the Corporate Director, Finance and Resources</b>
<b>Investment Strategy Review</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT - Appendix 7 to the Investment Strategy Review (Low carbon equities) 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>	Two Appendix 1: Investment Strategy Review Appendix 2 Investment Strategy Review – Appendix 7 – Low carbon equities (Exempt from publication)
<b>Background Papers:</b>	▪ N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & 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>  Sawan Shah, Head of Pensions 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 details the review undertaken by the Fund's investment advisor, Hymans Robertson, of the current investment strategy, following on from the Fund's 2022 valuation. The purpose of the review was to evaluate the current

investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives.

## **2.0 Recommendation(s)**

That the Pensions Fund Sub-Committee:

2.1 Consider and agree the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson, available in Appendix 1. The following proposals should be taken into consideration:

- Rebalance the equities portfolio by reducing the allocation to global equities by 6% and re-invest in multi-asset credit and gilts;
- Undertakes a market review of low carbon global equity funds to replace the current LGIM global equity mandate;
- The Fund to continue to build its investments in infrastructure (15% target), private debt (5% target) and property (10% target), to move towards the long-term strategic allocation;
- That new investments will be needed to build the infrastructure allocation to the target allocation;
- The broad split between UK commercial, UK housing and Global property for the Fund's property allocation;
- Investigate options to maintain the target allocation to Private Debt;
- Review of the Protection portfolio to identify whether this can be refined to increase expected returns with only a marginal increase in risk.

2.2 Note that the investment strategy review supports the Fund's net zero road map with a market review of the global equities allocation planned for 2023.

## **3.0 Detail**

### **Current Investment Strategy**

3.1 The Fund's current strategic asset allocation was agreed in February 2020 following the 2019 valuation. In summary, a long term target of 50% to equities, 35% to income (including diversified growth funds) and 15% to protection assets was agreed.

3.2 The Fund employs a phased approach to working towards the long-term target allocation, therefore an interim allocation was also agreed. Table 1 below shows the current interim and long term allocation.



<b>Asset Class</b>	<b>Interim Target (%)</b>	<b>Long-term Target (%)</b>	<b>Actual Fund asset allocation (Dec 2022) (%)</b>
<b>Equities</b>	<b>55</b>	<b>50</b>	<b>59</b>
Global ex UK	40	40	46
UK	5	5	6
Emerging Markets	5	5	4
Private Equity	5	0	3
<b>Income</b>	<b>30</b>	<b>35</b>	<b>31</b>
Diversified Growth	20	5	21
Infrastructure	10	15	5
Property	0	10	3
Private Debt	0	5	2
<b>Protection</b>	<b>15</b>	<b>15</b>	<b>10</b>
Multi Credit	5	5	4
Gilts	10	10	5
Cash	0	0	1
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>

- 3.3 At the time of the last review, the Fund's current strategic asset allocation was expected to generate a return of 5.52% p.a., with a volatility of 9.88% p.a. Over the last 3 years, up to December 2022, the Fund has generated a return of 3.8% which is lower than the long term expected rate but 0.5% higher than its benchmark return of 3.3%.
- 3.4 The aim of the Fund's investment strategy is to maximise returns over the long term within specified risk tolerances in order to meet the wider strategic goals of the Fund and to close the gap between assets and liabilities. At the 2019 valuation, the Fund was estimated by the actuary to be 78% funded. At the 2022 valuation, the overall funding level has improved by 9% to 87% reflecting higher than expected investment returns and improved data quality.

### **Strategy Proposals**

- 3.5 The Fund's investment advisors, Hymans Robertson, have completed their Investment Strategy review. The review focuses on the high-level investment strategy with the aim of determining the high-level allocation to Growth, Income and Protection assets, and considers the detailed implementation of these allocations. This review has included carrying out asset liability modelling to test the probability (and associated risks) of the Fund's current investment strategy achieving its long-term objectives. We also tested how the current strategy compares with other investment strategies.
- 3.6 The remainder of this report provides a short summary of the Investment Strategy Review, the full report is attached in Appendix 1.

3.7 The investment advisor has modelled the existing strategic allocation, the current long term allocation and two alternative de-risked strategies:

- De-risked strategy 1: Reduce the equity allocation by 10%, with an additional 2.5% to income (private debt) and 7.5% to protection (2.5% to multi asset credit and 5% to corporate bonds)
- De-risked strategy 2: Reduce the equity allocation by 10%, with an additional 2.5% to income (private debt) and 7.5% to protection (7.5% to multi asset credit, 10% to corporate bonds less 10% to gilts)

3.8 The table below shows the 20 year expected return and 1 year risk measure (volatility) for these strategies:

	<b>Current strategy (at 31 Dec 2022)</b>	<b>Current long-term strategy</b>	<b>De-risked strategy 1</b>	<b>De-risked strategy 2</b>
<b>20 year expected return</b>	4.56% p.a.	4.61% p.a.	4.56% p.a.	4.75% p.a.
<b>1 year risk measure</b>	12.7%	12.1%	11.4%	11.7%

3.9 The key points to note are:

- This analysis provides support for continuing to move towards the long-term target allocations agreed at the last strategy review, the long-term strategy is expected to provide a marginal increase in expected return with lower risk compared to the current strategy.
- The results for the de-risked strategies give some support to reducing the Fund's exposure to equities.
- the current long-term target allocation can be enhanced by replacing fixed-interest gilts with corporate bonds. The risk and return profile of this strategy is an expected return of 4.81% p.a. with a risk measure of 12.3%.

3.10 It should be noted that the move from the current strategy to the long-term strategy or alternative strategies should take place over time, taking into account the availability of suitable investment opportunities, the scope to access private markets and the current market environment.

## **Growth**

3.11 The current allocation to growth assets is 9% overweight relative to the long-term targets. Around 3% of this position is expected to wind down in the coming years therefore the review recommends to decrease the equity allocation by 6% and re-invested in multi-asset credit and gilts.

3.12 The investment strategy review also recommends undertaking a market review during Q2 2023 to make significant progress towards achieving the Fund's net

zero ambitions and selecting one or two low carbon global equity funds to replace the current LGIM global equity mandate.

### **Income**

- 3.13 The Fund has long held overweight allocation to diversified growth funds as the Fund seeks to build up its infrastructure, private debt and property exposure. The review recommends to continue to move towards the long-term strategic allocation for these asset classes and that new investments to these asset classes are by selling diversified growth funds.
- 3.14 In terms of infrastructure, new investments will need to be identified to build the allocation to infrastructure towards its 15% target. A review of suitable infrastructure funds including funds targeting renewable energy and Forestry/Timberland could be considered as part of a diversified infrastructure portfolio. Such investments would align well with the Fund's net zero ambitions as significant investment is required as part of the transition. Appendix 4 of the full report sets out more information about the Forestry/Timberland asset class including the characteristics and risks.
- 3.15 The review recommends to maintain the 5% allocation over the long term to Private Debt, which is currently in the build up phase. It is recommended to investigate options in this area in terms of follow up commitments to maintain the target allocation.
- 3.16 It is also recommended to maintain the target allocation to Property and that the Fund continues to build its property allocation, creating a diversified portfolio comprising UK commercial property (c. 3.6%), UK housing (c. 2.8%) and global property (c. 3.6%). UK housing can provide additional diversification to the portfolio and tends to have a lower risk/return profile than commercial property, a detailed assessment of the LCIV UK Housing Fund which invests in social, affordable and specialist housing is included as a separate item on this agenda.

### **Protection**

- 3.17 The review considers that current allocations to Protection assets are underweight relative to the long-term targets driven mainly by the sharp decline in the market value of bond assets during 2022 due to the impact of rising interest rates.
- 3.18 As noted in paragraph 3.12 above, it is recommended to decrease the equity allocation by 6% and re-invest the proceeds in multi-asset credit and gilts to increase these towards their target allocations.
- 3.19 The rise in interest rates means that the yields available on bonds (UK government gilts and corporate debt) are more attractive than they have been for some time therefore the committee should consider whether this can be refined to increase expected returns while maintaining risk at or around current levels.

#### **4.0 Financial Implications**

4.1 These are discussed throughout the report and included in Appendix 1.

#### **5.0 Legal Implications**

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

#### **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

# London Borough of Brent Pension Fund

Investment Strategy Review – 2023

February 2023

Kenneth Taylor – Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

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## Investment Strategy Review – 2023

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Appendix 7 – Low carbon equities [confidential]

# 1 Introduction

## Addressee and purpose

This report is addressed to the Officers and Pension Fund Sub Committee (the “Committee”) of the London Borough of Brent as administering authority to the London Borough of Brent Pension Fund (the “Fund”). This report sets out the conclusions of the review of the Fund’s investment strategy, makes initial recommendations on the asset allocation for the Fund and provides recommendations for the Fund’s Growth, Income and Protection portfolios.

This report should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing. We provide comment from an investment but not a legal or tax perspective. This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.

## Background and objectives

The work we have undertaken has been influenced by our understanding of the Fund’s background, objectives, and beliefs, which are set out below.

The Fund was 87% funded at the 2022 actuarial valuation which represents a 9% improvement on the previous valuation which took place in 2019.

The Fund’s investment objectives are:

- 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.

For this investment strategy review, we have interpreted these objectives as meaning that the Fund aims to achieve and maintain 100% funding with a Probability of Success of at least 70% in 20 years’ time. The report both focuses on the high-level investment strategy with the aim to determine the high-level allocation to Growth, Income and Protection assets which best meets the Fund’s investment objectives, i.e. what the Fund should invest in. In addition, it will look to highlight some areas for further consideration by the Committee on the underlying asset classes used to achieve this investment structure.

To assess whether an investment strategy is suitable, asset-liability modelling was undertaken as at 31 March 2021 in conjunction with the actuarial valuation. The results of this modelling have been included in the appendix for your information. Recognising that some time has passed since this modelling was run, we have used our in house proprietary ‘Structure Lite’ model to stress test these initial results to make sure they remain valid.

Our advice also reflects the need to align the Fund’s investment strategy with its investment beliefs.

## Conclusions and recommendations

A summary of our conclusions and recommendations is set out below:

- The funding position has improved since the 2019 actuarial valuation, which is welcome news.

- We continue to support the Fund's long-term target allocations to Growth, Income and Protection assets, which were agreed following the 2019 actuarial valuation. In particular, we recommend the Fund continues to build out its private markets investments in infrastructure, private debt and property to help move the Fund towards the long-term target allocations previously agreed both from a position of diversification and accessing alternative sources of excess return.
- Cashflow analysis: the 10% pension increase in April 2023 coupled with a reduction in future contributions is expected to impact the cashflow position of the Fund. We have not analysed the cashflow position in this report but we would be happy to prepare this for the Committee, working with our colleagues in the actuarial team. This analysis will assess whether current levels of investment income are sufficient to cover any shortfall between contribution income and benefits paid.

### Growth portfolio recommendations

- **Rebalancing:** the Fund is currently c9% overweight equities relative to the long-term target allocation (actual c59% vs target 50%) – please see the table on the next page. Around one-third of this overweight position will naturally be corrected as the private equity mandate winds down over the next few years. We recommend that the remaining c6% is sold (from the LGIM global equity mandate) and re-invested in multi-asset credit and gilts to increase these towards their target allocations.
- **Low carbon equities:** as the Fund continues to develop its net zero roadmap, a priority action is to review the Fund's global equities to determine whether the Fund can continue to access global equity markets and also achieve a reduction in its carbon emissions. At c40% of total assets, the global equities are the largest contributor to the Fund's carbon emissions. We recommend the Committee undertakes a market review during Q2 2023 and selects one or possibly two low carbon global equity funds to replace the current LGIM global equity mandate.

### Income portfolio recommendations

- **Infrastructure:** new investments will need to be identified to build the allocation to infrastructure towards its 15% target. We recommend that the Committee carries out a review of suitable infrastructure funds, including the London CIV renewables infrastructure fund as well as funds offered by external managers. We would also highlight that Timberland is attracting interest within the LGPS at the moment and an allocation to Timberland could be considered as part of a diversified infrastructure portfolio.
- **Private debt:** the Fund has committed £50m to the London CIV private debt fund and this investment is currently in its build up phase. The expected profile of the private debt fund is such that it increases in value as capital is invested and then reduces in value as income and redemptions are returned to the Fund. To maintain the 5% target allocation, it is common for pension schemes to invest in a series of private debt funds, with commitments being made to new funds every 2-3 years. We recommend the Committee investigates options in this area and, in the first instance, asks the London CIV to confirm its future plans.
- **Property:** the target allocation to property is 10%, with 2.5% of this already invested across two UK commercial property mandates with UBS and Fidelity. We recommend that the Fund continues to build its property allocation and creates a diversified portfolio comprising UK commercial property, UK housing and global property. A 10% allocation is broadly equivalent to £110m currently and we recommend that this is built up as indicated in the table below.



Allocation	Allocation	Percentage split
UK commercial (UBS & Fidelity)	£40m	36%
LCIV UK Housing Fund	£30m	28%
Global property	£40m	36%
<b>Total</b>	<b>£110m</b>	<b>100%</b>

- In terms of timing, we would recommend waiting until the second half of 2023 before adding to the Fund's UK commercial property allocation and investing in a new global property fund. We recommend the Committee lays the groundwork for a future investment by carrying out a review of global property managers ahead of making an investment in Q3 or Q4 of 2023.
- We are content for the Fund to proceed with a £30m commitment to the LCIV UK Housing Fund, subject to appropriate due diligence, which will be drawn down beginning from April 2023.
- We recommend these investments are met by selling a proportion of the diversified growth funds.

#### Protection portfolio recommendations

- **Rebalancing:** as noted above, we recommend that c6% is sold from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations. This will rebalance risk levels within the Fund in the short term with a review of the long-term role of gilts to follow later (see recommendation below). We are comfortable investing more into gilts now even if this ultimately proves to be a temporary measure, given that trading costs in and out of gilts are relatively low.
- **Review Protection portfolio:** bond yields increased significantly during 2022. While this has led to a fall in bond asset values, the higher yield means investing in bonds is more attractive now than it has been for some time. The Protection portfolio consists of multi-asset credit and fixed interest gilts currently. As noted above, replacing the fixed-interest gilts with corporate bonds would boost expected returns with only a marginal increase in risk levels.

## Recommendations - summary

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Recommendations
Listed global equities <sup>1</sup>	46.0	40.0	Reduce overweight; select low carbon funds
Listed UK equities	6.3	5.0	No action at this time
Emerging markets	3.9	5.0	No action at this time
Private equity	2.5	0.0	Use income to meet capital calls
<b>Total Growth</b>	<b>58.7</b>	<b>50.0</b>	
Diversified growth funds	20.7	5.0	Sell portion to fund investments below
Infrastructure	5.2	15.0	Identify new investments
Private debt	3.1	5.0	Identify new investments
Property	2.4	10.0	Build to 10% in 3 components during 2023
<b>Total Income</b>	<b>31.4</b>	<b>35.0</b>	
Multi-asset credit	3.8	5.0	Top-up from equities; review in 2023
Gilts	4.9	10.0	Top up from equities; review in 2023
<b>Total Protection</b>	<b>8.7</b>	<b>15.0</b>	
Cash	1.2	0.0	Continue to use to fund capital calls
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

<sup>1</sup> This is split 43.4% in a global equity mandate with LGIM and 2.5% in the BlackRock World Low Carbon fund

## 2 Investment strategy review

### Investment strategy review process

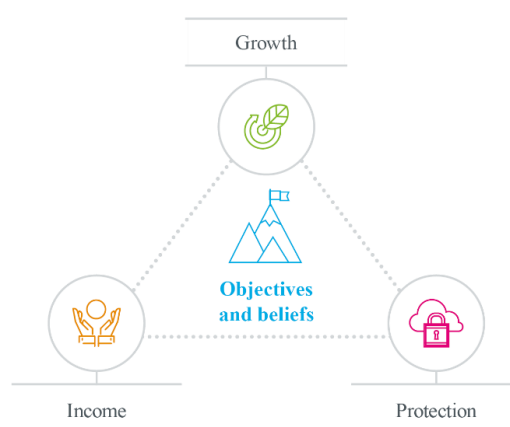
As mentioned in the background and objectives, the review process has two main parts:

- 1 **Reviewing the investment strategy:** the review of the investment strategy focuses on the high-level allocation to Growth, Income and Protection assets, as well as the high-level asset class allocation within these categories, i.e. **what** the Fund should invest in.
- 2 **Reviewing the investment structure:** the investment structure review then looks at the detailed implementation of these asset class allocations, i.e. **how** the Fund should invest.

Further detail on the investment structure review will be presented to the Committee at a future meeting.

### Framework for the review

The objectives of the review are to determine the mix of assets which best meets the risk and return requirements of the Fund. Our approach is to evaluate the Fund's current strategy against a range of plausible alternatives, each designed to test potential enhancements the Fund could make. To help frame the analysis, we have used our Growth/Income/Protection framework, as per the diagram below.



<b>Growth</b>	Assets which deliver positive real returns over the long-term enabling the Fund to meet its obligations whilst maintaining the affordability of the target level of contributions (assets such as global and private equity).
<b>Income</b>	Assets which deliver a relatively high and stable level of income which helps the Fund to diversify risk and to fund benefits payments (assets such as property, infrastructure, private debt).
<b>Protection</b>	Assets which reduce or hedge the Fund's investment risk and thereby seek to protect the funding position (assets such as traditional gilts and index-linked gilts).

### The Fund's current investment strategy

The starting point for the investment strategy review is of course the Fund's current investment strategy. Any potential alternatives should be compared to the current strategy to ensure potential improvements are significant enough to justify the costs of implementing them. The Fund's current actual and long-term target asset allocations are set in the table below.

This shows that the Fund's investment strategy is currently in a transition phase, with allocations to infrastructure, private debt and property in a "build up" phase. The overweight positions to diversified growth

funds and cash will be reduced over time to fund these new investments. We recommend that the multi-asset credit and gilts allocations are topped up from equity sales.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Listed global equities	46.0	40.0	6.0
Listed UK equities	6.3	5.0	1.3
Emerging markets	3.9	5.0	(1.1)
Private equity	2.5	0.0	2.5
<b>Total Growth</b>	<b>58.7</b>	<b>50.0</b>	<b>8.7</b>
Diversified growth funds	20.6	5.0	15.6
Infrastructure	5.2	15.0	(9.8)
Private debt	3.1	5.0	(1.9)
Property	2.5	10.0	(7.5)
<b>Total Income</b>	<b>31.4</b>	<b>35.0</b>	<b>(3.6)</b>
Multi-asset credit	3.8	5.0	(1.2)
Gilts	4.9	10.0	(5.1)
<b>Total Protection</b>	<b>8.7</b>	<b>15.0</b>	<b>(6.3)</b>
Cash	1.2	0.0	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

### Alternative investment strategies considered

To test whether the current long-term target remains appropriate, we have modelled alternative investment strategies to determine whether there is a more optimal mix of assets for the Fund. Five key themes drove the potential alternatives considered:

- **Improving funding position** – the Fund has seen an improvement in the funding position since the last strategy review, albeit it is still in deficit. What impact does this have on the Fund's investment strategy?
- **High inflation** – economic conditions have rapidly evolved over that last few of months, meaning high inflation and interest rates. How can the asset allocation be adjusted to provide more inflation linkage?
- **Increasing protection assets** – due to the increase in gilt yields and corporate bond spreads, is there an opportunity to refine the Protection portfolio to improve returns while assisting to lower overall risk levels?
- **Climate change** – can the asset allocation be altered to help achieve the Fund achieves its net zero ambitions without harming funding outcomes?
- **LGPS Pooling** – is there an opportunity to pool funds with other London Boroughs through the London CIV to allow for better investment opportunities?

### Additional considerations

There are some important considerations that are not captured by the above modelling but need to form part of the investment strategy review. These are listed below:

- **Impact of recent market movements** – the modelling was carried out as at 31 March 2021 as part of the actuarial valuation. What is the impact of market movements since 31 March 2021?
- **Liquidity risk** – the risk of not having sufficient cash immediately available to meet the Fund's liabilities and being forced to sell assets; this risk increases as the Fund increases the allocation to illiquid assets.
- **Strategic risks** – the resilience of the portfolio to macroeconomic risks that are hard to model, such as geopolitical risk, technological change, demographics, and political/social instability.
- **Ability to deploy capital** – private markets can be difficult to invest large sums of money into within short-to-medium timescales.
- **Alignment with beliefs** – the chosen investment strategy should reflect the Fund's investment beliefs.
- **Acceptability to stakeholders** – such as employers, the Committee, etc.
- **Views relating to Responsible Investment ('RI')** – these are not necessarily direct risk/return decisions but may be impacted by wider ethical considerations.

### 3 Strategic considerations

#### Asset-liability modelling

The results of the asset-liability modelling undertaken by the actuarial team as at 31 March 2021 are summarised in appendix 1, based on the following strategies.

	Strategy when modelling was undertaken (%)	Long-term target allocation (%)	De-risked strategy 1 (%)	De-risked strategy 2 (%)
Global equities	45.8	40.0	35.0	35.0
UK equities	5.6	5.0	2.5	2.5
EM equities	4.1	5.0	2.5	2.5
Private equity	2.9	-	-	-
<b>Total Growth</b>	<b>58.4</b>	<b>50.0</b>	<b>40.0</b>	<b>40.0</b>
Diversified growth funds	20.5	5.0	5.0	5.0
Infrastructure	4.3	15.0	15.0	15.0
Private debt	1.3	5.0	7.5	7.5
Property	1.5	10.0	10.0	10.0
<b>Total Income</b>	<b>27.6</b>	<b>35.0</b>	<b>37.5</b>	<b>37.5</b>
Multi-asset credit	3.9	5.0	7.5	12.5
Gilts	8.1	10.0	10.0	-
UK corporate bonds	-	-	5.0	10.0
<b>Total Protection</b>	<b>12.0</b>	<b>15.0</b>	<b>22.5</b>	<b>22.5</b>
Cash	2.0	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### Updated risk and return figures

Recognising that the asset-modelling was undertaken as at 31 March 2021, we have used our proprietary 'Structure Lite' model to recalculate the long-term expected returns and associated risk measures<sup>2</sup> for each of the strategies modelled. This analysis captures market conditions as at 31 December 2022 and reflects the significant increase during 2022 in the risk-free yield available on UK government gilts. The assumptions used to produce these figures are described in appendix 3.

<sup>2</sup> The expected returns are assessed over a 20-year period and are quoted relative to the liabilities. The risk or volatility measure captures the risk in the form of the potential variance in expected return over a 1-year period. For example, a risk measure of 12% p.a. implies that over 1 year period the expected return could vary by +/- 12% in any two years out of three. Equity risk is the largest contributor to both return and risk when measured on an absolute basis.

	Current strategy (at 31 Dec 2022)	Current long-term strategy	De-risked strategy 1	De-risked strategy 2
20 year expected return	4.56% p.a.	4.61% p.a.	4.56% p.a.	4.75% p.a.
1 year risk measure	12.7%	12.1%	11.4%	11.7%

## Conclusions

Overall points to note are as follows:

- This analysis provides support for continuing to move towards the long-term target allocations agreed following the 2019 actuarial valuation – the long-term strategy is expected to provide a marginal increase in expected return with lower risk compared to the current strategy.
- We have also modelled the current long-term strategy with the 10% allocation to fixed-interest gilts replaced by 10% in corporate bonds. The risk and return profile of this strategy is an expected return of 4.81% p.a. with a risk measure of 12.3%. This would offer a 0.2% p.a. increase in expected return, which is equivalent to a £40m-45m increase in the Fund's assets.
- The results for the de-risked strategies give some support to reducing the Fund's exposure to equities. This looks attractive and could be a target to work towards but we are mindful that this would increase the Fund's exposure to nominal assets at a time when inflation is high. We recommend this position is monitored with a view to reducing the Fund's equity exposure should suitable opportunities emerge, with a full reassessment being carried out in conjunction with the next actuarial valuation in 2025.

**Conclusion: Refining the current long-term strategy by replacing the allocation to fixed-interest gilts with corporate bonds provides the simplest route to increasing the expected return with only a marginal increase in risk.**

## Climate change

The results of the modelling described in appendix 1 included climate scenario analysis. This shows that the investment strategy is relatively robust to different climate scenarios with little difference in the projected funding outcomes. In part, this is because climate change is only one of many risks the Fund faces (e.g. equity risk, market risks, inflation risk) – though a very significant risk – and the modelling developed to date does not capture the more severe impacts of climate change. Climate scenario modelling is an evolving area and subsequent modelling exercises may show greater differences between the strategies modelled.

## 4 Review of the Growth portfolio

### Current position

The table below compares the current allocations to Growth assets relative to the long-term targets. This shows that the Fund is c9% overweight equities. Around one-third of this overweight position will naturally be corrected as the private equity mandate winds down over the next few years. Distributions received from the private equity market mandate can be used to help meet capital calls for the Fund's private markets investments.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
LGIM Global equities	43.4		
BlackRock World Low Carbon	2.5	40.0	6.0
LGIM UK equities	6.3	5.0	1.3
LCIV EM equities	3.9	5.0	(1.1)
Cap Dyn private equity	2.5	0.0	2.5
<b>Total Growth</b>	<b>58.7</b>	<b>50.0</b>	<b>8.7</b>

### Rebalancing

We recommend that the remaining c6% overweight is rebalanced from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations.

### Low carbon equities

After rebalancing, listed equities will represent 50% of the Fund's total assets. By reducing emissions of these funds, we aim to make significant progress towards achieving the Fund's net zero ambitions, whilst maintaining the expected investment returns. The LGIM global equity mandate alone represents c40% of total assets and as the Fund continues to develop its net zero roadmap, a priority action is to review whether there are low carbon alternatives for this mandate.

**We recommend the Committee undertakes a market review during Q2 2023 and selects one or possibly two low carbon global equity funds to replace the current LGIM global equity mandate. This review would be supported by our recommendation and the Committee may also wish to meet the managers as part of this exercise. We have shortlisted three funds in this report for discussion and further details are set out in appendix 7 [confidential].**



## 5 Review of the Income portfolio

### Current position

The table below compares the current allocations to Income assets relative to the long-term targets. The overweight allocation to diversified growth funds will be reduced over time with these funds being deployed to build out the Fund's infrastructure, private debt and property investments. At an aggregate level, the Income portfolio is 3.6% underweight and we expect that this will rebalance naturally as distributions from the private equity mandate are used to meet private markets capital calls.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Diversified growth funds	20.6	5.0	15.6
Infrastructure	5.2	15.0	(9.8)
Private debt	3.1	5.0	(1.9)
Property	2.5	10.0	(7.5)
<b>Total Income</b>	<b>31.4</b>	<b>35.0</b>	<b>(3.6)</b>

### Infrastructure

New investments will need to be identified to build the allocation to infrastructure towards its 15% target. We recommend that the Committee carries out a review of suitable infrastructure funds, including the LCIV renewables infrastructure fund as well as funds offered by external managers. We would also highlight that Forestry/Timberland is attracting interest within the LGPS at the moment and an allocation to Timberland could be considered as part of a diversified infrastructure portfolio. Briefing notes are provided below.

### LCIV renewables infrastructure

The aim of the fund is to create a portfolio of direct and indirect (using primary or secondary funds) investments in renewable infrastructure, diversified across regions, technologies, stages (e.g. greenfield and brownfield) and revenue streams.

The fund is targeting exposure in North America, Europe (including the UK) and Asia, although there is an allowance of up to 20% in emerging markets. The long-term investment objective of the fund is to seek to deliver an internal rate of return (net of fees) of 7%-10%, with a target yield 3%-5% p.a.

### Forestry/Timberland

Forestry, or Timberland, investments involve the purchase of plantations and naturally occurring forests to grow and harvest wood. Investors generally own the forest, including the land it is on, entitling them to the financial returns generated from the forest, whether this is capital appreciation or income from selling forestry products, such as timber. Forest owners can also take credit for the carbon taken out of the air by the forest, given they now own that stored carbon. Further details are set out in appendix 4.

### Private debt

The Fund has committed £50m to the London CIV private debt fund and this investment is currently in its build up phase. The expected profile of the private debt fund is such that it will increase in value as capital is invested and then reduce in value as income is returned to the Fund. To maintain the 5% target allocation over the longer term, it is common for pension schemes to invest in a series of private debt funds, with commitments being made to new funds every 2-3 years. We recommend the Committee investigates options in this area and in the first instance asks the London CIV to confirm its future plans.

## Property

The Fund has a 10% long-term target allocation to property. The Fund has invested 3% of assets across two UK commercial property funds, the UBS Triton Fund and Fidelity UK Real Estate. In our paper dated September 2021, we set out our thoughts on how the overall property allocation could be constructed, with an initial 3% allocation to UK commercial property to be topped up in future years as new opportunities became available across a number of property sectors, notably residential property and global property.

Given changes in the property market over the last couple of years, we recommend that the 10% allocation (broadly equivalent to £110m) is built up as follows.

Component	Allocation	Percentage split
UK commercial property	£40m	36%
LCIV UK Housing Fund	£30m	28%
Global property	£40m	36%
Total	£110m	100%

## Rationale

UK commercial property is facing headwinds, which make us more cautious about building a large allocation to UK commercial property at the current time. Many private sector defined benefit pension schemes are looking to reduce their property allocations and this means demand for UK commercial property balanced funds may be lower in future. This creates liquidity risks, and while liquidity is unlikely to be a primary concern for a long-term investor like the Fund, on balance we would favour building the allocation to global property.

Global property provides a larger opportunity set giving diversification across geographies, sectors and economic factors and can often also offer a boost to returns through greater use of leverage. It is also less exposed to the supply and demand factors driven by UK pension schemes. It should be noted that the asset also has additional risks (currency, legal framework, leverage etc) but exposures to these are reasonable in a well-diversified portfolio.

In terms of timing, we would recommend waiting until the second half of 2023 before adding to the Fund's UK commercial property allocation and investing in a new global property fund. This is because the property market (UK and global) is going through a "re-pricing" at the moment with investors re-evaluating the prices they are willing to pay for property assets when risk-free returns on government bonds increased so significantly during 2022. This is evidenced by the negative returns produced by property managers during Q4 2022.

To date, this re-pricing has been based on sentiment but this trend is expected to continue during the first half of 2023 as transactions are completed and prices become more visible. While this plays out, we recommend the Committee lays the groundwork for a future investment by carrying out a review of global property managers with a view to selecting a manager ahead of making an investment in Q3 or Q4 of 2023.

The lower risk/lower return nature of the UK Housing Fund means that it is expected to be less sensitive to these market conditions. Therefore, we are content for the Fund to proceed with a £30m commitment to this fund, which we understand will be drawn down over a c2 year period beginning from April 2023.

We recommend that these new investments are met by selling a proportion of the diversified growth funds, noting these investments were designed to provide access to a diversified range of asset classes until the new private markets investments became available.

Further details on the LCIV UK Housing Fund and global property are set out below.

### **LCIV UK Housing Fund**

The LCIV UK Housing Fund invests in UK residential property (housing) only. The fund will invest in a range of distinct types of social and affordable housing funds. The Fund will focus on underlying funds investing in strategies that increase the supply of good quality, affordable housing in the UK while also generating competitive risk-adjusted returns.

The three overarching categories are:

1. General needs social and affordable housing (minimum 50%);
2. Specialist housing (0 to 25%); and
3. Transitional supported housing (0 to 25%).

The long-term investment objective of the fund is to seek to deliver an internal rate of return (net of fees) of 5%-7%, with a target yield 3%-4% p.a.

A more detailed assessment is set out in our separate product assurance note.

### **Global property**

The strategic rationale for global property is similar to that for UK property, i.e.:

- Diversification of equity returns;
- Income; and
- Capital growth.

The major difference being there is likely to be more emphasis on capital growth, especially as global funds tend to be leveraged (i.e. funds will tend to utilise both property equity and debt approaches to enhance returns).

As part of a diversified portfolio, an allocation to global property could be attractive from a return enhancement and diversification perspective. Expected returns might be in the region of 1-2% p.a. above UK property, but this does come with additional risks around leverage, legal regime and currency.

## 6 Review of the Protection portfolio

### Current position

The table below compares the current allocations to Protection assets relative to the long-term targets. This shows that the allocation is underweight at present, driven mainly by the sharp decline in the market value of bond assets during 2022 due to the impact of rising interest rates.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Multi-asset credit	3.8	5.0	(1.2)
Gilts	4.9	10.0	(5.1)
<b>Total Protection</b>	<b>8.7</b>	<b>15.0</b>	<b>(6.3)</b>

### Rebalancing

We recommend that c6% is sold from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations.

### Opportunities from recent market movements

During 2022, a deterioration in the economic outlook and sharply rising inflation led to interest rates increases. This led to significant falls in bond asset valuations as illustrated by the figures in the table above (although we would highlight that the Fund's allocation to bonds was already relatively low meaning the impact of falling bond values has been more muted than for some funds).

The rise in interest rates means that the yields available on bonds (UK government gilts and corporate debt) are more attractive than they have been for some time. As a result, we believe this would be an opportune moment to review any potential case for reviewing the Protection portfolio, the object being to increase the expected return while maintaining risk at or around current levels.

Protection assets include fixed-interest gilts, index-linked gilts, investment grade corporate bonds, multi-asset credit and cash. The aim of the Protection allocation is to reduce investment risk and provide an element of capital preservation (although it does need to be acknowledged that the Fund's Protection assets provided little protection during 2022 when unusually most of the major asset classes fell in value at the same time).

The Fund already invests in fixed-interest gilts and multi-asset credit. We recommend the Committee reviews the Protection assets to determine whether investing in other bond assets, notably investment grade credit, would enhance returns while maintaining risk at or around current levels.

The priority action, however, is to undertake the recommended rebalancing to restore the allocations to multi-asset credit and fixed-interest gilts towards their target allocations.

## 7 Recommendations and next steps

### Recommendations

Our recommendations are set out below:

- Long-term strategic allocation – the current long-term target allocation can be enhanced by replacing fixed-interest gilts with corporate bonds.
- Cashflow requirements – we would be happy to prepare cashflow projections, working in conjunction with our colleagues in the actuarial team, to test whether current levels of investment income are sufficient to cover any shortfall between contributions income and benefits paid.
- Rebalancing – we recommend 6% of total assets is sold from the LGIM global equity mandate and re-invested in multi-asset credit and fixed-interest gilts.
- Low carbon equities – we recommend the Committee selects one or possibly two low carbon equity funds to replace the LGIM global equity mandate.
- Income portfolio – we recommend that the Fund continues to build out its investments in infrastructure, private debt and property, to move towards the long-term strategic allocation.
- Infrastructure – new investments will be needed to build infrastructure towards its 15% target allocation.
- Property – we recommend the Fund commits £30m to the LCIV Housing Fund and considers appointing a global property manager with a view to investing in the second half of 2023.
- Private debt – we will contact LCIV to establish whether they plan to launch a second private debt fund to allow the Fund to maintain its 5% allocation over the long term.
- Protection portfolio – as above, we recommend the Committee carries out a review of the Protection portfolio to identify whether this can be refined to increase expected returns.

We look forward to discussing this paper with the Committee and Officers.

Prepared by:

Kenneth Taylor, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

February 2023

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority and Licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

### General risk warning

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

## Appendix 1 – Asset-liability modelling results

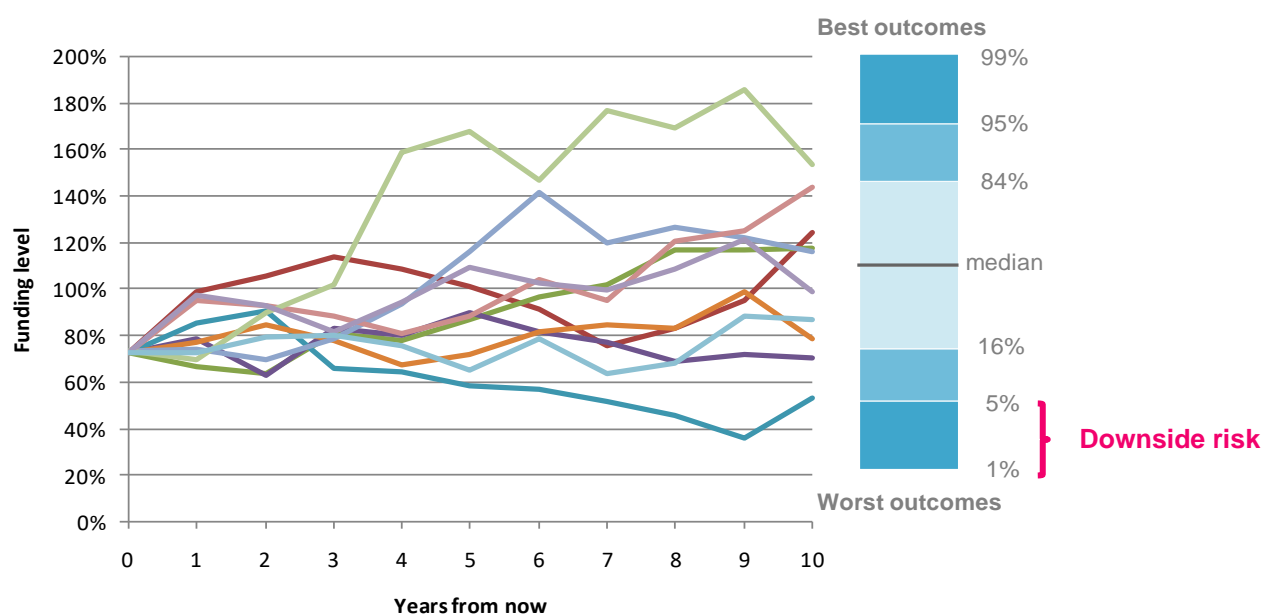
### Introduction

This is a summary of the asset-liability modelling results prepared by the actuarial team and presented in their report, “Review of LB Brent Contribution Strategy” dated 21 April 2022.

### Evaluating strategies

To evaluate the current investment strategy against potential alternatives, asset-liability modelling is undertaken to project funding outcomes. In summary, this modelling involves:

- Generating 5,000 “economic scenarios” based on various combinations of asset class returns, inflation rates, interest rates and salary increases.
- Projecting forward the Fund’s funding position over time for each investment strategy in each of the 5,000 scenarios, which establishes the distribution of possible funding outcomes (as shown in the diagram below)
- For each investment strategy, calculating various metrics which reflect both the expected funding outcome and the funding outcomes in upside and downside scenarios.



Illustrative chart only

**Probability of Success:** from the distribution of outcomes, we can estimate the probability of being fully funded, i.e., the proportion of scenarios in which the funding level would exceed 100%, at a particular point in time (the “Probability of Success”). The Probability of Success over 20 years is the main success measure used by the Fund.

**Downside Risk:** we can also predict the average deterioration in funding level in adverse scenarios (the “Downside Risk”). The Fund uses the average of the worst 5% funding outcomes in 2028 years (to coincide with the actuarial valuation after next) as its primary measure of Downside Risk. We use these metrics to compare the performance of different investment and funding strategies.

**Projected Returns** – the distribution of projected returns from the portfolio of assets over a period of 20 years which informs the discount rate used to value the Fund’s liabilities.

### Strategies modelled and summary results

The strategies modelled as at 31 March 2021 and summary results are set out below.

	Strategy when modelling was undertaken (%)	Long-term target allocation (%)	De-risked strategy 1 (%)	De-risked strategy 2 (%)
Global equities	45.8	40.0	35.0	35.0
UK equities	5.6	5.0	2.5	2.5
EM equities	4.1	5.0	2.5	2.5
Private equity	2.9	-	-	-
<b>Total Growth</b>	<b>58.4</b>	<b>50.0</b>	<b>40.0</b>	<b>40.0</b>
Diversified growth funds	20.5	5.0	5.0	5.0
Infrastructure	4.3	15.0	15.0	15.0
Private debt	1.3	5.0	7.5	7.5
Property	1.5	10.0	10.0	10.0
<b>Total Income</b>	<b>27.6</b>	<b>35.0</b>	<b>37.5</b>	<b>37.5</b>
Multi-asset credit	3.9	5.0	7.5	12.5
Gilts	8.1	10.0	10.0	-
UK corporate bonds	-	-	5.0	10.0
<b>Total Protection</b>	<b>12.0</b>	<b>15.0</b>	<b>22.5</b>	<b>22.5</b>
Cash	2.0	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	Strategy when modelling was undertaken	Current long-term strategy	De-risked strategy 1	De-risked strategy 2
Probability of Success	76%	79%	79%	81%
Downside Risk	34%	36%	38%	38%

These metrics give support to continuing to move towards the long-term target allocations that were agreed following the 2019 actuarial valuation. Both de-risking strategies give improved metrics indicating there may be scope to reduce exposure to equities. However, the improvement in the metrics is marginal and we recommend that de-risking is reconsidered as part of the 2025 actuarial valuation, taking into account the funding position at that time, so that the impact on future contribution levels can also be considered.



## Appendix 2 – ESS model and assumptions

### Economic Scenario Service

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

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

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

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

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

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

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

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

### Modelling liabilities

We model scheme liabilities approximately by assuming that real and fixed liabilities can be represented by long dated inflation linked and fixed interest gilts respectively. It is possible that the proxy liabilities mis-state the true sensitivity of the scheme liabilities to changes in interest rates and inflation.

This report complies with the Technical Actuarial Standards (TASs): TAS100.



## Appendix 3 – Indicative timetable

An indicative timetable covering the recommendations set out in this paper is provided below. The final timetable will be agreed in discussion with Officers and the Committee.

Recommendation	Timing
Rebalance from gilts to multi-asset credit and gilts	Immediate
Ask LCIV to confirm plans for private debt	Immediate
Confirm commitment to UK Housing Fund (subject to appropriate due diligence)	Q1 2023
Select low carbon global equity funds	Q2 2023
Select global property manager	Q3 2023
Invest in UK and global property funds	Q3-Q4 2023
Review Protection portfolio	Q4 2023
Review options for building infrastructure portfolio	Q4 2023 – Q1 2024

## Appendix 4 – Forestry/Timberland

Forestry, or Timberland, investments involve the purchase of plantations and naturally occurring forests to grow and harvest wood. Investors generally own the forest, including the land it is on, entitling them to the financial returns generated from the forest, whether this is capital appreciation or income from selling forestry products, such as timber. Forest owners can also take credit for the carbon taken out of the air by the forest, given they now own that stored carbon.

### What are the returns and what drives them?

Returns from forestry are largely driven by:

- 1 Capital appreciation from tree growth – as trees grow, all else being equal, they become more valuable as the quality and volume of what can be produced from them increases.
- 2 Income from the sale of forestry products – as trees are felled and sold, this generates income for investors.
- 3 Change in market value of the land – the appreciation of the value of land has been a historic driver of returns for this asset class.

Forestry investments have historically provided strong diversification from traditional asset classes since trees grow regardless of financial market conditions. That said, a portion of the return on forestry is linked to the overall economy, as an expanding economy typically leads to increased demand (and prices) for timber. There is also potential for some inflation linkage, since timber prices tend to have some correlation with prices of end products featured in the calculation of the major inflation metrics. This diversification and potential inflation protection provide two attractive characteristics for investors.

### What are the risks?

As with any investment, there are a range of financial risks. An obvious risk is in relation to the price of timber, as your investment will be worth less if timber prices are lower. However, one of the benefits of the asset class is the flexibility it can offer – when prices are low, felling can be reduced, and trees left to grow until prices rebound.

Forestry investments also face the risk of natural disasters, and there are some increased risks as a result of climate change. Most notably, some areas are seeing reduced rainfall, and other areas are experiencing too much rain. Whilst there has been an upsurge in wildfires in recent years, which could increase the risk of damage to investment value, most wildfires occur in unmanaged forests. Historically, the impact on the asset class from fire has been relatively low: institutionally managed forests have fire breaks and other measures in place to prevent the spread, have tinder regularly removed and limit use by the public; and value may be salvaged from some of the damaged wood. Insurance may also help to protect investors but comes at a cost.

Finally, there is the risk for an investor with a net zero ambition that the forest is not being managed in a way to sustainably capture carbon in an approved manner for the purpose of generating carbon credits, e.g. growing new trees and/or a net increase in tree biomass.

### Will it help you achieve net zero?

A significant benefit of an investment in forestry from an emissions perspective is that it is a very low carbon-emitting asset class from a scope 1 and 2 perspective. This can form a key part of a plan to achieve a net zero ambition, particularly when moving assets from high emitting investments, without considering areas such as the removal of carbon from the atmosphere, or “sequestration”, and carbon credits.

Having said that, the act of growing a tree sequesters and stores carbon from the atmosphere within the mass of the tree. Therefore, it makes sense that this activity should earn carbon credits for the owner of the tree. The more trees on the Earth, and the longer they live, the more carbon is stored within the biomass of trees, and out of the atmosphere, helping to reduce the severity of climate change.

## Appendix 5 – LGPS consultations

### Levelling-up

The latest of these is the Government's 'Levelling up' white paper issued in early 2022, which states:

"There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment.

The UK Government has committed itself to removing obstacles and costs to making long-term, illiquid investments in the UK. LGPS funds are investing in a wide range of existing UK and global infrastructure, largely through the eight LGPS asset pools. A dedicated infrastructure platform (GLIL) has been established jointly by the Northern and Local Pensions Partnership Investments and LGPS asset pools, and has around £2.5bn committed, with investments including Anglian Water, Forth Ports (including Tilbury) and Clyde Windfarm.

Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise and ensure that all LGPS funds play their full part, the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.

The new UK Infrastructure Bank, based in Leeds, has a mandate to catalyse investment to support regional and local economic growth, and will help increase the capacity and capability of local authorities to deliver infrastructure in their areas. It will also co-invest, offer guarantees through the existing UK Guarantees Scheme, and provide a range of debt, equity and hybrid products.

It is committed to expanding institutional investment in UK infrastructure, including exploring opportunities with the LGPS."

Details are still to be fleshed out. However, our current understanding of the above is that:

- 'Local' means UK wide (not local area)
- Funds will be mandated to have a plan to reach a 5% allocation to infrastructure
- 5% is not a maximum
- The government is looking for 'new' investment - so existing allocations may not count.

### Update

The Chancellor of the Exchequer provided a [Statement](#) on 9 December 2022 in which he announced that the government will be consulting on:

- New guidance on LGPS asset pooling (early 2023);
- Requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified strategy.

### TCFD

We also await final regulations setting out how LGPS funds will be expected to comply with the Taskforce for Climate Related Financial Disclosures ("TCFD") following the consultation exercise carried out late last year.

## Appendix 6 – Inflation hedging characteristics and considerations

The table below provides a summary of the inflation hedging characteristics of the main asset classes.

	Short-term inflation hedge	Long-term inflation hedge	Rationale
<b>Equities</b>	<b>Weak</b>	<b>Strong</b>	<ul style="list-style-type: none"> <li>Equities are expected to implicitly provide an inflation hedge as companies are assumed to pass on cost increases to consumers.</li> <li>In the short-term, however, an increase in the rate at which investors discount equity cashflows, due to expectations of higher risk-free rates in response to inflation, can offset the positive impact of higher earnings, whilst it also takes time for companies to pass on cost increases.</li> <li>Sectors and stocks with a proven track record of maintaining profit margins, due to pricing power and productivity growth, may outperform, as might sectors explicitly linked to the inflation-generation process, such as basic materials and energy. Financials may also derive an indirect benefit from rising rates.</li> <li>Over the longer-term, and in most instances, equities have tended to provide positive real returns.</li> </ul>
<b>Property</b>	<b>Moderate</b>	<b>Strong</b>	<ul style="list-style-type: none"> <li>The extent to which property performs as an inflation hedge depends on the level of inflation linkage in rents and rent negotiations.</li> <li>We would expect long-lease property to provide a better inflation hedge than core property as <b>long-lease properties</b> often have explicit inflation linkage which is less common core property markets.</li> <li>Though rents are positively correlated inflation, there are reasons why the hedge may be less <b>effective</b> over the short-to-medium term: as with equities, an increase in the rate at which investors discount the earnings stream from a property may offset the impact of rising rents;</li> <li><b>Furthermore</b>, while some properties may have annual rent reviews, many are reviewed every 3, or even 5, years; and, rents explicitly linked to inflation are usually subject to caps (and floors).</li> <li>Over the longer term, property has tended to provide positive real returns.</li> </ul>
<b>Infrastructure</b>	<b>Moderate</b>	<b>Strong</b>	<ul style="list-style-type: none"> <li>The degree of inflation-linkage infrastructure provides depends on the mix of assets.</li> <li>Utilities tend to hold monopoly positions in the provision of essential services, and so provide implicit linkage to general price rises, but are subject to regulatory review and intervention with regards the level of profits allowed.</li> <li>Renewable energy infrastructure offers relatively reliable cash flows which are exposed to general energy prices and so should provide a degree of inflation hedging.</li> <li>Public-private partnerships (PPP) comprise long-dated government-backed leases against social infrastructure, which tend to provide a large degree of explicit inflation-linkage.</li> </ul>

<b>Multi-asset credit</b>	Moderate	Moderate	<ul style="list-style-type: none"> <li>Multi-asset credit, which can access a broad spectrum of credit assets (i.e. floating-rate loans, ABS and CLOs), is likely to have materially lower interest-rate duration than investment-grade approaches. This, and higher credit spreads due to investing in speculative-grade credit assets, should provide a degree of insulation against inflation, and subsequent rises in yields, and also provide higher long-term returns.</li> </ul>
<b>Investment-grade asset-backed securities</b>	Moderate	Moderate	<ul style="list-style-type: none"> <li>Being floating-rate, i.e. coupons regularly reset in-line with prevailing cash rates, asset-backed securities should have similar inflation-hedging characteristics to cash.</li> </ul>
<b>Index-linked gilts</b>	Strong	Moderate	<ul style="list-style-type: none"> <li>As the coupons on index-linked gilts are revalued in-line with inflation (RPI until 2030, CPIH thereafter), they provide an explicit hedge against future rises in inflation.</li> <li>However, this explicit protection comes at a price and negative real yields across the index-linked gilt curve (until very recently) guaranteed a negative real return from holding index-linked gilts. We also think UK index-linked gilts are vulnerable to a price correction due to RPI reform in 2030, when index-linked gilts will be re-referenced from RPI to CPIH, which has typically been 1% p.a. lower.</li> </ul>
<b>Conventional gilts</b>	Weak	Weak	<ul style="list-style-type: none"> <li>Not only does inflation erode the real value of nominal bond coupons, yields should rise to take account of higher inflation and interest rate expectations, increasing the rate at which cashflows are discounted, reducing the price of a bond.</li> <li>Longer duration bonds are more sensitive to an equivalent shift in yields than short-duration bonds, though specific impact depends on yield movements across the curve.</li> </ul>
<b>Investment-grade corporate bonds</b>	Weak	Weak	<ul style="list-style-type: none"> <li>Investment-grade corporate bonds are subject to similar impacts as conventional gilts and capital values are also impacted by changes in credit spreads.</li> <li>Inflation could potentially have a negative impact on credit spreads (i.e. cause them to widen). Companies that are able to pass on cost rises would see little impact on their credit risk profile, but severe inflation would be likely to cause credit spreads to widen due to broader economic impacts.</li> </ul>

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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# London Borough of Brent Pension Fund

Page 191

H2 2022 Investment Monitoring Report

Kenneth Taylor, Senior Investment Consultant

Agenda Item 9

Executive Summary

The Fund's assets returned 1.7% over the 6 months to 31 December 2022, outperforming the aggregate target return by 1.3%. However, over a 3-year period, the assets continue to outperform on a relative basis.

The second half of 2022 proved another challenging period as market volatility weighed heavily on markets over the period as inflation and interest rate hikes continued throughout Q3. Fears of recession continued as the 'mini-budget' announcement led to increased inflationary pressures. In Q4 however stability began to return to markets, especially interest rates and government bond yields.

Global equities as a whole rose over the period in Sterling terms. UK equities fell over Q3, however recovered in Q4, benefitting from the outperforming energy sector which constitutes a material part of the index. Similarly, emerging market equities fell over Q3, largely driven by underperformance of the technology sector, due to its increased sensitivity to rising rates; however as rates stabilised in Q4, performance improved.

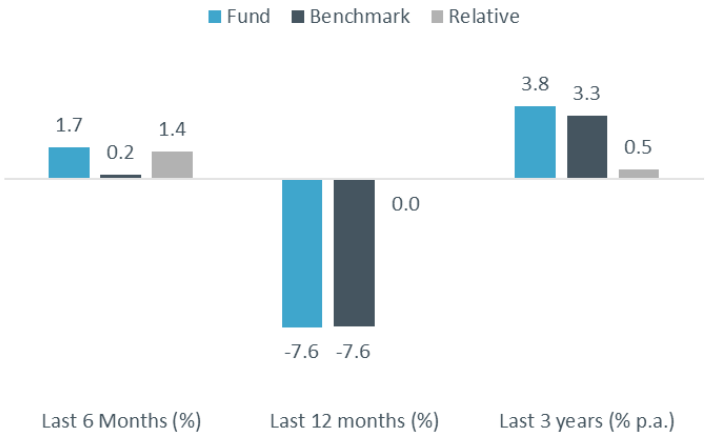
Within fixed income, rising interest rates provided upward pressure on yields and drove significant decrease in value.

Property fell over the period, as performance tends to lag that of other asset classes.

Key points to note

- The Fund posted positive returns over the last 6 months of 2022, ending the period with a valuation of £1,072.1m, which is a slight increase from £1,055.4m at the end of Q2 2022.
- The majority of assets classes struggled in Q3 amidst a challenging economic environment; however they recovered as stability slowly returned to the market in Q4. Index-tracking mandates with LGIM (UK and global equities), LCIV (JP Morgan emerging market equities) and BlackRock (low carbon equities) all contributed positively towards performance over the period. The Fund's multi-asset investment with LCIV through Ruffer was also a positive performer despite the challenging environment faced by income assets.
- BlackRock (gilts) and the two real estate funds (Fidelity and UBS) contributed significantly to the negative absolute return over the second half of 2022.
- The Fund completed the planned investment in the BlackRock Low Carbon equity fund in December 2022, taking its allocation closer to the target benchmark, and invested in the UBS property fund in July 2022.

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	58.7%	58.0%	0.7%
Income	31.4%	25.0%	6.4%
Protection	8.7%	15.0%	-6.3%
Cash	1.2%	2.0%	-0.8%

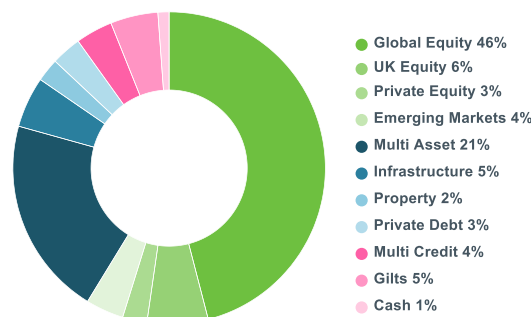
Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold a higher allocation to multi-asset funds.

## Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 2022	Q4 2022			
LGIM Global Equity	459.7	465.5	43.4%	40.0%	3.4%
LGIM UK Equity	64.4	67.7	6.3%	5.0%	1.3%
Capital Dynamics Private Equity	31.7	27.1	2.5%	5.0%	-2.5%
LCIV JP Morgan Emerging Markets	40.6	42.1	3.9%	5.0%	-1.1%
Blackrock Acs World Low Crbn	13.7	27.2	2.5%	3.0%	-0.5%
<b>Total Growth</b>	<b>610.1</b>	<b>629.7</b>	<b>58.7%</b>	<b>58.0%</b>	<b>0.7%</b>
LCIV Baillie Gifford Multi Asset	123.3	121.0	11.3%	6.0%	5.3%
LCIV Ruffer Multi Asset	93.3	99.7	9.3%	6.0%	3.3%
Alinda Infrastructure	26.5	17.4	1.6%	0.0%	1.6%
Capital Dynamics Infrastructure	6.9	2.1	0.2%	0.0%	0.2%
LCIV Infrastructure	25.6	36.8	3.4%	5.0%	-1.6%
Fidelity UK Real Estate	16.6	14.4	1.3%	1.5%	-0.2%
UBS Triton Property Fund	0.0	11.3	1.1%	1.5%	-0.4%
LCIV Private Debt Fund	23.3	33.4	3.1%	5.0%	-1.9%
<b>Total Income</b>	<b>315.5</b>	<b>336.3</b>	<b>31.4%</b>	<b>25.0%</b>	<b>6.4%</b>
LCIV MAC	40.4	41.0	3.8%	5.0%	-1.2%
BlackRock UK Gilts Over 15 yrs	66.2	52.8	4.9%	10.0%	-5.1%
<b>Total Protection</b>	<b>106.5</b>	<b>93.8</b>	<b>8.7%</b>	<b>15.0%</b>	<b>-6.3%</b>
Cash	22.2	12.4	1.2%	2.0%	-0.8%
<b>Total Scheme</b>	<b>1054.3</b>	<b>1072.1</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 positive during the period on both an absolute and relative basis. This resulted in performance over the 12 month period being in line with the benchmark albeit the total return was negative. 3 year relative performance remains positive.

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

Capital Dynamics private equity mandate was the only negative performer of the growth assets, returning -1.3% over the period, 7.7% behind its FTSE benchmark. However, we note that private equity valuations tend to lag those of listed markets.

Ruffer's defensively positioned strategy and stock selection in the equity component of the portfolio meant it performed better than Baillie Giffords more "risk-on" approach. Ruffer maintains its strong positive return over the 1 year and 3 year periods. This demonstrates the value from adopting a diversified approach to multi-asset investing.

The property market suffered as capital values declined, leading to negative returns from the Fidelity UK Real Estate and UBS Triton Property funds.

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.£13m since the end of Q2.

## Manager performance

	Last 6 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	4.1	4.1	0.0	-8.0	-7.9	-0.1	8.9	9.0	-0.1
LGIM UK Equity	5.2	5.1	0.0	0.5	0.3	0.1	2.4	2.3	0.1
Capital Dynamics Private Equity	-3.3	4.7	-7.7	10.2	-6.4	17.7	11.8	9.9	1.8
LCIV JP Morgan Emerging Markets	3.6	-2.1	5.8	-9.8	-10.0	0.2	2.9	0.5	2.4
Blackrock Acs World Low Crbn	4.4	4.0	0.4	-9.4	-7.8	-1.7	-	-	-
<b>Income</b>									
LCIV Baillie Gifford Multi Asset	-1.8	1.4	-3.2	-15.9	2.7	-18.1	-2.1	2.4	-4.4
LCIV Ruffer Multi Asset	6.9	1.4	5.4	6.9	2.7	4.1	9.0	2.4	6.4
Alinda Infrastructure	7.1	5.3	1.6	30.2	12.5	15.7	12.2	7.4	4.4
Capital Dynamics Infrastructure	-16.4	5.3	-20.6	-3.4	12.5	-14.2	-17.5	7.4	-23.2
LCIV Infrastructure	7.3	5.3	1.9	15.9	12.5	3.0	4.6	7.4	-2.6
Fidelity UK Real Estate	-13.4	-17.5	5.1	-3.9	-9.1	5.7	-	-	-
UBS Triton Property Fund	-17.0	-16.0	-1.2	-	-	-	-	-	-
LCIV Private Debt Fund	15.6	3.0	12.3	-	-	-	-	-	-
<b>Protection</b>									
LCIV MAC	1.6	2.1	-0.4	-11.1	3.4	-14.0	-1.2	2.7	-3.8
BlackRock UK Gilts Over 15 yrs	-20.3	-20.3	0.0	-40.0	-40.0	0.1	-14.1	-14.1	0.1
<b>Total</b>	1.7	0.2	1.4	-7.6	-7.6	0.0	3.8	3.3	0.5

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

6 month performance for UBS Triton Property fund is from inception date of July 2022.

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.

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

The largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.43%.

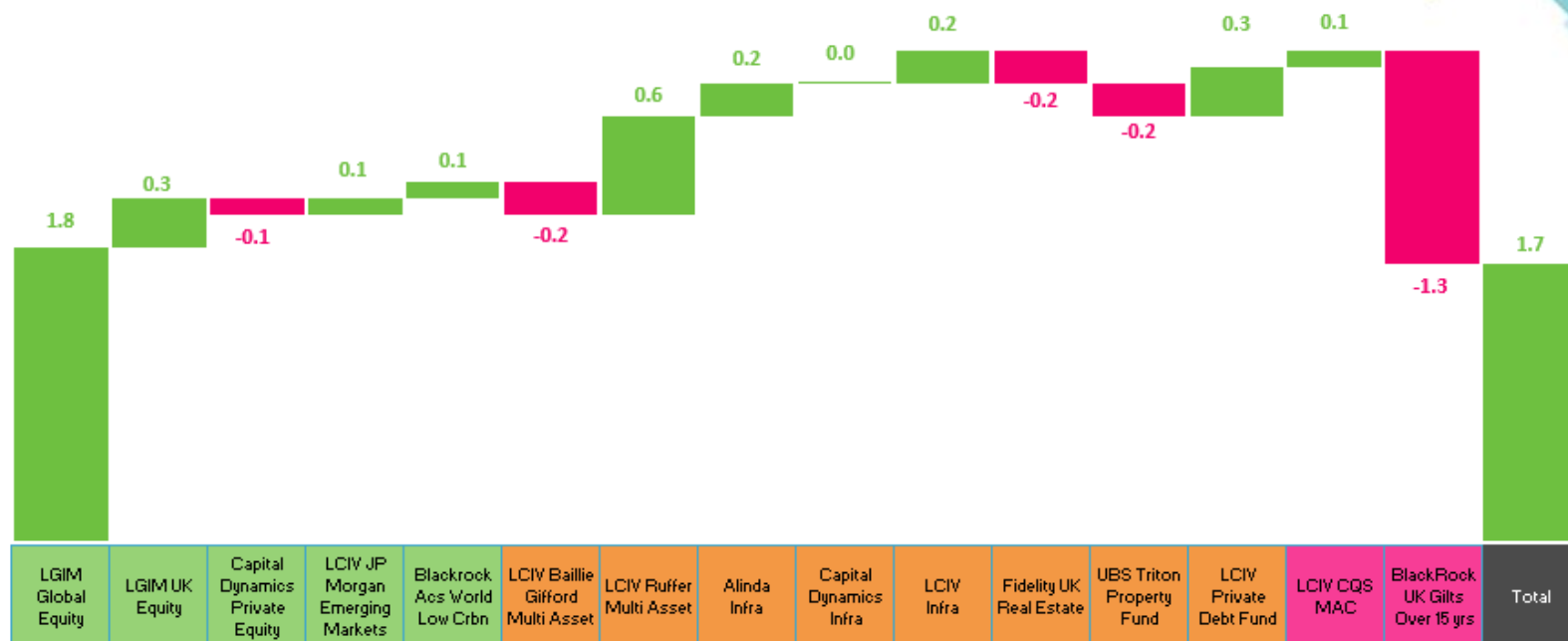
The diversifying nature of the LCIV and Alinda infrastructure funds mean that these sub-funds also contributed positively over the quarter.

The biggest detractor from performance over the second half of 2022 was BlackRock's UK Gilts Over 15 yrs, given its unfavourable return and despite its relatively small allocation.

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 materially from the Fund's overall performance.

Similarly, despite large underperformance from the property funds managed by Fidelity and UBS, their small allocations of 1.3% and 1.1% respectively mean they did not detract significantly from the Fund's total performance.

## Fund performance by manager



Please note that due to rounding of the individual fund returns over both Q3 and Q4, 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	●	●
LCIV	Private Debt	Not Rated	Not Rated	N/A	●
Fidelity	UK Real Estate	Preferred	Good	N/A	●
UBS	Property	Preferred	Good	N/A	●
LCIV	Multi Credit	Suitable	Not Rated	●	●
BlackRock	UK Gilts Over 15Yrs	Preferred	Not Rated	●	●

## UBS business update

In Q4 2022, the Triton fund has completed the sale of industrial assets worth £54 million. The assets includes Gatwick Distribution Centre in Crawley, Wardley Industrial Estate in Salford, and Torc in Milton Keynes. Despite market volatility, to date, the fund has received low levels of redemption requests. However, the UBS team has structured a liquidity strategy in place to address redemptions.. We have recently met UBS and are actively monitoring the situation.



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

- LCIV Baillie Gifford Multi-Asset
- LCIV MAC
- BlackRock UK Gilts Over 15 Yrs
- Capital Dynamics Infrastructure

## LCIV Ballie Gifford Multi Asset

The fund returned -1.8% over the second half of 2022, underperforming its benchmark by 3.2%. However, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period. The fund has fallen further behind its longer term targets on a relative basis and absolute basis.

The primary detractor from performance over the period was the fund's significant allocation to equities (c.24%), which suffered in continued market volatility, despite stabilising towards the end of 2022. Additionally, the absolute return segment (c.9% allocation) did not perform as expected during this period of economic stress and contributed to the fund's negative performance.

The fund's allocations to high yield credit, investment grade bonds and emerging market bonds were positive contributors; however allocations to these sectors were not as significant.

Over the period, Ballie Gifford made several changes to the portfolio, which mainly saw an increase in allocation to bonds. This was in line with the manager's view that sections of the fixed income market offered better value than equities when accounting for risk. Additionally, commodities exposure was increased as Ballie Gifford opened a position in aluminium, due to expectations that metal demand will increase due to its uses in green energy projects.

Given the poor performance over the period, 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.

## LCIV Multi Asset Credit

Over the second half of 2022, the LCIV's multi-asset credit strategy returned 1.6% against a benchmark of 2.1%. 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. Over 3 years, the fund is behind benchmark by 3.8%.

The second half of 2022 saw credit spreads continue to tighten. Risks of recession over the second half of 2022 resulting from increasing inflation and interest rates eased and high yield bonds were a beneficiary. This was a large contributor to performance as high yield bonds make up c.35% of the portfolio.

The key detractor from performance over the period was loans as fears over the economy increased and due to them being perceived as more risky than bonds. More specifically, European loans lagged the wider market due to the weakened Sterling and the floating rate assets held within the portfolio.

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

## BlackRock UK Gilts Over 15 Yrs

This fund invests in fixed-interest UK government bonds or “gilts”.

The fund delivered a -20% return over the period, taking the full year loss to 40%. The fall in value is due to the significant rise in gilt yields during 2022 - yields have an inverse relationship to valuations, which means an increase in yields has a negative impact on valuations.

Gilt yields were c1% p.a. at the beginning of the year but rose significantly as Central Banks raised interest rates to combat high inflation. This was exacerbated around the time of the 'mini-budget' in September when yields approached 5% p.a. Some stability returned to the gilts market towards the end of the year and we saw yields fall back. However, they remain well above the levels at the beginning of the year.

The manager seeks to track market returns from fixed interest gilts and the manager has delivered against this objective. The returns achieved are driven by market movements rather than the manager.



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

### 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 30 September 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 30 September (figures in \$m where applicable)

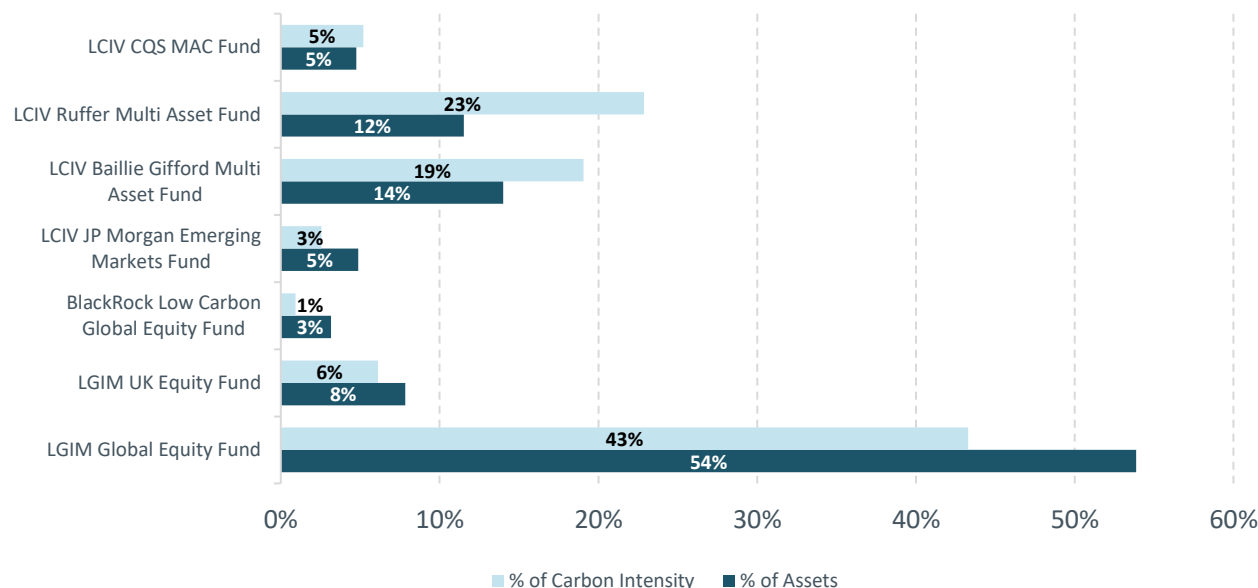
Capital committed	\$15.0	Net IRR since inception	(5.4%)
Total contributed	\$14.7	Total value-to-paid-in-ratio (TVPI)	0.63x
Distributions	\$6.0		
Value created	(\$5.6)		
Net asset value	\$3.1		

## Climate Risk Overview

	Weighted Average Carbon Intensity (tCO <sub>2</sub> /£m Sales)	Fossil Fuel exposure (any activity) (%)
<b>Fund</b>	<b>241.6</b>	<b>8.1%</b>
<i>Composite benchmark*</i>	<b>294.8</b>	<b>8.1%</b>
<i>Relative to benchmark</i>	<b>-53.2</b>	<b>0.0%</b>

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

## Carbon Intensity by Manager



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 31 December 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 14% of assets shown here, the LCIV Baillie Gifford multi-asset fund is responsible for 19% of the total carbon intensity. Similarly, the LCIV Ruffer Multi Asset Fund contributes 23% to the Fund's total carbon intensity but represents only 12% of assets.

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

Amid soaring interest rates and inflation, global growth slowed in the second half of 2022 and forecasts for growth in 2023 saw sharp downwards revisions. While recent outturns have shown an unexpected resilience in the major economies, economic data points to a relatively weak outlook in 2023.

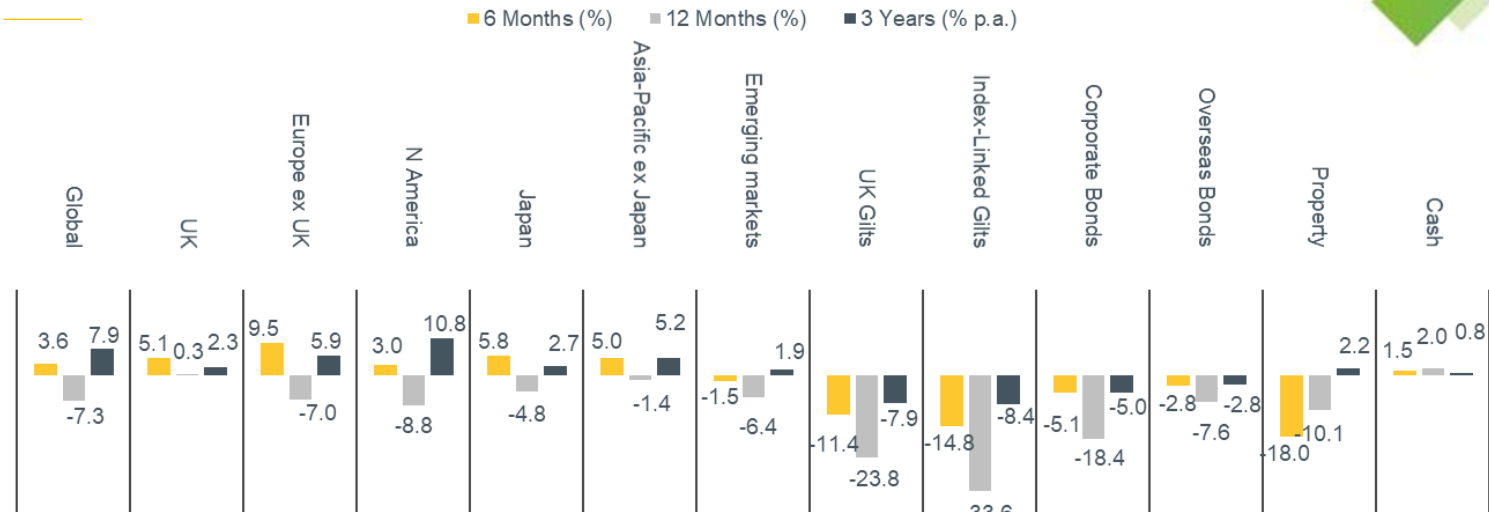
US headline CPI inflation fell from 9.1% to 6.5% year-on-year, peaking in June. UK and eurozone CPI inflation rose from 9.4% and 8.6% to 10.5% and 9.2%, respectively, but ended the period below October's peak levels. Year-on-year core inflation remains elevated across the US, UK, and eurozone at 5.7%, 6.3%, and 5.2%, respectively.

In response, major central banks continued to raise interest rates sharply. The US Federal Reserve, Bank of England, and European Central Bank delivered cumulative rate rises of 2.75% p.a., 2.25% p.a., and 2.0% p.a., respectively, taking policy rates to 4.5% p.a., 3.5% p.a., and 2.0% p.a. in the respective regions.

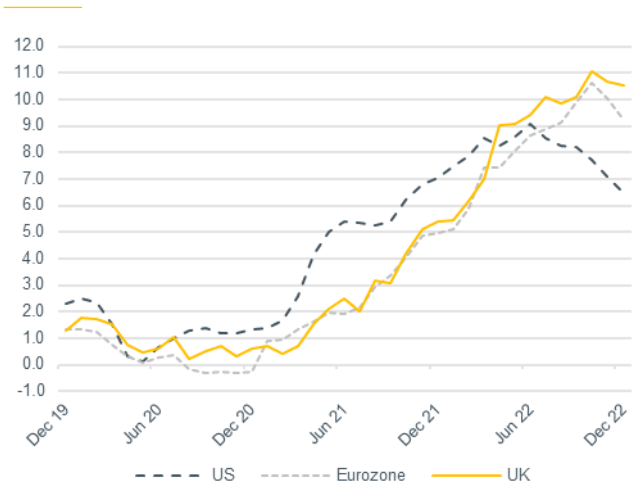
Ongoing re-evaluation of inflation and interest rates saw global sovereign bond yields rise. The UK 10-year yield rose 1.4% p.a., to 3.7% p.a., while equivalent US and German yields rose 0.9% p.a. and 1.2% p.a., to 3.9% p.a. and 2.6% p.a., respectively.

Despite the rise in realised inflation, UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.3% p.a. to 3.6% p.a.

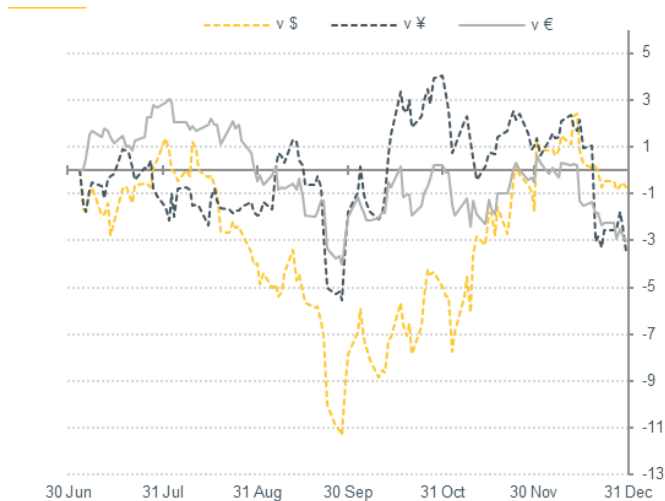
Historic returns for world markets [1]



Annual CPI inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] 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

Economic resilience and an easing of downside concerns saw credit spreads tighten significantly in the final quarter of 2022: global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.3% p.a., to 5.1% p.a.

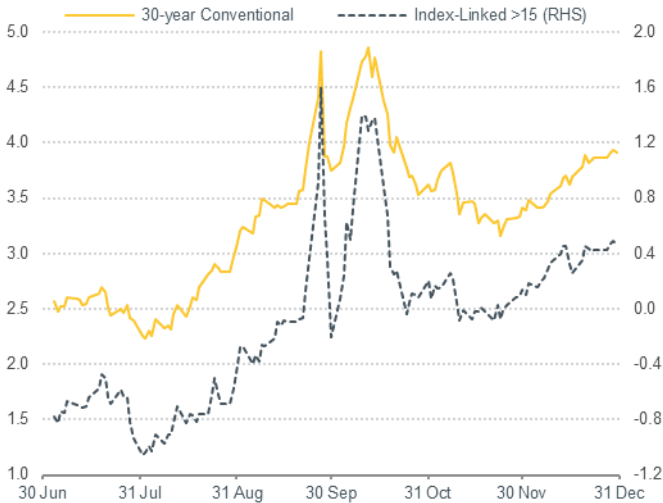
Equities were volatile in response to economic data releases as the FTSE All World Total Return Index ultimately rose 2.4% after rallying from its low in October. The energy sector outperformed amid record earnings reports. Industrials and basic materials also outperformed, on the back of lower gas prices, as did financials, as rising rates lifted net interest margins. Consumer discretionary, technology and telecommunications stocks underperformed as the cost-of-living squeeze intensified.

Europe ex UK notably outperformed as the worst fears around European energy rationing receded, and the UK outperformed, given above average exposure to outperforming energy sector. Despite rallying towards the end of 2022, upon news of China's rapid re-opening, emerging and Asian markets underperformed.

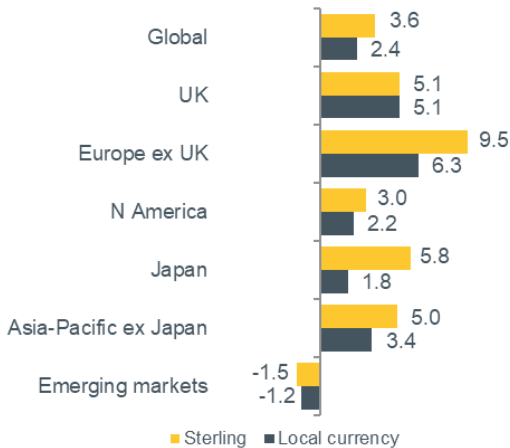
The US dollar was up 0.4% over the period in trade-weighted terms with equivalent, euro, and yen measures rising 3.8%, 4.2% respectively and sterling falling 1.5%.

The MSCI UK Monthly Property Total Return Index declined 10.1% over the past twelve months primarily due to a 14.2% fall in capital values. Falls were most pronounced in the industrial sector, where a 26.7% decline in capital values from their June peak leaves them 18% below end-2021 levels.

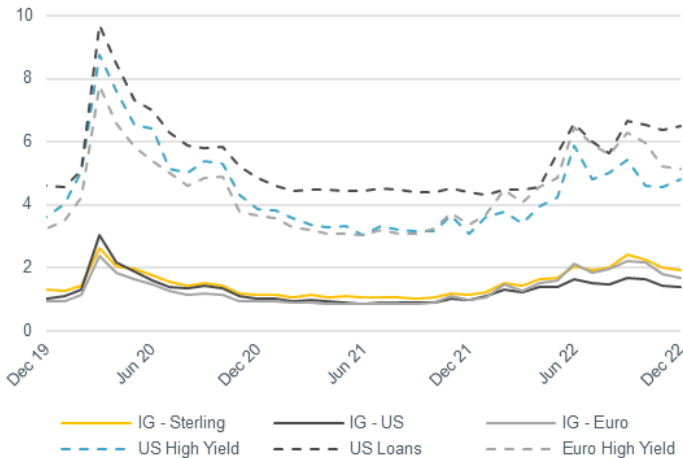
Gilt yields chart (% p.a.)



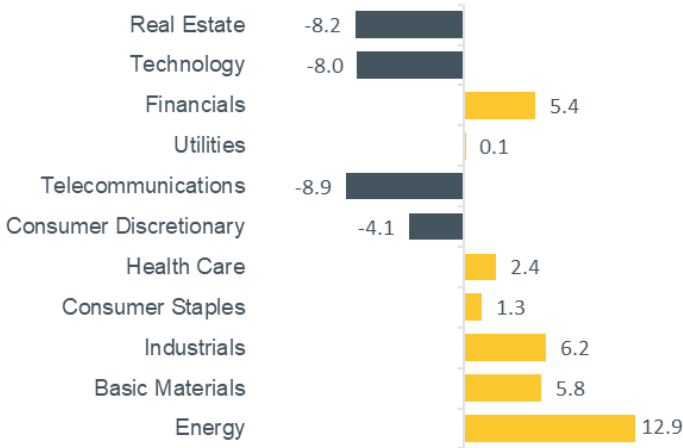
Regional equity returns <sup>[1]</sup>



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



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> 20 February 2023
	<b>Report from the Corporate Director, Finance and Resources</b>
<b>Housing Allocation Recommendation</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 Appendix 1: Product Assurance Review – London CIV UK Housing Fund (Exempt from publication)
<b>Background Papers:</b>	▪ N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & 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>  Sawan Shah, Head of Pensions 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 details the analysis and review undertaken by the Fund's investment advisor, Hymans Robertson, of the London CIV UK Housing Fund and recommendations for investment and implementation.



## 2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Note the analysis set out in Appendix 1 undertaken by the Fund's investment advisors, Hymans Robertson in relation to an initial investment in the LCIV UK Housing Fund.
- 2.2 Approve an investment commitment of 2.8% of total Fund assets (c. £30m) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with the conditions as set out in section 3.16 of this report.
- 2.3 Note that subject to approval in relation to 2.2 above, Officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation to fund this investment as set out in section 3.17 of this report.

## 3.0 Detail

### Background

- 3.1 The Fund currently has a long-term target allocation to property of 10%. This has been in the Fund's strategic asset allocation since 2018.
- 3.2 According to our current investment beliefs, London CIV is the Fund's preferred approach to implementation and the original intention for the property allocation was to invest in property funds made available by London CIV. Unfortunately, as there were no plans to offer such a fund, officers have explored options outside London CIV.
- 3.3 In 2021, the Committee agreed an initial allocation of 3% in two UK commercial property funds: the Fidelity UK Real Estate Fund and UBS Triton Property Fund. The Fund has made investments in both of these Funds with a total of £29m invested to date.
- 3.4 In the 2021 report to the Sub-Committee, it was discussed that the Fund would assess the performance of the portfolio and for the initial 3% allocation to be topped up in future years as new opportunities became available across a number of property sectors, notably residential property and global property.
- 3.5 The investment strategy review, included as a separate item on this agenda, has recommended that the 10% allocation is built up as follows:

Component	Allocation (£m)	Percentage Split (%)
UK commercial property	40	36
UK Housing	30	28
Global Property	40	36
<b>Total</b>	<b>110</b>	<b>100</b>



- 3.6 Except for the initial allocation to property outlined above, the remainder of the allocation is currently unfunded, with the assets being held with two Diversified Growth Funds (DGF) mandates<sup>1</sup> until suitable investment opportunities are identified. An allocation to property funded from DGFs would have a positive impact on the Fund's net zero ambitions because the DGFs are relatively carbon intense holdings for the Fund.

### **London CIV UK Housing Fund**

- 3.7 As previously reported to the Sub-Committee, the London CIV have been developing a dedicated UK residential property fund over the last 12 months. Officers have been taking part in the Seed Investor Group (SIG) meetings to develop this opportunity.
- 3.8 The UK housing sector can be generally split into four segments: Private Residential sector, General needs social and affordable housing, transitional supported housing and specialist housing. Each of these segments has its own characteristics such as the target residents, the level of rent compared to market rent, the income source such as housing benefit or private income and the level of rent indexation.
- 3.9 The London CIV UK Housing Fund aims to invest indirectly through third party funds with the purpose of increasing the supply of good quality, affordable housing in the UK while also generating a competitive risk-adjusted return. It focuses on three strategies within the residential housing sector: general needs affordable and social housing, traditional supported housing and, specialist housing. These can broadly be defined as:
- 3.10 **General needs affordable and social housing:** Social and affordable properties are typically leased to councils or housing associations who sub-lease the properties to eligible tenants to meet their social housing obligations. Eligibility criteria depends on income, requirements due to disability, children, and state of existing accommodation.
- 3.11 **Transitional supported housing:** These are properties typically leased to council or housing association or charities who provide supportive but temporary accommodation to bridge the gap from homelessness to permanent housing.
- 3.12 **Specialist housing:** These are properties typically leased to councils, housing associations or charities who provide additional support including physical and mental health counselling. Councils typically contribute towards some or all of these care and support costs.
- 3.13 A broad characteristic of these segments is that they have a dependency on council, housing association or charities which are, in turn, reliant on stable government policies and funding – this is therefore a risk to the future returns generated by the Fund.

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<sup>1</sup> London CIV Diversified Growth Fund (Baillie Gifford) and London CIV Absolute Return Fund (Ruffer)

- 3.14 London CIV have conducted their own internal manager research process and shortlisted potential investment managers for the UK housing fund to fit within the strategy defined above.
- 3.15 Attached in restricted Appendix 1, the Fund's investment advisors Hymans Robertson, have carried out a detailed appraisal of the LCIV UK Housing Fund. This covers the following areas:
- Structure, governance & senior leadership of the pool manager
  - Investment team
  - Philosophy & Process
  - Product design & investment strategy
  - Responsible Investment integration
  - Fund structure
  - Fees & additional costs
  - Performance & risk
- 3.16 Hymans Robertson are generally supportive of investment into the residential and housing sector however it should be noted that the strategy is still in its development phase therefore the Sub-Committee may wish to wait for further details to be provided by London CIV before confirming the commitment. In light of this, it is recommended that the Sub-Committee approve an investment commitment of £30m (c. 2.8% of total Fund assets) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with regard to completion of the manager appointments, further detail being provided and due diligence being completed in relation to the underlying investment managers, and the strategy remaining as specified in Appendix 1. A report at the next Pension Fund Sub-Committee meeting detailing the actions taken will be shared.
- 3.17 Similar to other private market funds, there will be a delay between funds being committed and investments being made by the underlying managers. Additionally, there may be queues to access certain funds. Therefore, any commitment to the UK housing fund is likely to take many months (potentially years) before it is fully invested. Officers will use any excess cash holdings in the first instance to meet capital calls. Thereafter officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation whilst also minimising transaction costs.

#### **4.0 Financial Implications**

- 4.1 These are discussed throughout the report and included in Appendix 1.

#### **5.0 Legal Implications**

- 5.1 The Pension Fund Sub-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.

- 5.2 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.
- 5.3 Subject to the above responsibilities and duties, the choice of investments and the sums invested are at the discretion of the Pension Fund Sub-Committee so long as that does not risk material financial detriment to the Fund.

## **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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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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	<b>Pensions Fund Sub-Committee</b> 20 February 2023
	<b>Report from the Corporate Director, Finance and Resources</b>
<b>2022 Triennial Valuation Results and Funding Strategy Statement</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT – Appendix 5 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>	Five 1. Draft valuation report 2. Funding Strategy Statement (FSS) 3. Contribution reviews policy 4. Cessations policy 5. Rates and Adjustments Certificate (Exempt)
<b>Background Papers:</b>	■ N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	<p>Minesh Patel, Corporate Director, Finance and Resources          020 8937 4043  <a href="mailto:minesh.patel@brent.gov.uk">minesh.patel@brent.gov.uk</a></p> <p>Ravinder Jassar, Deputy Director of Finance          020 8937 1487  <a href="mailto:ravinder.jassar@brent.gov.uk">ravinder.jassar@brent.gov.uk</a></p> <p>Sawan Shah, Head of Pensions          020 8937 1955  <a href="mailto:sawan.shah@brent.gov.uk">sawan.shah@brent.gov.uk</a></p> <p>Carlito Rendora, Finance Analyst  <a href="mailto:carlito.rendora@brent.gov.uk">carlito.rendora@brent.gov.uk</a></p>

## **1.0 Purpose of the Report**

- 1.1 This report sets out the results of 2022 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

## **2.0 Recommendation(s)**

That the Pension Fund Sub-Committee:

- 2.1 Note, comment and agree the draft valuation report at Appendix 1.
- 2.2 Delegate authority to the Corporate Director, Finance and Resources to finalise the valuation report before 31 March 2023.
- 2.3 Approve the Funding Strategy Statement (FSS) as set out in section 3.9 of this report and Appendix 2.
- 2.4 Note and comment as appropriate on the contribution reviews policy at Appendix 3 and cessations policy at Appendix 4
- 2.5 Subject to 2.4 above, delegate authority to the Corporate Director, Finance and Resources to finalise the contribution reviews policy at Appendix 3 and cessations policy at Appendix 4 following consultation with employers.

## **3.0 Detail**

- 3.1 Members of the Sub-Committee will be aware from previous reports presented to it and training sessions that the Fund is required by law to undertake an actuarial valuation every three years. All funds in England and Wales are required to carry out a valuation as at 31 March 2023.
- 3.2 The purpose of the valuation is to value the assets and liabilities of each individual employer and the pension fund as a whole; with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).
- 3.3 Hymans Robertson, the Fund actuary, attended the October 2022 meeting of the Sub-Committee outlining the valuation process, the assumptions used and the initial results.
- 3.4 In this previous meeting, the Fund actuary outlined why the assumptions were being used, delivered a presentation of the whole fund results including the funding level, assets, liabilities and the overall deficit level. It was also explained that different employers within the Fund will have different funding levels due to the profile of their members and contribution rates in the past.
- 3.5 Since that meeting, draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, have been produced



for the Council and for most employers within the Fund. These have been communicated to employers. The Fund also held an employers' forum in November 2022 to present the valuation results to the employers.

- 3.6 The draft valuation report, attached in Appendix 1 and restricted Appendix 5, summarises the process that has taken place and presents the valuation results, funding position and employer contribution rates for 2023/24 to 2025/26. This report recommends the committee to note, comment and agree the draft valuation report and delegate authority to the Corporate Director, Finance and Resources to finalise the report.
- 3.7 The Funding Strategy Statement (FSS) is a document detailing how employer contributions to the Pension Fund are calculated. It is normally updated in line with the triennial valuation to ensure consistency.
- 3.8 The fund needs an FSS because:
- It is a legal requirement under the LGPS Regulations, and to revise this at each formal valuation.
  - It shows employers how their cash contributions are calculated, and how these might change if the employer's circumstances change.
  - It acts as a valuable policy/reference document for the Fund to help deal with employers who raise issues between valuations.
- 3.9 At the October 2022 Sub-Committee meeting, the Sub-Committee noted the key changes for the FSS and the draft FSS would be consulted with employers as required by relevant regulations. The consultation was conducted in December 2022 and January 2023 and the final FSS is provided in Appendix 2 for Sub-Committee approval.
- 3.10 As noted at the last meeting, the Fund agreed to streamline the FSS document into a "core" FSS and "satellite" policy documents. The satellite policies complement the core FSS set out the Fund's policies with regards to specific elements of strategy and include more details on process and practicalities.
- 3.11 The **contribution reviews policy** sets out the approach to reviewing contribution rates between triennial valuations and the **cessations policy** sets out the approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer. These policies are attached in Appendices 3 and 4 respectively. These policies are currently with employers for consultation which is due to end at the end of February 2023. The Sub-Committee is asked to note and comment on these policies and delegate authority to the Corporate Director, Finance and Resources to finalise the policies once any comments received during the consultation period are evaluated and any amendments, if necessary, are made.
- 3.12 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.	Complete
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.	Complete
December 2022 – January 2023	Finalise Funding Strategy Statement following consultation.	Complete
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.

## 5.0 Legal Implications

5.1 The triennial valuation is a statutory process conducted every three years that ensures the Pension Fund is both compliant with Regulation 62 of the Local Government Pension Scheme Regulations 2013 and has a viable long-term funding strategy. The latter is achieved by ensuring it has a robust Funding Strategy Statement (FSS) and Investment Strategy Statement.

## **6.0 Equality Implications**

6.1 Not applicable.

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

7.1 Not applicable.

## **8.0 Human Resources**

8.1 Not applicable.

### **Report sign off:**

***Minesh Patel***

Corporate Director, Finance and  
Resources

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**DRAFT**

HYMANS  ROBERTSON

# London Borough of Brent Pension Fund

Report on the actuarial valuation at 31 March 2022

Page 229

Douglas Green FFA

Peter MacRae FFA

**03 February 2023**

**For and on behalf of Hymans Robertson LLP**

Hymans Robertson LLP is authorised and  
regulated by the Financial Conduct Authority



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# Executive Summary

We have been commissioned by London Borough of Brent (the Administering Authority) to carry out a valuation of the London Borough of Brent Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

## Contribution rates

The contribution rates for individual employers set at this valuation can be found in the [Rates & Adjustments certificate](#). Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
<b>Primary Rate</b>		21.8% of pay		19.0% of pay
<b>Secondary Rate</b>	2023/2024	£18,538,000	2020/2021	£21,499,000
	2024/2025	£16,707,000	2021/2022	£21,987,000
	2025/2026	£14,749,000	2022/2023	£22,487,000

The primary rate includes an allowance of 1.3% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.7% at 31 March 2019).

## Funding position

As at 31 March 2022, the funding position has improved from the last valuation. The required investment return to be 100% funded is now 5.1% pa (5.9% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 62% (48% at 2019). Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	352	249
Deferred Pensioners	367	323
Pensioners	577	532
<b>Total Liabilities</b>	<b>1,296</b>	<b>1,104</b>
<b>Assets</b>	<b>1,134</b>	<b>856</b>
<b>Surplus/(Deficit)</b>	<b>(162)</b>	<b>(248)</b>
<b>Funding Level</b>	<b>87%</b>	<b>78%</b>

# Approach to valuation



# Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by London Borough of Brent (the Administering Authority) to carry out a valuation of the London Borough of Brent Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

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1

2

Employer contribution rates for the period 1 April 2023 to 31 March 2026.

The funding level of the Fund at 31 March 2022.

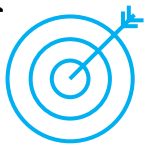
Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in [Hymans Robertson's LGPS 2022 valuation toolkit](https://www.hymansrobertson.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf)<sup>1</sup>.

# Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling.

## Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.



### What is the funding target for each employer?

Will the employer remain in the Fund for the long-term or exit at some point



### What is the funding time horizon?

How long will the employer participate in the Fund



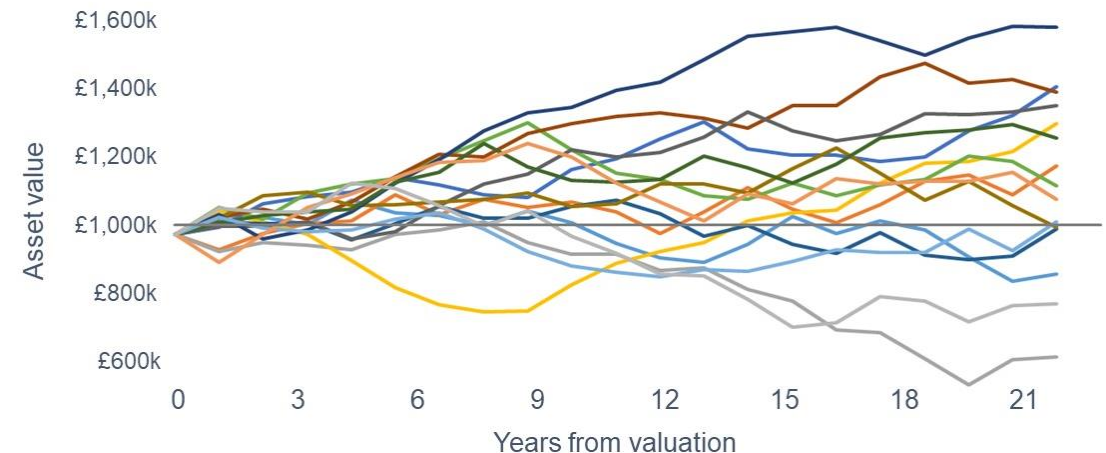
### What is the required likelihood?

How much funding risk can the employer's covenant support

## Asset-liability modelling

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in [Appendix 2](#)).

Picture 1: sample progression of employer asset values



# Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. To measure the funding level, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in [Appendix 2](#)).

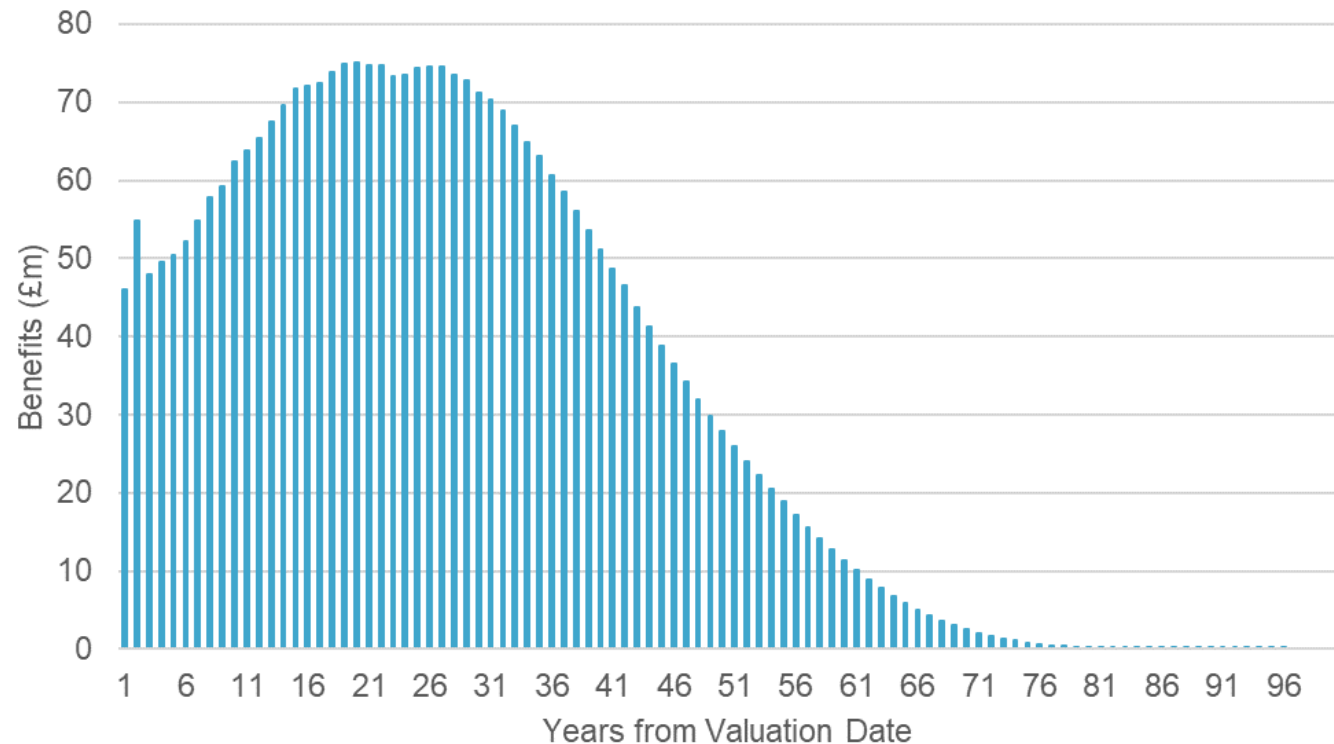
## Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation ([Appendix 1](#)), the assumptions ([Appendix 2](#)) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at [www.lgpsregs.org](http://www.lgpsregs.org)).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



# Valuation results

# Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

**Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the [Rates & Adjustments Certificate](#).** Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	21.8% of pay		19.0% of pay	
Secondary Rate	2023/2024	£18,538,000	2020/2021	£21,499,000
	2024/2025	£16,707,000	2021/2022	£21,987,000
	2025/2026	£14,749,000	2022/2023	£22,487,000

The primary rate includes an allowance of 1.3% of pensionable pay for the Fund’s expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.7% at 31 March 2019).

# Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

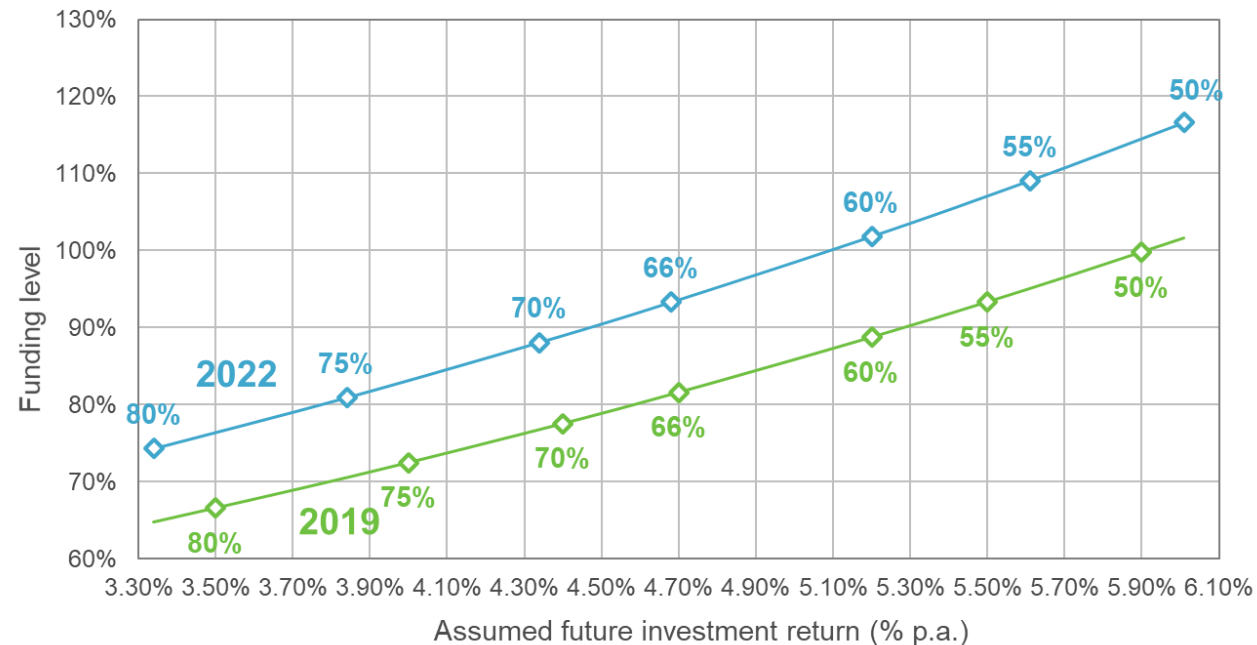
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in [Appendix 1](#)) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- The funding level is 100% if future investment returns are c.5.1% pa.
- The likelihood of the Fund's assets yielding at least this return is around 62%.
- The comparator at 2019 was a return of 5.9% pa which had a likelihood of 48%.
- The funding position at 2022 is stronger than 2019.
- There is a 50% likelihood of an investment return of 6.0% pa. So the best-estimate funding level is 117% at 31 March 2022 (97% at 2019).

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that level of return over the next 20 years

# Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.3% pa has been used. There is a 70% likelihood associated with a future investment return of 4.3% pa.

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Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 91%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	352	249
Deferred Pensioners	367	323
Pensioners	577	532
<b>Total Liabilities</b>	<b>1,296</b>	<b>1,104</b>
<b>Assets</b>	<b>1,134</b>	<b>856</b>
<b>Surplus/(Deficit)</b>	<b>(162)</b>	<b>(248)</b>
<b>Funding Level</b>	<b>87%</b>	<b>78%</b>

**Important:** the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.



# Changes since the last valuation

## Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has sadly been a higher than expected number of deaths over the period. However, the impact on the funding position has been small. This is likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

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### Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	13.8%	26.8%	13.0%	+£114m
Annual	4.4% pa	8.2% pa	3.8% pa	

### Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	1,581	1,916	335	+£0m
Ill-health retirements	29	17	-12	+£1m
Salary increases	3.2% pa	4.1% pa	0.9% pa	-£4m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£17m
Pension ceasing	£2.5m	£3.2m	£0.7m	+£7m



# Changes since the last valuation

## Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to change in the Fund’s investment strategy and financial markets, future investment returns are now expected to be higher than at the last valuation.

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.3% pa vs. 4.4% pa at 2019.	Increase of £22m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £79m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	None
Current life expectancy	How long we expect people to live for based on today’s current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	None
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £7m

# Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

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## Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
<b>Last valuation at 31 March 2019</b>	<b>856</b>	<b>1,104</b>	<b>(248)</b>
<b>Cashflows</b>			
Employer contributions paid in	148	0	148
Employee contributions paid in	28	0	28
Benefits paid out	(138)	(138)	0
Net transfers into / out of the Fund			
Other cashflows (e.g. Fund expenses)	(4)	0	(4)
<b>Expected changes</b>			
Expected investment returns	121	0	121
Interest on benefits already accrued	0	150	(150)
Accrual of new benefits	0	105	(105)
<b>Expected position at 31 March 2022</b>	<b>1,011</b>	<b>1,221</b>	<b>(210)</b>

\* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

## Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
<b>Expected position at 31 March 2022</b>	<b>1,011</b>	<b>1,221</b>	<b>(210)</b>
<b>Events between 2019 and 2022</b>			
Salary increases greater than expected	0	4	(4)
Benefit increases greater than expected	0	(17)	17
Early retirement strain (and contributions)	9	12	(3)
Ill health retirement strain	0	(1)	1
Early leavers less than expected	0	0	0
Commutation less than expected	0	1	(1)
McCloud remedy	0	1	(1)
Other membership experience	0	(36)	36
Higher than expected investment returns	114	0	114
<b>Changes in future expectations</b>			
Investment returns	0	22	(22)
Inflation	0	79	(79)
Salary increases	0	0	0
Longevity	0	6	(6)
Other demographic assumptions	0	5	(5)
<b>Actual position at 31 March 2022</b>	<b>1,134</b>	<b>1,296</b>	<b>(162)</b>

Numbers may not sum due to rounding

# Sensitivity & risk analysis

# Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

## Assumptions

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

### Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

### Funding level

#### Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	(122)	90%
2.7%	(162)	87%
2.9%	(204)	85%

#### Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.50%	(162)	87%
1.75%	(172)	87%

# Sensitivity and risk analysis: other risks & climate change

## Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

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- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities [in their letter dated March 2022](#)<sup>1</sup>.
- **Goodwin:** the remedy to this issue is still uncertain, it is difficult to identify who it would apply to and its impact is estimated to be very small for a LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is ongoing in relation to the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

## Climate change

### Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of [Hymans Robertson's LGPS 2022 valuation toolkit](#)<sup>2</sup>

# Sensitivity and risk analysis: climate change & post valuation events

## Climate change

### Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

Likelihood of success – the chance of being fully funded in 20 years' time

Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'Core' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding position to longevity assumption

Scenario	Likelihood of success	Downside risk
Core	79%	50%
Green Revolution	75%	46%
Delayed Transition	75%	49%
Head in the Sand	76%	50%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

## Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities. For example, the Fund's investment return since 31 March 2022 is estimated to be slightly negative.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

# Final comments



# Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

## Intervaluation employer events

### New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

### Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

## Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.



# Appendices

APPENDIX 1

Data

Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	5,720	5,182
Total actual pay (£000)	148,740	117,858
Total accrued pension (£000)	22,170	17,367
Average age (liability weighted)	53.0	52.4
Future working lifetime (years)	5.6	8.6
Deferred pensioners (including undecideds)		
Number	10,377	11,019
Total accrued pension	20,303	19,624
Average age (liability weighted)	54.0	53.4
Pensioners and dependants		
Number	6,695	6,280
Total pensions in payment	36,780	36,363
Average age (liability weighted)	69.0	69.1

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

This information is as set out in the Fund’s Investment Strategy Statement.

Table 14: Investment strategy used for the 2022 valuation

Asset class	Allocation
Global equities	40%
UK equities	5%
Emerging market equities	5%
Diversified Growth Funds	5%
Infrastructure equity	15%
Property	10%
Multi asset credit	5%
Private debt	5%
Fixed interest gilts	10%
Total	100.0%

## APPENDIX 2

# Assumptions

To set and agree assumptions for the valuation, the Fund carried out in-depth analysis and review in January 2022 with the final set agreed by the Pensions Committee on 21 February 2022.

## Financial assumptions

### Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Annualised total returns										Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Fixed Interest Gilts (long)	UK Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (medium equity beta)	Developed World Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt			
10 years	16th %ile	-1.5%	-0.4%	-0.6%	-2.5%	-1.1%	1.1%	1.4%	-0.6%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %ile	0.7%	5.7%	4.4%	5.8%	4.9%	5.4%	4.3%	5.6%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %ile	2.8%	11.6%	9.5%	14.4%	10.9%	9.5%	7.1%	11.6%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %ile	-0.2%	1.7%	1.4%	0.1%	1.2%	2.8%	2.5%	1.6%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %ile	0.9%	6.2%	5.0%	6.3%	5.6%	6.0%	4.9%	6.1%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %ile	2.0%	10.6%	8.9%	12.8%	10.1%	9.4%	7.4%	10.8%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	3.2%	2.6%	2.1%	2.6%	4.0%	3.3%	3.2%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %ile	1.9%	6.7%	5.5%	6.8%	6.1%	6.6%	5.5%	6.6%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %ile	2.8%	10.2%	8.8%	11.7%	9.8%	9.4%	7.9%	10.2%	7.1%	7.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	8%	18%	15%	26%	18%	13%	8%	18%	6%	8%	3%		

APPENDIX 2

# Assumptions

## Financial assumptions

### Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.3% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 70% likelihood of returning above the discount rate.	4.4% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.0% pa	To determine the size of future final-salary linked benefit payments.	2.6% pa

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	<b>CMI 2021 model</b> Initial addition = <b>0.25% (both Female and Male)</b> Smoothing factor = <b>7.0</b> <b>1.5% pa</b> long-term rate of improvement	<b>CMI 2018 model</b> Initial addition = <b>0.25% (Female), 0.5% (Male)</b> Smoothing factor = <b>7.0</b> <b>1.25% pa</b> long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

## APPENDIX 2

## Assumptions

## Sample rates for demographic assumptions

## Males

Table 19: Sample rates of male demographic assumptions

Page 255	Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT	PT
	20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
	25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
	30	131	0.20	189.49	380.97	0.00	0.00	0.00	0.00
	35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
	40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
	45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
	50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
	55	162	1.70	72.68	145.94	3.54	2.65	0.51	0.38
	60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
	65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

## Females

Table 20: Sample rates of female demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

## APPENDIX 3

# Reliances and limitations

We have been commissioned by London Borough of Brent (“the Administering Authority”) to carry out a full actuarial valuation of the London Borough of Brent Pension Fund (“the Fund”) as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

Hymans Robertson LLP is the owner of all intellectual property rights in this report. All such rights are reserved.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our [2022 valuation toolkit](#) which sets out the methodology used when reviewing funding plans
- Our paper to the Fund’s Pension Committee dated September 2022 which discusses the funding strategy for the London Borough of Brent
- Our paper to the Fund’s Pension Committee dated January 2022 which discusses the valuation assumptions
- Our initial results report dated September 2022 which outlines the whole fund results and inter-valuation experience

- Our data report which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forward into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioners	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

## APPENDIX 4

## Glossary

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Term	Explanation
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
Employee members	Members who are currently employed by employers who participate in the fund and paying contributions into the fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: <ul style="list-style-type: none"><li>• the funding level - the ratio of assets to liabilities; and</li><li>• the funding surplus/deficit - the difference between the asset and liabilities values.</li></ul>
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioners	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.

APPENDIX 4

# Glossary

Term	Explanation
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the fund's expenses.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

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London Borough of Brent Pension Fund  
Funding Strategy Statement  
February 2023

# Contents

## London Borough of Brent Pension Fund – Funding Strategy Statement

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## Appendices

- Appendix A – The regulatory framework
- Appendix B – Roles and responsibilities
- Appendix C – Risks and controls
- Appendix D – Actuarial assumptions

# 1 Welcome to the fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Brent pension fund.

The pension fund is administered by Brent Council, known as the administering authority. Brent council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 20<sup>th</sup> February 2023.

There's a regulatory requirement for Brent Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [sawan.shah@brent.gov.uk](mailto:sawan.shah@brent.gov.uk)

## 1.1 What is the London Borough of Brent pension fund?

The Brent pension fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

### **Scheduled bodies**

Employers who are specified in a schedule to the LGPS regulations, including the council and academies. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### **Designating employers**

Employers such as town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme. The Brent fund has no such employers currently.

### **Admission bodies**

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers such as charities and housing associations, who have a "community of interest" with another scheme employer.

Others may be called **transferee admission bodies** (TABs), typically contractors which provide outsourced services like cleaning or catering to a scheduled body.

These terms aren't defined under current regulations but remain in common use from previous regulations.

#### **1.4 How does the funding strategy link to the investment strategy?**

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at within the Fund's annual report at [brent.gov.uk/pensions](https://brent.gov.uk/pensions).

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

#### **1.5 Does the funding strategy reflect the investment strategy?**

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

#### **1.6 How is the funding strategy specific to the Brent pension fund?**

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.



## 2 How does the fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits (including an allowance for the fund's expenses)
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy is to only permit prepayment of Secondary contributions which would otherwise be expressed in monetary (not % of payroll) amounts; the administering authority must be consulted in advance regarding a proposal to prepay, and it may seek assurance that the employer has taken advice and understands the potential risks involved.

### 2.2 The contribution rate calculation

**Table 2: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies			CABs		TABs*
Sub-type	Council	Academies converted from LEA	Free schools	Open to new entrants	Closed to new entrants	(all)
<b>Funding target**</b>	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
<b>Minimum likelihood of success</b>	70%	70%	70%	75%	80%	70%
<b>Maximum time horizon</b>	20 years	20 years	20 years	15 years	Average future	Same as the letting employer

Type of employer	Scheduled bodies			CABs		TABs*
Sub-type	Council	Academies converted from LEA	Free schools	Open to new entrants	Closed to new entrants	(all)
					working lifetime	
<b>Primary rate approach</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
<b>Secondary rate</b>	% of payroll	% of payroll	% of payroll	Monetary amount	Monetary amount	% of payroll
<b>Stabilised contribution rate?</b>	Yes	Yes	No	No	No	No
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority			Reduce contributions by spreading the surplus over the remaining contract term
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	None

\* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

\*\* See [Appendix D](#) for further information on funding targets.

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. If this isn't appropriate, contribution increases or decreases may be phased.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for certain employers as follows:

**Table 1: current stabilisation approach**

Type of employer	Council	Academy converted from LEA
<b>Maximum contribution increase per year</b>	+1.5% of pay	+1.5% of pay
<b>Maximum contribution decrease per year</b>	-1.5% of pay	-1.5% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

## **2.4 Reviewing contributions between valuations**

The fund may amend contribution rates between formal valuations, 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.

## **2.5 What is pooling?**

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

## **2.6 What are the current contribution pools?**

- LEA schools generally pool with the Council, although 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.

## **2.7 Administering authority discretion**

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in paragraph 2.1 above.

## 3 What additional contributions may be payable?

### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread at administering authority discretion.

### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

Employers must tell the administering authority if the policy ends or if there are any changes to coverage or premium.

## 4 How does the fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

### 4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## 5 What happens when an employer joins the fund?

### 5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

### 5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. Whilst academies are not pooled, their contributions may be set on a pooled basis as follows:

Academy type	Primary contribution rate	Secondary contribution rate
Converting from LEA	Calculated using the current funding strategy (set out in section 2) and the transferring membership	Balance so that total rate equals Council rate each year
Free school	Calculated using the current funding strategy (set out in section 2) and the initial membership.	

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body such as the council or an academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund

employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

#### **5.4 Other new employers**

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

#### **5.5 Risk assessment for new admission bodies**

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement were to end early, for example if the admission body became insolvent or went out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

## 6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.



## 7 What happens when an employer leaves the fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice; however this is considered on a case-by-case basis. If such a notice is issued, then the cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is only a guarantor of last resort, this will have no effect on the cessation valuation basis applied. If the guarantee is more extensive, the cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's liability, and are deducted from the cessation surplus or added to the cessation deficit.

The cessation policy is available from the administering authority.

### **7.3 What happens if there is a surplus?**

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is available from the administering authority.

### **7.4 How do employers repay cessation debts?**

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is available from the administering authority.

### **7.5 What if an employer has no active members?**

If an employer leaves the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers on a pro-rata basis.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
- or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “persons the authority considers appropriate”. This should include ‘meaningful dialogue... with council tax raising authorities and representatives of other participating employers’.

The consultation process included issuing a draft version to participating employers and attending an open employers’ forum.

### A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the fund’s annual report and accounts. Copies are freely available on request and by:

- publishing on the administering authority’s website
- sending copies to each employer
- including the full statement or summary in the annual report
- adding the FSS to the agenda of pension fund employers’ forum
- sending copies to members of the local pension board
- sending copies to employee/pensioner representatives
- making copies freely available on request.

The FSS is published at [www.brent.gov.uk/pensions](http://www.brent.gov.uk/pensions).

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pension Fund Sub-Committee and included in the Sub-Committee meeting minutes.

#### **A5 How does the FSS fit into the overall fund documentation?**

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at [www.brent.gov.uk/pensions](http://www.brent.gov.uk/pensions).

## Appendix B – Roles and responsibilities

### **B1 The administering authority:**

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### **B2 Individual employers:**

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

### **B3 The fund actuary:**

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out [here](#).

Details of the key fund-specific risks and controls are below.

### 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 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>



<b>Risk</b>	<b>Summary of Control Mechanisms</b>
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.</p>
Effect of possible asset underperformance as a result of climate change	Covered in the fund's Investment Strategy Statement.

### C3 Demographic risks

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

**C4 Regulatory risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
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>Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued as at 31 March 2022 in line with the expected regulations, reflecting an underpin as directed by DLUHC.</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 DLUHC intervention triggered by the Section 13 analysis.	Take advice from fund actuary on position of fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The administering authority considers all consultation papers issued by the government and comments where appropriate.</p> <p>Take advice from fund actuary on impact of changes on the fund and amend strategy as appropriate.</p>

**C5 Governance risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
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>

Risk	Summary of Control Mechanisms
	Actuarial advice is subject to professional requirements such as peer review.
Administering authority failing to commission the Fund Actuary to carry out a termination valuation for a departing admission body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>CABs' 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> <ul style="list-style-type: none"> <li>• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</li> <li>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>• Vetting prospective employers before admission.</li> <li>• Where permitted under the regulations requiring a bond to protect the fund from various risks.</li> <li>• Requiring new admission bodies to have a guarantor.</li> <li>• Reviewing bond or guarantor arrangements at regular intervals.</li> <li>• Reviewing contributions well ahead of cessation if thought appropriate.</li> </ul>
An employer ceasing to exist resulting in an exit credit being payable	<p>The administering authority regularly monitors admission bodies coming up to cessation</p> <p>The administering authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

### C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Council	Tax-raising or government-backed, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	As part of requirement for a bond including its relevant coverage and amount	Periodically, for instance updating bond requirements

### C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund included climate scenario stress testing in the contribution modelling exercise for the Council at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results (as expected) 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 results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the Council makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The fund's specific policies in this area are covered in its Investment Strategy Statement.

## Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

**Table: Summary of assumptions underlying the ESS, 31 March 2022**

		Annualised total returns										Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Fixed Interest Gilts (long)	UK Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (medium equity beta)	Developed World Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt			
10 years	16th %ile	-1.5%	-0.4%	-0.6%	-2.5%	-1.1%	1.1%	1.4%	-0.6%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %ile	0.7%	5.7%	4.4%	5.8%	4.9%	5.4%	4.3%	5.6%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %ile	2.8%	11.6%	9.5%	14.4%	10.9%	9.5%	7.1%	11.6%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %ile	-0.2%	1.7%	1.4%	0.1%	1.2%	2.8%	2.5%	1.6%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %ile	0.9%	6.2%	5.0%	6.3%	5.6%	6.0%	4.9%	6.1%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %ile	2.0%	10.6%	8.9%	12.8%	10.1%	9.4%	7.4%	10.8%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	3.2%	2.6%	2.1%	2.6%	4.0%	3.3%	3.2%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %ile	1.9%	6.7%	5.5%	6.8%	6.1%	6.6%	5.5%	6.6%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %ile	2.8%	10.2%	8.8%	11.7%	9.8%	9.4%	7.9%	10.2%	7.1%	7.2%	3.7%	3.2%	6.1%
Volatility (Disp) (5 yr)		8%	18%	15%	26%	18%	13%	8%	18%	6%	8%	3%		

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
<b>Ongoing basis</b>	All employers except transferee admission bodies and closed community admission bodies	1.8%
<b>Low-risk exit basis</b>	Community admission bodies closed to new entrants	0.0%
<b>Contractor exit basis</b>	Transferee admission bodies	Consistent with the margin used to allocate assets to the employer on joining the fund

#### Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.3% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the fund's assets will future investment returns of 4.3% p.a. over the 20 years following the 2022 valuation date.

#### Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

#### Salary growth

The salary increase assumption at the latest valuation has been set to 0.3% above CPI pa plus a promotional salary scale.

#### D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

#### Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.5% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

## Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

## Males

Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
30	131	0.2	189.49	380.97	0.00	0.00	0.00	0.00
35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0.00	11.83	8.87	0.00	0.00

## Females

Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.10	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.10	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.10	0.08
50	162	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.8	111.28	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00



## **D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?**

### **Low-risk exit basis**

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

### **Contractor exit basis**

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin consistent with that set to allocate assets to the employer on joining the fund.



# London Borough of Brent Pension Fund

## Policy on contribution reviews

Effective date of policy	TBC
Date approved	TBC
Next review	TBC

## 1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

### 1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

### 1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer; this change may be a reduction or an increase, and potentially change the format of contributions between % of pay and monetary amount. The actual change, if any, will depend on the particular circumstances.

### 1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

## 2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## 3 Policy

### 3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the administering authority there are circumstances which make it likely that an employer will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer to meet their obligations (e.g. a material change in employer covenant or provision of additional security);
- it appears to the administering authority that the membership of an employer has changed materially (e.g. bulk transfer, significant reduction to payroll, large-scale restructuring); or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

### 3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### **3.3 Other employers**

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

### **3.4 Effect of market volatility**

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

### **3.5 Documentation**

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

## **4 Related Policies**

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

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# London Borough of Brent Pension Fund

## Policy on cessations

Effective date of policy	TBC
Date approved	TBC
Next review	TBC

### 1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in Section 3 - Policies).

#### 1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

#### 1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

#### 1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  - a) Notify its intention to make a determination to-
    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
  - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

## 2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.



### 3 Policies

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 as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

#### 3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Academies	Low risk basis <sup>1</sup>	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Contractor exit basis <sup>2</sup>	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)

<sup>1</sup>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 (e.g. academy failing with no successor Trust), these cessation principles would apply.

<sup>2</sup>Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

#### Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employer within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The

actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.

- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

### 3.2 Repayment flexibility on exit payments

#### Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pension Fund Sub-Committee for consideration and considered on their individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Sub-Committee meetings.

#### Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.
- Generally, cases will be referred to the Pension Fund Sub-Committee for consideration and considered on their individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Sub-Committee meetings.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

### 3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, and in accordance with regulation 64 paragraph 2ZC, the administering authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

#### Admitted bodies

- i. No exit credit will normally be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its

participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

### **Scheduled bodies**

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

### **General**

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.
- vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

### **Disputes**

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

## 4 Practicalities and process

### 4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

### 4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.



### Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

### 4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

## 5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"


The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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	<b>Pensions Fund Sub-Committee</b> 20 <sup>th</sup> February 2023
	<b>Report from the Corporate Director, Finance and Resources</b>
<b>Procurement of Investment Management Services</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	None
<b>Background Papers:</b>	None
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## 1.0 Purpose of the Report

- 1.1 The purpose of this report is to summarise the outcome of the Investment Management Services tender.

## 2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Notes the re-appointment of Hymans Robertson LLP to provide investment management services for the Brent Pension Fund.

### **3.0 Detail**

- 3.1 All Local Government Pension Funds are required to appoint a number of service providers in order for the Fund to carry out its functions as an Administering Authority under the Local Government Pension Scheme (LGPS) regulations.
- 3.2 All LGPS Funds are required to procure Investment Management Services in line with Regulation 7 of the Management & Investment Regulations 2016 which states:

“An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.”
- 3.3 Investment Management Services include, but are not limited to, the production of quarterly monitoring performance reports, attendance at Pensions Subcommittee, performance monitoring of the Funds investment managers, selection of new managers, reviewing the Fund’s investment strategy, advising on strategic asset allocation and preparation of key documents such as the Investment Strategy Statement.
- 3.4 Procurement exercises are the method that the Council uses to ensure that value for money is maintained when seeking supplies and services contracts from third parties. The exercise was conducted using the National LGPS Framework (the “Framework”) managed by Norfolk County Council. The Framework is available for use by LGPS funds for investment management services.
- 3.5 The benefits of using a framework agreement are that the Council can reduce procurement time and costs because the framework has already been through a competitive tender and Public Contracts Regulations 2015 compliant procurement process. The Council is then able to call off the available frameworks for services without having to undertake full procurements, by either running mini competitions for services or through direct awards of providers as appropriate.

#### **Appointment of Investment Management Services Contract**

- 3.6 Officers undertook a procurement exercise using the Framework between August and October 2022. There were 7 providers of Investment Management Services on this Framework: Aon Hewitt, Deloitte, Hymans Robertson LLP, Isio, Mercer Ltd, Pricewaterhouse Coopers LLP and Redington Ltd.
- 3.7 The procurement exercise took the form of a mini competition under the Framework. Each provider was required to submit their responses to the questions outlined in the invitation to further competition document. Each submission was assessed against the headline evaluation criteria set out below:

<b>Criteria</b>	<b>Weighting</b>
Quality	60%
Price	30%
Social Value	10%
<b>Total</b>	<b>100%</b>

- 3.8 A response was received from only one provider on the Framework. The response was evaluated independently by a panel of Pension Fund Officers. The panel, with support from a Procurement officer, then proceeded to moderate their scores. Each element of the scoring was then combined to determine an overall score for the provider. A clarification interview was also held with the provider on 3<sup>rd</sup> October 2022.
- 3.9 Following the tender process, the Corporate Director, Finance & Resources using delegated powers appointed Hymans Robertson as the service provider for this contact for a period of 3 years with the potential to extend for a further two years. The new contract commenced on 24<sup>th</sup> October 2022.
- 3.10 All costs of this contract will be met fully by the pension fund and there will be no direct cost implications for the Council. The pension fund maintains a separate bank account for the payment of pension fund related costs, such as the investment management contract.

#### **4.0 Financial Implications**

- 4.1 The estimated cost of the investment management services contract will be approximately £100k per annum. This estimate is based on the level of and volume of work likely to be requested by the Fund. The cost will be funded by the pension fund.

#### **5.0 Legal Implications**

- 5.1 The Pensions Fund Sub-Committee are responsible for the appointment of external service providers for the Brent Pension Fund in accordance with its Terms of Reference in Part 4 of the Constitution. The Pensions Fund Sub-Committee has delegated the procurement and award of contracts to the Corporate Director, Finance and Resources.
- 5.2 The investment management services contract was subject to the procurement requirements of the Public Contracts Regulations 2015 (the “PCR 2015”).
- 5.3 The PCR 2015 allows the use of framework agreements and prescribe rules and controls for their procurement. Contracts may then be called off under such framework agreements without the need for them to be separately advertised and procured through a full procurement process. Call offs under the framework need to be carried out in accordance with the framework rules, to include using evaluation criteria specified in the framework and utilising the terms and conditions set out in the framework.

- 5.4 Contract Standing Order 86(e)(ii) states that no formal tendering procedures apply where contracts are called off under a framework agreement established by another contracting authority, where call off under the framework agreement is approved by the relevant Chief Officer to include confirmation there is adequate budgetary provision and provided that the Corporate Director, Governance has advised that participation in the framework is legally permissible. The Corporate Director, Governance advised that participation in the Framework was legally permissible.

## **6.0 Equality Implications**

- 6.1 Officers believe that there are no adverse equality implications arising from the procurement of the contract for investment management services for the Brent Pension Fund.

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

- 7.1 Not applicable.

## **8.0 Human Resources**

- 8.1 This service is currently provided by an external contractor and there are no implications for Council staff arising from retendering the contract.

### **Related Documents:**

Procurement of Actuarial, Custodian and Investment Management Services – 21 February 2022 (Brent Pension Fund Sub Committee)

### **Report sign off:**

***Minesh Patel***

Corporate Director, Finance and  
Resources

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of the Local Government Act 1972.

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