Brent Pension Fund

Annual Report and Accounts 2014/15

Pensions Regulator Scheme Number: 10272080

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Chairman’s Foreword

It is my pleasure to present the Annual Report and Accounts of the Brent Pension Fund for 2015/16.

The Fund has 5,368 contributors, 5,995 pensioners and 7,465 deferred pensioners.

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

Against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the Fund had a positive year in terms of investment performance, with the value of the Fund’s net investment assets (i.e. stripping out contributions) increasing by 4.1% to £655.3m (2013/14 £565.8m).

Total contributions received from employers and employees totalled £47.1m for the year, an increase on the previous year’s £46.1m.

Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.5m, an increase on the previous year’s £39.7m.

The Fund remains in a positive cash flow position, with a net £8.6m addition from dealing with scheme members (£6.3m previous year) to invest in order to meet the Fund’s future pension liabilities.

The last actuarial valuation of the Fund was at 31 March 2013, and employer contribution rates were set for three years from 2014/15 onwards. The Pension Fund Sub-Committee will review the investment managers’ performance and review its investment strategy for the coming years in the light of this recent valuation, making changes as it considers necessary.

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

Cllr George Crane
Chairman, Brent Pension Fund Sub-Committee

Management Structure

Administering Authority:	Brent Council Civic Centre Engineers Way Wembley Middlesex HA9 0FJ
Brent Pension Fund Officers:	Julian Pendock, Investment and Pensions Manager (from 24 March 2014)
Legal Advisers:	In-house
Custodian:	BNY Mellon
Actuary:	Hymans Robertson
Independent Adviser:	Peter Davies, AllenbridgeEpic Investment Advisers Limited
Fund Managers:	Legal & General Henderson Capital Dynamics Yorkshire Fund Managers Baillie Gifford Aviva Dimensional Alinda
Banker:	NatWest
Auditor:	KPMG
Performance Measurement:	WM
AVC Providers:	Prudential Clerical Medical Equitable Life (legacy only)

The Local Government Pension Scheme

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

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

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

This document is the Annual Report and Accounts of the Brent Pension Fund for 2013/14.

The LGPS in brief

- The LGPS is one of the largest public sector pension schemes in the UK, with 4.6 million members.

- It is a nationwide pension scheme for people working in local government or for other types of employer participating in the scheme.

- The LGPS is administered locally by 99 regional pension funds – one of which is the Brent Pension Fund.

- It is a funded scheme, which means that Fund income and assets are invested to meet future pension fund commitments.

- Benefits are defined and related to members' salaries, so they are not dependant on investment performance. Ultimately the local authority and local taxpayers are the final guarantors.

- The scheme is regulated by Parliament.

Governance

Governance Statement

The Brent Pension Fund publishes a Governance Statement each year. The latest version of this document is at page 56.

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

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

Administering Authority

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

- Brent Council has delegated its pensions functions to the Pension Fund Sub-Committee

- Brent Council has delegated responsibility for the administration and financial accounting of the Fund to the Chief Finance Officer

- This report supports Brent Council's Annual Governance Statement, which is published at page 56.

Governance Compliance

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

The full compliance statement is at page 59.

Pension Fund Sub-Committee

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

- ensure compliance with legislation and best practice

- determine policy for the investment, funding and administration of the Fund

- monitor performance across all aspects of the service

- consider issues arising and make decisions to secure efficient and effective performance and service delivery

- appoint and monitor advisers

- ensure that arrangements are in place for consultation with stakeholders as necessary.

Pension Fund Sub-Committee Membership as at 31 March 2015

Chair: Cllr George Crane

Vice Chair: None appointed

Other Members: Cllr Ahmad Shahzad
Cllr Mary Daly
Cllr Sabina Khan
Cllr Tom Miller
Kana Naheerathan

Employee representatives: Francesca Hammond (UNISON) and Stephen Holley (College of North West London)

Other attendees: Conrad Hall, Chief Finance Officer
Julian Pendock, Investment and Pensions Manager
Peter Davies, Independent Financial Adviser

Pension Fund Sub-Committee Training

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

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

Conflict of Interests

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

Accountability and Transparency

Pension Fund Sub-Committee agendas, reports and minutes are published on the Brent Council website at www.brent.gov.uk.

Pension Fund Sub-Committee meetings are open to members of the public.

Scheme Administration

The Brent Pensions Team

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

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

The team's responsibilities include the following:

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

Operational costs

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

Communications

The Brent Pension Fund is committed to delivering a consistently high level of performance and customer service. Excellent communication is core to this commitment.

In all our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information

- carefully listen, consider and respond to communications we receive

- use plain English where possible and avoid unnecessary jargon

- use the communication method that best suits the audience and the information being passed on.

The Council's Communication Policy Statement can be found at page 62.

The Statement sets out who our main customers and contacts are, detailing how and when we communicate with them. We continually review and monitor our communications and the Statement is formally reviewed and endorsed each year by the Pension Fund Sub-Committee.

Actuarial Position

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary. The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013.

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

In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;

- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;

- enable employer contributions to be kept as stable as possible and at reasonable cost; and

- maximise the returns from investments within reasonable risk parameters.

The most recent valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £554m, were sufficient to meet 56% of the £997m liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £442m.

During 2014/15, the most commonly applied employer contribution rate within the Brent Pension Fund was 28.4% of pensionable pay. Other employers have different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

Investment Review 2014/15

Economic Background

The UK economy grew by 2.8% in 2014, and the United States by 2.4% - stronger in both cases than in 2013 – while the Eurozone registered 0.8% growth after two years of contraction. Japan, meanwhile, slowed to just 0.3% GDP growth for the year. As the US programme of Quantitative Easing ended in October 2014, the Bank of Japan announced that it would step up its own programme with additional purchases of Japanese Government Bonds, and the European Central Bank followed suit early in 2015, having already cut interest rates twice during the autumn.

The most dramatic – and unexpected – development was the halving in the price of oil during the second half of 2014. This was caused partly by slowing demand, but also by the decision of the OPEC group of producers to maintain production levels. This had a severe impact on the Russian economy, already weakened by the imposition of trade sanctions following its incursion into Ukraine; the rouble fell rapidly in December despite the imposition of emergency levels of interest rates. Even after recovering in 2015, the oil price still stands 40% below its mid-2014 level. The consequent reduction in consumer price inflation – to an annual rate of zero in the UK and US – has delayed the start of interest rate rises in both regions.

Market Returns

Global Equities produced a strong return of 19.2% in sterling during the year to March, overcoming a bout of nerves in early October caused by signs of a slowdown in Chinese growth and continuing weak growth in the Eurozone. US equities were responsible for the major part of this gain, with Japan and Emerging Markets also strong contributors. UK and European Equities were relative laggards, with returns in the 6-8% range. The victory in Greece’s elections in January of the Syriza party reawakened concerns about Greece’s continued membership of the Eurozone, as the new government appeared to be unwilling to adhere to the terms attached to Greece’s earlier bailout. Four months later, negotiations are still in progress between Greece and the European lenders. Currency markets were thrown into confusion in January when Switzerland announced it would no longer defend the Swiss Franc’s 1.20 parity against the Euro; after sharp gyrations it has settled at 1.05 per Euro.

[Source of equity market returns: FTSE All-World Total Return series (£)]

Government Bond markets defied predictions by recording double-digit percentage gains for the year at medium and longer durations. Among the reasons were the reduction in inflation caused by the halving of the oil price, and the buying of bonds by Japanese and European Central Banks as part of their QE programmes. In the year to March, yields on 10-year government bonds fell by ¾% in US, by 1% in UK and by 1¼%

in Germany. At shorter durations, many government bonds were actually offering *negative* yields in March 2015.

UK Commercial Property delivered double-digit returns for the second consecutive year. The IPD All Property Monthly Index returned 18.3%, with over 20% total returns being seen in the Office and Industrial sectors.

The Brent Pension Fund achieved a total return of 10.3% for the year, compared with a 10.8% return on its benchmark.

Outlook
The Conservative party's unexpected victory in the UK General Election has removed the near-term uncertainties of a coalition government, but has focused attention instead on the 'in-out' referendum on EU membership promised before the end of 2017. Equity markets will need to be reassured that global GDP growth is not slowing down if they are to maintain their current elevated valuation levels.

The issues most concerning markets are the likely timing of the first US interest rate rise, the possible slowdown in China's 7% growth rate, and the progress of Greece's negotiations with its creditors over the terms of a third bailout. Each of these has the potential to destabilise equity markets.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

Investment Policy and Performance

Fund Performance Review for the year 2014/15

Introduction

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

During 2013/14, nine external investment managers managed the Fund's assets:

- Legal & General (UK and overseas equities)
- Henderson (fixed income, UK smaller companies equities and private equity)
- Capital Dynamics (private equity)
- Yorkshire Fund Managers (private equity)
- Baillie Gifford (diversified growth fund)
- Aviva (property)
- Dimensional (emerging market equities)
- Alinda (infrastructure)

The Fund's cash balance is held in an interest bearing instant access deposit account with NatWest.

2013/14 Investment Results

Volatility finally caught up with markets, after years of Central Banks' infusion of liquidity and support of asset prices, which had the effect of dampening volatility to extreme lows.

The collapse in the oil price in 2H14 was followed by foreign exchange (FX) volatility, which heralded the start of a continued slide in emerging market currencies and assets, leading to a renewed deflation scare at the start of 2015.

The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 31 March 2015 is shown below:

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	10.3%	10.8%	13.2%
3 years	9.9%	9.6%	11.0%
5 years	7.2%	7.7%	8.7%
10 years	4.9%	6.4%	7.9%

In absolute terms, the Fund's investment assets have achieved a return of 10.3% over the 12 months to 31 March 2015. This represented an underperformance of 0.5% relative to its annual benchmark of 10.8%.

The Fund's investment performance in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 31 March 2014	Period ended 31 March 2015
1 year	59th	92nd
3 years	87th	86th
5 years	93rd	92nd
10 years	100th	98th

The comparative statistics show that the Fund has been one of the lower performing LGPS funds and has consistently underperformed for a number of years. In the last year, the fund's investment performance was +10.3%, which compared to the local authority average return of 13.2%.

However, the Brent Pension Fund has continued to benefit from positive real term investment returns during the financial year ended 31 March 2015.

In particular, the relative immaturity of the Fund's longer term asset classes of private equity and infrastructure investments had previously been a drag on overall performance, although these investments gave a welcome boost to performance over the last year.

It is important to consider the risk framework in which the investment results are achieved. If the Fund takes more risk in its asset allocation decisions, it offers the potential for higher returns but it also increases the uncertainty of the outcome, potentially increasing the chances of a negative downside. The Fund is committed to on-going review of its asset allocation and achieving an appropriate balance between risk and reward. While the Fund is a long term investor of capital through investment cycles, it is also committed to holding investment managers to account for the results they achieve.

Funding Strategy Statement

In accordance with the Local Government Pension Regulations, Brent Pension Fund has a Funding Strategy Statement in place which can be found at page 65.

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the policy which determines how the Fund invests its assets. The Scheme rules require that we publish a SIP that covers our policy on:

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

We publish a SIP which can be found at page 105.

Pension Fund Accounts for 2014/15

Brent Pension Fund Account	Notes	2013/14 £'000	2014/15 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(44,261)	(45,371)
Transfers in from other pension funds	8	(1,895)	(1,782)
		(46,156)	**(47,153)**
Benefits	9	35,169	36,392
Payments to and on account of leavers	10	3,595	1,427
Administration expenses	11	908	714
		39,672	**38,533**
Net (additions)/withdrawals from dealings with members		**(6,484)**	**(8,620)**
Returns on investments			
Investment income	12	(2,392)	(2,097)
Taxes on income	13	569	554
(Profits) and losses on disposal of investments and changes in the market value of investments	15a	(30,888)	(72,673)
Investment management expenses	14	5,963	6,901
Net return on investments		(26,748)	(67,315)
Net (increase)/decrease in the net assets available for benefits during the year		**(35,510)**	**(75,935)**

Net Assets Statement	Notes	31 March 2014 £'000	31 March 2015 £'000
Investment assets	15	562,083	639,487
		564,361	639,487
Current assets	20	19,357	18,504
Non current assets	21	158	100
Current liabilities	22	(483)	(1,041)
Net assets of the fund available to fund benefits at the period end		581,115	657,050

Notes to the Brent Pension Fund accounts

1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Brent Council. The Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Brent Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies within the borough area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Brent Pension Fund Sub-Committee, which is a committee of Brent Council.

b) Membership

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

Organisations participating in the Brent Pension Fund include:

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

There were 34 employer organisations with active members within the Brent Pension Fund at 31 March 2015, listed below:

Scheduled bodies
London Borough of Brent
Alperton High School
ARK Academy
ARK Franklin Academy
ARK Elvin Academy
Brent Housing Partnership
Capital City Academy
Claremont High School
College of North West London
Convent of Jesus & Mary Language College
Crest Academy
Gladstone Park
Islamia Primary School
Kingsbury High School
Michaela Community School
North West London Jewish day School
Preston Manor High School
Queens Park Community School
Sudbury Primary School
Wembley High Technology College
Woodfield School

Admitted bodies
Brent MENCAP
Capita Business Services Limited
Civica
Europa Facility Services Limited
National Autistic Society
Local Employment Access Project (LEAP)
Sudbury Neighbourhood Centre
Wetton Cleaning Services (Estate Cleaning & North Grounds Maintenance)
Wetton Cleaning Services (South Grounds Maintenance)
Thames Reach
Conway Aecom Limited
Sanctuary Housing
Veolia
Xerox (UK) Limited

Brent Pension Fund	31 March 2014	31 March 2015
Number of employers with active members	30	34
Number of employees in scheme		
Brent Council	3,970	4,179
Other employers	1,398	1,724
Total	5,368	5,903
Number of pensioners		
Brent Council	5,275	5,311
Other employers	720	761
Total	5,995	6,072
Deferred pensioners		
Brent Council	6,392	6,501
Other employers	1,073	1,127
Total	7,465	7,628

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. During 2014/15, the most commonly applied employer contribution rate within the Brent Pension Fund was 28.4% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.

Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Brent Pension Fund's website: https://www.mylgpspension.co.uk/

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change took effect from 1 April 2011.

LGPS 2014

A reformed Local Government Pension Scheme (LGPS) was introduced from April 2014. The main elements of the new scheme are:

- a pension scheme design based on career average;
- 1/49th accrual rate with revaluation of active members' benefits based on Consumer Prices Index (CPI);
- scheme normal pension age to be equal to the state pension age for both active members and deferred members;
- the earliest point at which retirement benefits can be taken is age 55;
- contributions based on actual pay (including part time employees) with an average member contribution yield of 6.5%, as now, with tiered contributions. Higher earners paying a higher proportion of their earnings in contributions than lower earning colleagues;
- a low cost option allowing members to pay 50% contributions for half the main benefits;
- all accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme;

- vesting period when members can get a refund on their contributions if they leave the scheme will be increased from three months to two years.

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

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

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

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administration expenses

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

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

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

Net Assets Statement

h) Financial assets

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

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

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

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

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

i) Foreign currency transactions

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

j) Derivatives

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

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

4. Critical judgements in applying accounting policies

Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2015 was £126m (£114m at 31 March 2014).

Pension fund liability

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

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

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

The items in the Net Assets Statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £89m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £12m, and a one-year increase in assumed life expectancy would increase the liability by approximately £30m.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity/infrastructure	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £126m. There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the Balance Sheet date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions receivable

By category

	2013/14 £'000	2014/15 £'000
Employers	36,569	37,028
Members	7,692	8,343
Total	**44,261**	**45,371**

By authority

	2013/14 £'000	2014/15 £'000
Scheduled bodies	42,946	43,648
Admitted bodies	1,315	1,723
Total	**44,261**	**45,371**

8. Transfers in from other pension funds

	2013/14 £'000	2014/15 £'000
Individual transfers	1,895	1,782
Total	**1,895**	**1,782**

9. Benefits payable

By category

	2013/14 £'000	2014/15 £'000
Pensions	29,273	30,674
Commutation and lump sum retirement benefits	5,447	5,409
Lump sum death benefits	449	309
Total	**35,169**	**36,392**

By authority

	2013/14 £'000	2014/15 £'000
Scheduled bodies	33,739	35,055
Admitted bodies	1,430	1,337
Total	**35,169**	**36,392**

10. Payments to and on account of leavers

	2013/14 £'000	2014/15 £'000
Payments to and on account of leavers	3,595	1,427
Total	**3,595**	**1,427**

11. Administration expenses

	2013/14 £'000	2014/15 £'000
Pension administration costs	824	665
External audit fees	16	21
Actuarial fees	68	28
Total	**908**	**714**

12. Investment income

	2013/14 £'000	2014/15 £'000
Fixed interest securities	27	0
Equity dividends	0	0
Pooled property investments	1,924	1,645
Interest on cash deposits	219	48
Private equity/infrastructure	222	404
Total	**2,392**	**2,097**

13. Taxes on income

	2013/14 £'000	2014/15 £'000
Withholding tax - equities	569	554
Total	**569**	**554**

14. Investment management expenses

	2013/14 £'000	2014/15 £'000
Management fees	5,892	6,861
Performance monitoring service	22	20
Other advisory fees	49	20
Total	**5,963**	**6,901**

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

NB Management fees 2013/14 have been amended to reflect the additional Management fees as per CIPFA recommendation.

15. Investments

	Market value 31 March 2014 £'000	Market value 31 March 2015 £'000
Investment assets		
Pooled investments	414,424	476,369
Pooled property investments	34,944	37,006
Private equity/infrastructure	112,715	126,112
Total investments	562,083	639,487

a) Reconciliation of movements in investments

	Market value 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Pooled investments	414,424	20,012	672	42,967	476,369
Pooled property investments	34,944	0	216	2,278	37,006
Private equity/infrastructure	112,715	17,215	31,246	27,428	126,112
Net investment assets	**562,083**	**37,227**	**32,34**	**72,673**	**639,487**

	Market value 1 April 2013	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Pooled investments	405,064	15,027	26,578	20,995	414,428
Pooled property investments	33,320	0	983	2,607	34,944
Private equity/infrastructure	99,913	29,673	20,481	7,2860	112,715
Net investment assets	**538,297**	**44,700**	**48,042**	**30,888**	**562,083**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

b) Analysis of investments

	31 March 2014 £'000	31 March 2015 £'000
Fixed interest securities		
UK		
Public sector quoted	0	0
Corporate quoted	0	0
Overseas		
Public sector quoted	0	0
	0	**0**
Equities		
UK		
Quoted	0	0
	0	**0**
Pooled funds – additional analysis		
UK		
Fixed income unit trust	84,058	86,005
Unit trusts	111,992	116,646
Diversified growth funds	44,781	69,376
Overseas		
Unit trusts	173,593	204,342
	414,424	**476,369**
Pooled property investments	34,944	37,006
Private equity/infrastructure	112,715	126.112
	149,853	**163,118**
	562,083	**639,487**

Investments analysed by fund manager

Market value

31 March 2014 £'000	%		31 March 2015 £'000	%
220,614	39.2	Legal & General	254,280	39.8
112,417	20.0	Henderson	113,334	17.7
88,632	15.8	Capital Dynamics	94,321	14.7
1,090	0.2	Yorkshire Fund Managers	798	0.1
44,781	8.0	Baillie Gifford	69,376	10.9
34,944	6.2	Aviva	37,006	5.9
37,941	6.8	Dimensional	40,708	6.4
21,664	3.9	Alinda	29,664	4.6
562,083	**100.0**		**639,487**	**100.0**

All the above companies are registered in the United Kingdom.

Concentration of investments

During the year, no individual investment exceeded 5% of the total value of the Fund's net assets.

c) Stock lending

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

16. Financial instruments

a) Classification of financial instruments

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

31 March 2014				31 March 2015		
Fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial assets			
414,424			Pooled investments	476,369		
34,944			Pooled property investments	37,006		
112,715			Private equity/infrastructure	126,112		
	18,265		Cash		17,080	
	1,158		Debtors		1,489	
562,083	**19,423**	**0**		**639,487**	**18,569**	**0**
			Financial Liabilities			
		(483)	Creditors			(1,041)
562,083	**19,423**	**(483)**	**Totals**	**639,487**	**18,569**	**(1,041)**

b) Net gains and losses on financial instruments

31 March 2014 £'000		31 March 2015 £'000
	Financial assets	
30,888	Fair value through profit and loss	72,673
30,888	**Total**	**72,673**

c) Fair value of financial instruments and liabilities

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

31 March 2014 Carrying value £'000	31 March 2014 Fair value £'000		31 March 2015 Carrying value £'000	31 March 2015 Fair value £'000
		Financial assets		
562,083	562,083	Fair value through profit and loss	639,487	639,487
19,423	19,423	Loans and receivables	18,604	18,604
581,506	**581,506**	**Total financial assets**	**658,091**	**658,091**
		Financial liabilities		
(483)	(483)	Financial liabilities at amortised cost	(1,041)	(1,041)
(483)	**(483)**	**Total financial liabilities**	**(1,041)**	**(1,041)**

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

d) Valuation of financial instruments carried at fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

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

Level 2

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

Level 3

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

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

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

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	513,375		126,112	639,487
Loans and receivables	18,604			18,604
Total financial assets	**531,979**	**0**	**126,112**	**658,091**
Financial liabilities				
Financial liabilities at amortised cost	(1,041)			(1,041)
Total financial liabilities	**(1,041)**	**0**	**0**	**(1,041)**
Net financial assets	**530,938**	**0**	**126,112**	**657,050**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	449,368		112,715	562,083
Loans and receivables	19,515			19,515
Total financial assets	**468,883**	**0**	**112,715**	**581,598**
Financial liabilities				
Financial liabilities at amortised cost	(483)			(483)
Total financial liabilities	**(483)**	**0**	**0**	**(483)**
Net financial assets	**468,400**	**0**	**112,715**	**581,115**

17. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset type	**Potential market movements (+/-)**
Fixed interest	1.9%
UK equities	9.5%
Overseas equities	9.1%
Property	2.6%
Alternative investments	4.5%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	**Value at 31 March 2015**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	**%**	**£'000**	**£'000**
Cash and cash equivalents	17,080	0.0	17,080	17,080
Investment portfolio assets:				
Fixed interest	86,005	1.9	87,699	84,311
UK equities	116,646	9.5	127,727	105,565
Overseas equities	204,342	9.1	222,917	185,797
Property	37,006	2.6	37,964	36,048
Alternative investments	195,488	4.4	204,426	186,730
Total	**656,567**		**697,634**	**615,500**

Asset type	**Value at 31 March 2014**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	**%**	**£'000**	**£'000**
Cash and cash equivalents	18,265	0.0	18,265	18,265
Investment portfolio assets:				
Fixed interest	84,058	2.1	85,823	82,293
UK equities	111,992	11.4	124,759	99,225
Overseas equities	173,593	12.4	195,119	152,067
Property	34,944	2.3	35,748	34,140
Alternative investments	157,496	6.1	167,103	147,889
Total	**580,348**		**626,817**	**533,879**

Interest rate risk

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

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

The Fund’s direct exposure to interest rate movements as at 31 March 2014 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31 March 2014 £’000		**31 March 2015 £’000**
18,265	Cash balances	17,080
84,058	Fixed interest securities	86,005
102,323	**Total**	**103,085**

Asset type	**Carrying amount as at 31 March 2015**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£’000	**£’000**	**£’000**
Cash balances	17,080	170	-170
Fixed interest securities	86,005	860	-860
Total change in assets available	**103,085**	**1,030**	**-1,030**

Asset type	**Carrying amount as at 31 March 2014**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£’000	**£’000**	**£’000**
Cash balances	18,265	183	-183
Fixed interest securities	84,058	840	-840
Total change in assets available	**102,323**	**1,023**	**-1,023**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

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

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure – asset type	Asset value at 31 March 2014 £'000	Asset value at 31 March 2015 £'000
Overseas unit trusts	173,593	204,342
Overseas pooled property investments	5,022	3,424
Overseas private equity/infrastructure	112,715	126,112
Total overseas assets	**291,330**	**333,878**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 8%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2015	Change to net assets available to pay benefits	
		+8%	**-8%**
	£'000	**£'000**	**£'000**
Overseas unit trusts	204,342	220,689	187,995
Overseas pooled property investments	3,424	3,698	3,150
Overseas private equity/infrastructure	126,112	136,516	116,023
Total change in assets available	**333,878**	**360,588**	**307,168**

	Asset value as at 31 March 2014	Change to net assets available to pay benefits	
		+8%	**-8%**
	£'000	**£'000**	**£'000**
Overseas unit trusts	173,593	187,480	159,706
Overseas pooled property investments	5,022	5,424	4,620
Overseas private equity/infrastructure	112,715	121,732	103,698
Total change in assets available	**291,330**	**314,6636**	**268,024**

b) Credit risk

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

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

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria. Given the relatively low level of cash held by the Pension Fund at any one time, it is not considered necessary to place deposits with other banks and financial institutions to provide diversification.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £18.265m (31 March 2013: £5.534m). This was held with the following institutions:

	Rating	Balances as at 31 March 2014 £'000	Balances as at 31 March 2015 £'000
Bank deposit accounts			
NatWest	A-	18,265	17,080
Total		**18,265**	**17,080**

c) Liquidity risk

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

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2015 the value of illiquid assets was £163.1m, which represented 26% (31 March 2014: £147.6m, which represented 27%) of the total fund assets.

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

All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk

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

18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 22 years from 1 April 2013 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the Fund was assessed as 56% funded (61% at the March 2010 valuation). This corresponded to a deficit of £442m (2010 valuation: £294m) at that time.

Contribution increases were phased in over the three-year period ending 31 March 2017 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

Year	**Employers' contribution rate**
2014/15	28.4%
2015/16	29.4%
2016/17	30.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Fund's website.

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

The main actuarial assumptions used for the March 2013 actuarial valuation were as follows:

Discount rate	4.6% p.a.
Price inflation	3.3% p.a.
Pay increases	4.1% p.a.
Pension increases	2.5% p.a.

Mortality assumptions

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

Mortality assumption at age 65	**Male**	**Female**
Current pensioners	22.0 years	24.3 years

Commutation assumption

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

19. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2015 was £1,396m (31 March 2014: £1,168m). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Inflation/pensions increase rate	2.8%
Salary increase rate	4.4%
Discount rate	4.3%

Longevity assumption

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

	Males	Females
Current pensioners	22.0 years	24.3 years
Future pensioners*	24.4 years	26.8 years

* Future pensioners are assumed to be currently aged 45

Commutation assumption

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

20. Current assets

	31 March 2014 £'000	31 March 2015 £'000
Debtors:		
- Contributions due – employees	188	249
- Contributions due – employers	812	1,140
- Sundry debtors	92	35
Cash balances	18,265	17,080
Total	**19,357**	**18,504**

Analysis of debtors

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	0	0
Other local authorities	999	1,388
Other entities and individuals	93	1
Total	**1,092**	**1,389**

21. Non current assets

	31 March 2014 £'000	31 March 2015 £'000
Non current assets	158	100
Total	**158**	**100**

Non current assets comprises of contributions due from employers, repayable later than a year of the Balance Sheet date.

22. Current liabilities

	31 March 2014 £'000	31 March 2015 £'000
Sundry creditors	483	1,041
Total	**483**	**1,041**

Analysis of creditors

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	3	12
Other entities and individuals	480	1,029
Total	**483**	**1,041**

23. Additional voluntary contributions

	Market value 31 March 2014 £'000	Market value 31 March 2015 £'000
Clerical Medical	1,145	1,303
Equitable Life	169	170
Prudential		15
Total	**1,314**	**1,488**

AVC contributions of £26,296 were paid to Clerical Medical during the year (2013/14: £38,000). The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

24. Related party transactions

Brent Council

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

The Council incurred costs of £0.732m (2013/14: £0.880m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £31.467m to the Fund in 2014/15(2013/14: £30.663m). All monies owing to and due from the Fund were paid in year.

Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund.

Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

Key management personnel

Paragraph of the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* (the Code) exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Brent Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Brent Council.

25. Contingent liabilities

The Fund had no contingent liabilities at 31 March 2015.

26. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled £30.5m (31 March 2014: £41.5m).

	31 March 2014 £'000	31 March 2015 £'000
Capital Dynamics	38,061	28,001
Alinda	3,416	2,517
Yorkshire Fund Managers	60	
Total	**41,537**	**30,518**

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

27. Contingent assets

Seven non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31 March 2014 £'000	31 March 2015 £'000
Wettons Cleaning services (Estate cleaning Maintenance)	158	
Wettons (South Grounds Maintenance)	145	
Bilfinger (previously Europa)	136	136
Capita Business Services Limited	123	123
Civica		Pending
Conway Aecom	111	111
Xerox (UK) Limited	29	29
Sanctuary		8
ThamesReach	5	5
Veolia		Pending
Total	**707**	**412**

28. Impairment losses

The Fund had no impairment losses at 31 March 2015.

Statement of Responsibilities

The Fund's responsibilities

The Fund is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. At Brent Council, the Chief Finance Officer fulfils that responsibility.

- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets

- approve the Brent Pension Fund's statement of accounts.

Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for preparing the Brent Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 ('the Code of Practice').

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently

- made judgements and estimates that were reasonable and prudent

- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records, which are up to date

- taken reasonable steps to prevent fraud and other irregularities.

Chief Finance Officer's statement

I certify that the statement of accounts as set out on pages 16 to 51 presents a true and fair view of the financial position of the Brent Pension Fund as at the accounting date and its income and expenditure for the year ended 31 March 2015.

Conrad Hall CPFA
Chief Finance Officer

Independent Auditor's Report

Independent auditor's report to the members of the London Borough of Brent on the Pension Fund Financial Statements published with the Brent Pension Fund Annual Report and Accounts 2014/15

We have examined the pension fund financial statements for the year ended 31 March 2015 consisting of the Fund Account, Net Asset Statement and related notes.

Respective responsibilities of the Chief Finance Officer and the auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Brent Pension Fund Annual Report and Accounts with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Brent, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition, we read the information given in the Brent Pension Fund Annual Report and Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Brent for the year ended 31 March 2015 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Brent Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Philip Johnstone
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
30 September 2015

Appendices

Annual Governance Statement

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

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

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

- undertaking statutory functions on behalf of the Local Government Pension Scheme and ensuring compliance with legislation and best practice

- determining policy for the investment, funding and administration of the Pension Fund

- considering issues arising and making decisions to secure efficient and effective performance and service delivery

- appointing and monitoring all relevant external service providers:
    - fund managers
    - advisers
    - custodian
    - actuary
    - all other professional services associated with the structure and functions of the Pension Fund

- monitoring performance across all aspects of the service

- ensuring that arrangements are in place for consultation with stakeholders as necessary

- considering the annual statement of Pension Fund accounts

- considering and approving the Pension Fund actuarial valuation.

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

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

- the Council as Administering Authority and the largest employer with 74% of the contributing membership
- other employers with 26% of the membership, and
- the Fund's contributors.

The Pension Fund Sub-Committee consists of:

- seven Brent councillors
- a representative of other employers
- a representative of the Fund's contributors.

There is also an independent adviser who attends all Pension Fund Sub-Committee meetings.

Training

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

Use of advisers

The Chief Finance Officer advises the Pension Fund Sub-Committee on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Pension Fund Sub-Committee on investment matters.

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

Communications with Fund employers and members

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

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

Governance Compliance Statement

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

Ref.	Principles	Compliance and comments
A	**Structure**	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance. Brent Council's constitution sets out the terms of reference for the Pension Fund Sub-Committee.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No formal secondary committees or panels have been established.
B	**Representation**	
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, eg admission bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (ad-hoc basis only).	Full compliance. The Pension Fund Sub-Committee includes a representative of the other employers in the Fund and contributor members. The Fund's independent adviser attends Pension Fund Sub-Committee meetings. Independent professional observers are not regarded as appropriate.

Ref.	Principles	Compliance and comments
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
C	**Selection and role of lay members**	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.
D	**Voting**	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance. All representatives on the Pension Fund Sub-Committee have full voting rights, but the Sub-Committee works by consensus without votes being required.
E	**Training/facility time/expenses**	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance. Full training and facilities are made available to all members of the Pension Fund Sub-Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance. A training plan has been prepared for the Pension Fund Sub-Committee and training logs are maintained for all such training undertaken.
F	**Meetings (frequency/quorum)**	
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance. The Pension Fund Sub-Committee meets at least four times a year on a quarterly basis to fit its business needs.

Ref.	Principles	Compliance and comments
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance. The Pension Fund Sub-Committee includes lay members. Road shows are arranged for employers.
G	**Access**	
a.	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance. Equal access is provided to all members of the Pension Fund Sub-Committee.
H	**Scope**	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance. The Pension Fund Sub-Committee deals with fund administration issues as well as fund investment.
I	**Publicity**	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance. The Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Communication Policy Statement

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- Employing authorities
- The Fund's contractor for pension administration services, Capita Employee Benefits
- Brent Pensions Team staff
- Other bodies, for example prospective employing authorities.

We are committed to communicating clearly and effectively and we provide a high-quality service to all our stakeholders.

Our communication with scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the scheme and their own benefits.

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation. We intend to develop the website as the prime source of information on the pension scheme. This should ensure timely, up-to-date and easy-to-access information for all our stakeholders.

The *Employee's Guide* is the main reference point for current scheme members. Each new employee gets a copy from their employer. We update it regularly, usually annually when regulations are changed. It is available from our website. Other scheme literature is available from employers or direct from us.

We have a general query call centre which operates during office hours. A voice-mail service takes messages out of hours, and we return these calls the next working day. We also have a general email address for all queries.

Each year, we send all current and deferred members an annual benefit statement showing their benefits as at 31 March. These are usually issued between May and September each year.

We send pay advice slips to pensioners each April and send a P60 in May if the pensioner has had income tax deducted during the year. A payslip is also sent to pensioners if there has been a change of more than £3 in their monthly payment.

An annual newsletter is sent to pensioners each March.

The Brent Pension Fund's annual report and full accounts are available to members via our website.

Our communication with employing authorities

We communicate with employing authorities in several ways to help them meet their responsibilities as scheme employers.

We give the *Employer Manual* to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from ourselves.

A copy of the Brent Pension Fund annual report and accounts is made available to each employer via the website. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Pension Fund Sub-Committee approving any significant amendment.

We send the full actuarial report on the triennial valuation to employers when they are available.

Our communication with Capita Employee Benefits

It is vital that regular communication takes place with Capita Employee Benefits, to ensure that the Fund's contractor for pension administration services delivers to the requisite quality and cost.

Our communication with Brent Pensions Team staff

It is essential that our staff are kept up to date with all changes to the scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Our communication with other bodies

We provide information to members' representatives on request.

The Pension Fund Sub-Committee receives reports from the Chief Finance Officer. Although these usually concern investment issues, they will advise the Sub-Committee on changes to administrative arrangements or scheme rules where relevant.

Any prospective employing authority will receive a letter outlining the costs of joining the scheme and a copy of the *Employer Manual*.

Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Brent Pension Fund ("the Fund"), which is administered by Brent Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson, and after consultation with the Fund's employers and investment f adviser. It is effective from 1 April 2014.

1.2 What is the Brent Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Brent Pension Fund, in effect the LGPS for the Brent area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e., a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;

- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an elected member whose Council participates in the Fund: you will want to be sure that the Council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for Council money;
- a Council Tax payer: your Council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to adequately fund benefits to secure the Fund's solvency;
- to help ensure that sufficient resources are available to meet all liabilities (i.e., members'/dependants' benefits) as they fall due for payment. One particular way this is approached is by using a prudent long term view in managing solvency;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed;

B. who is responsible for what;

C. what issues the Fund needs to monitor, and how it manages its risks;

D. some more details about the actuarial calculations required;

E. the assumptions which the Fund actuary currently makes about the future.

If you have any other queries please contact Julian Pendock, Investment and Pensions Manager, in the first instance at e-mail address julian.pendock@brent.gov.uk or on mobile telephone number 07884 997633.

2 Basic funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect Council and employer service provision, and Council Tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced Council spending, which in turn could affect the resources available for Council services, and/or greater pressure on Council Tax levels;
- Contributions which academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting Council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the Council will wish to minimise the extent to which Council Tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1).

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

3 Calculating contributions for individual employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e., the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Council**	**Academies**	**Other**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	22 years	22 years	22 years	15 years	Future working lifetime of active members	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority				Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution levels, and the level of any specific security provided by the employer to the Fund, at regular intervals between valuations					Particularly reviewed in last 3 years of contract

New employer	n/a	Note (g)	n/a	Note (h)	Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g., using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, an employer whose contribution rates have been "stabilised" (and which may therefore be currently paying less than its theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g., significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

The eligibility criteria for stabilisation are that the employer is large, stable, with tax-raising powers, and open to new entrants. Currently the only eligible Fund employer is the London Borough of Brent's Council Pool, although Academies will pay the same rate as the Council for at least the three years beginning 1 April 2014 (see Note (g)).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details for the Council Pool are as follows:

- Notional contribution rate increased at 1% of payroll each year, from the 2013-14 rate of 27.4%, up to a maximum of 30% of payroll;
- Actual contribution rate split between % of pay element and £ lump sum element each year;
- % of pay element = future service rate for the Council Pool as calculated at 2013 valuation;

- £ lump sum element = amount calculated as balance of notional contribution rate that year, when applied to payroll increased from 2013 in line with valuation assumption (as opposed to actual payroll that year).

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the Council's membership profile, whether stabilisation should continue to apply (and if so, whether this should be extended to other employers), and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

The period lengths have changed since the 2010 valuation as follows:

- Scheduled Bodies: reduced from 25 years to 22 years, with a view to further reducing this to 20 years at the next valuation;

- Community Admission Bodies: typically increased from 3 years to 15 years (if open to new entrants) or future working lifetime (if closed).

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Deficit Recovery Payments)

The deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e., has a large deficit recovery contribution rate (e.g., above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

Phasing is the gradual stepping from the current contribution rate in 2013-14 to the full calculated rate resulting from the 2013 valuation. It is often used to help keep employer contribution rates as nearly stable as possible from one year to the next.

In any given case the Administering Authority will discuss with the actuary whether phasing is appropriate given the risks involved (see 3.2 above), including the Administering Authority's view of the strength of the employer's covenant.

Where phasing is applied this will normally result in three equal annual steps.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to:

- significant reductions in payroll;
- altered employer circumstances;
- Government restructuring affecting the employer's business; or
- failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

The Fund's policies on academies' funding issues are as follows:

a) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

b) The new academy will be allocated an initial asset share from the Council's assets in the Fund. This asset share will be calculated using the Council's estimated funding position at the date of academy conversion. The academy asset share will be based on the active members' funding level, having first allocated assets in the Council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

c) The new academy's theoretical contribution rate will be calculated using market conditions, Council funding position, and membership data, all as at the day prior to conversion;

d) The new academy's actual contribution rate will be as per the Council rate, but expressed purely as a percentage of pensionable pay. This applies whether or not the theoretical rate is above the Council rate. All other things being equal, this will mean some academies taking longer to pay off their deficit (where the theoretical rate is higher than the Council rate), or paying off the deficit more quickly (where the theoretical rate is below the Council rate).

The Fund's policies on academies, particularly (d) above, are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, in line with the Fund's funding strategy generally, these policies will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

- allowance for the risk of asset under-performance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as the Council or an Academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The *quid pro quo* is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i. *Pooling*
The contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii. *Letting employer retains pre-contract risks*
The letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii. *Fixed contribution rate agreed*
The contractor pays a fixed contribution rate throughout the term of the contract, and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other on-going employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the on-going basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the on-going basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an on-going basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics, with the consent of the employers concerned. This will always be in line with its broader funding strategy. In particular:

- With the advice of the Actuary, the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service;
- Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool;
- Transferee Admission Bodies are usually also ineligible for pooling;
- Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree;
- Schools are generally pooled with the Council. However this does not apply to academies, specialist schools or independent schools.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority, or on the basis of actuarial modelling carried out for an employer which the Administering Authority deems to have sufficiently strong covenant.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g., the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (N.B. the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the Fund in the financial year following the award of an early retirement. In exceptional circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding three years. If this is agreed, interest will be charged using factors provided by the Actuary.

3.7 Ill health early retirement costs

Ill health early retirements can give rise to very large "strains" on the Fund, as the cost of immediate (and possibly enhanced) benefit payments will be greater than the reserve previously being targeted. This strain will normally fall on the employer concerned. (The strain cost may be mitigated by insurance: see 3.8 below).

The cumulative cost of ill health retirements between actuarial valuations will in effect be reflected in the employer's results at the next valuation.

Where a different approach is adopted (e.g., regularly monitoring ill health experience and requesting contributions between valuations), details will be included in each individual employer's Admission Agreement.

3.8 Ill health insurance

An employer may arrange an insurance policy covering ill health early retirement strains, in which case it should provide satisfactory evidence to the Administering Authority of this. In such cases, the employer's required minimum contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total minimum employer contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter, it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation, the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund;

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written on-going commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities.

  However, the Fund may permit shortfalls to arise on bulk transfers if the Administering Authority is satisfied that the employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.
- Active members switching employment from one Fund employer to another will result in assets equal to the past service liabilities being re-allocated between the employers, i.e., a "fully funded transfer". This means that the deficit at the point of transfer is retained by the ceding employer.

  However, in the case of schools converting to Academy status (i.e., the members switch from Council employment to the new Academy), the process is instead as per Note (g) to section 3.3 above. This is because the guidance from the Department for Education and the Department for Communities and Local Government anticipates that the past service deficit will be inherited by the new Academy.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund Actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset out-performance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e., keeping employer rates affordable) is best achieved by investing in higher returning assets, e.g., equities. However, equities are also very volatile (i.e., go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's Actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e., changes in the relationship between asset values and the liabilities value, annually. It reports this in its published Brent Pension Fund Annual Report and Accounts.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with Council Tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in early February 2014 for comment;

b) Comments were requested within 10 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in late February 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.brent.gov.uk;
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers;
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pension Fund Sub-Committee and would be included in the relevant Pension Fund Sub-Committee meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.brent.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's Actuary of material changes which could affect funding (this is covered in a separate agreement with the Actuary); and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The individual employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	**Summary of Control Mechanisms**
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e., proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Deteriorating patterns of early retirements.	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments.	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	**Summary of Control Mechanisms**
Changes to national pension requirements and/or HMRC rules, e.g., changes arising from public sector pension reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g., large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards, e.g., for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving elected members, and recorded appropriately. 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.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's Actuary is required by the regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's Actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “on-going” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e., only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g., because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency” is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e., ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the on-going basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g., mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's Actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund Actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “on-going basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the on-going basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation, for all employers, and for all periods pre- and post-retirement. (At the 2010 valuation a more optimistic assumption was made, and different assumptions applied to different employers and periods).

In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this new 1.6% p.a. asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards.

Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set at 0.8% per annum above the retail prices index (RPI). This is a change from the previous valuation, which assumed pay growth of RPI plus 1.5% per annum.

There is an added allowance for promotional increases.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010 (which was 0.5% p.a.).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund at this valuation and endorsed by the Actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation. This is a change from the 2010, when standard actuarial tables were adopted.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the on-going valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2010 valuation approach, is an average life expectancy around 1½ - 2 years lower than at 2010. The approach taken is considered reasonable in light of the Fund-specific analysis, the data available from Club Vita more broadly, the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Statement of Investment Principles

Introduction

This is the Statement of Investment Principles (SIP) adopted by Brent Council (the Administering Authority of the Fund) in relation to the proper management of the investment of assets of the Brent Pension Fund.

The SIP meets the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations").

The Council, as Administering Authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Sub-Committee which monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and professional advisers. In addition, the Sub-Committee requires managers to periodically attend its meetings. The Sub-Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government.

The Pension Fund Sub-Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored.

The Government and the pension fund industry have developed a set of high level principles that set a model for good practice in pension fund investment decision-making and governance. These six principles are as follows:

- effective decision-making
- clear objectives
- risk and liabilities
- performance assessment
- responsible ownership
- transparency and reporting.

Effective decision-making

Administering authorities should ensure that:

Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Brent Council is the Administering Authority with overall responsibility for the Brent Pension Fund, which it delegates to its Pension Fund Sub-Committee.

Responsibilities are allocated to ensure that the managers are given authority to manage their portfolios, but that there is monitoring and review both at individual portfolio and at total Fund levels. The Pension Fund Sub-Committee at Brent Council is responsible for:

a) determining the overall investment strategy and strategic asset allocation

b) appointing the investment managers, the Independent Adviser, the Actuary and the global custodian

c) reviewing investment manager performance and processes regularly.

As well as councillors, the Pension Fund Sub-Committee includes representatives of a large employer (the College of North West London) and of employees (the GMBU) as non-voting, but participating, observers.

The Chair of the Pension Fund Sub-Committee is responsible for ensuring that councillors taking investment decisions are familiar with investment issues and that the Pension Fund Sub-Committee has sufficient members for that purpose.

Members of the Pension Fund Sub-Committee are encouraged to undertake learning and development activities on a regular basis to suitably equip them to undertake their role. In particular, there will be regular training opportunities through attendance at conferences and seminars, and training sessions provided by the incumbent investment fund managers at the quarterly Pension Fund Sub-Committee meetings.

The Pension Fund Sub-Committee takes proper advice from persons who are reasonably believed to be qualified by their ability in and practical experience of investment matters to enable them to fulfil their overall responsibility for the management of the Fund and its investment strategy, and individual decisions about investments.

The Chief Finance Officer at Brent Council is responsible for:

a) advising and reporting to the Pension Fund Sub-Committee

b) reviewing the activities of the investment managers on a regular basis

c) keeping the accounts for the Fund and managing cash flow to distribute new money to managers.

The investment managers are responsible for:

a) the investment of Pension Fund assets in accordance with legislation, the Statement of Investment Principles (SIP) and the individual investment management agreements

b) preparation of monthly and quarterly reports detailing activity, investment performance and future strategy, and attendance at the Pension Fund Sub-Committee.

The Actuary is responsible for:

a) undertaking a triennial revaluation of the assets and liabilities of the Fund

b) providing annual FRS17 / IAS19 valuations

c) providing advice on the maturity of the Fund.

The Independent Adviser is responsible for the provision of advice to the Pension Fund Sub-Committee and the Chief Finance Officer on all investment issues, in particular asset allocation, new developments and the monitoring of manager performance against the agreed benchmarks.

Clear objectives

An overall investment objective should be set out for the Fund that:

Takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers; and

The attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions.

The key investment objective of the Fund is to maximise performance and so minimise the level of employer contributions required to meet the cost of pension benefits, subject to an appropriate level of risk and liquidity. Over the long term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The assets of the Fund are mostly in "growth assets", i.e., those expected to generate additional ('excess') returns over the long term. These include publicly quoted equity, private equity and infrastructure. The asset allocation also has a small allocation to "cash flow matching" assets in the form of bonds.

The table below shows the asset allocation structure:

Asset Class	Allocation	Benchmark	Approach
Fixed income	15%	6% absolute return	Active
UK equities	15%	FTSE All Share	Passive
UK & Irish smaller companies	4%	FTSE Small Cap	Active
O/seas equities – developed	24%	FTSE AW ex UK	Passive
O/seas equities – EM	8%	MSCI EM	Active
Property	8%	IPD	Active
Private equity	10%	8% absolute return	Active
Infrastructure	6%	8% absolute return	Active
Diversified growth	8%	Base Rate + 3.5%	Active
Cash	2%	Base Rate	Active
Total	**100%**		

The above allocations, ranges and management structure comply with the limits set out in Schedule 1 of the Regulations. The achievement of these benchmark returns should attain a real rate of return of 3% - 4% above inflation per annum over rolling three-year periods. The 2013 Actuarial Valuation assumed a return of gilts plus 1.6% per annum, giving a total return of 4.6% per annum.

The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against the benchmark with the investment manager. A number of fund managers are appointed to give diversification of investment style and spread of risk.

The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity and infrastructure managers are remunerated through fees based on commitments and also performance related fees.

The investment strategy is considered at least annually, with the last major review of asset allocation undertaken in February 2014 following the triennial actuarial valuation.

Actual asset allocations are monitored against the above structure and re-balanced as appropriate. The Chief Finance Officer has delegated authority to undertake a quarterly re-balancing of the asset classes should they materially diverge from their target allocations.

For UK equities, the manager holds stocks in proportion to their weighting in the FTSE All Share index (known as index tracking, or passive, management). For overseas equities (developed markets), the manager tracks the FTSE AW Developed World (excl.UK) index. Index tracking has been chosen because passive management is less expensive than active management and the extent to which active management out-performs passive management is unclear, particularly in developed markets.

Active management has been chosen for exposure to overseas equities (emerging markets), UK & Irish smaller companies, because it is considered that there are opportunities for the managers to outperform through stock and sector selection. Active management has also been chosen for fixed income, affording the manager discretion to change the asset allocation using a range of bond-like instruments as permitted to improve performance.

For fixed income, property, UK equities, overseas equities, emerging market equities, infrastructure, diversified growth and private equity, the Fund has invested in pooled funds that will allow diversified investment whilst offering the opportunity for additional returns.

The current fund managers are:

UK equities	Legal & General
Overseas equities	Legal & General (developed markets) Dimensional (emerging markets)
Fixed income	Henderson
Property	Aviva
UK smaller companies	Henderson
Private equity	Capital Dynamics Yorkshire Fund Managers
Diversified growth	Baillie Gifford
Infrastructure	Alinda Partners Capital Dynamics Henderson PFI Fund II

A management agreement or subscription agreement is in place for each fund manager, setting out the benchmark and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council.

The Regulations also specify certain limits on investments to promote diversification and access a wider range of asset classes both to spread risk and add to returns. The Pension Fund Sub-Committee has decided that the Brent Pension Fund may not:

a) invest more than 10% of the Fund in any single holding

b) invest more than 35% of the Fund in unit trusts managed by any one body

c) excluding loans to the Government, lend more than 10% of the value of the Fund to any one borrower

d) invest more than 15% of the Fund in unlisted securities of companies

e) contribute more than 5% of the Fund to any single partnership

f) contribute more than 30% of the Fund to partnerships.

The Brent Pension Fund has also imposed a number of restrictions to reduce risk and to maintain control of fee levels. The managers may not:

a) invest in any in-house fund without prior consent

b) exceed the limits set out in the asset allocation ranges detailed in the benchmark

c) borrow

d) engage in underwriting or sub-underwriting on behalf of the fund

e) enter into soft commission arrangements, by which business is directed to brokers in exchange for other services such as research or systems.

Managers may use derivatives to facilitate asset allocation decisions and trading, and to obtain exposure to markets / assets, to reduce trading costs. All open and completed transactions will be included in monthly transactions and quarterly reports.

The restrictions are designed to aid transparency, avoid speculative investments, reduce the volatility of returns, and facilitate the realisation of investments. However, research has indicated that indiscriminate restrictions reduce managers' opportunities to use skill to add value. On this basis, restrictions are kept to a minimum.

Managers are given wide discretion over both stock selection and asset allocation within the restrictions detailed above. This allows clear accountability for decisions. The managers have established procedures to monitor and control risk, and to research market trends.

The Fund does not operate a Stock Lending programme.

Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should:

Take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of covenant for participating employers, the risk of their default and longevity risk.

The Fund is required to take investment risk compared to the liabilities to achieve the out-performance required in the assumptions underpinning the actuarial valuation.

The key risks taken are in strategic asset allocation and active management. The sources of return are diverse and to some extent uncorrelated which reduces the overall level of risk.

There are three main definitions of risk:

a) severe market decline and funds losing value (absolute risk), as occurred in 2008

b) under-performance when compared to a peer group (WM local authority universe) or relevant stock / bond markets (relative risk)

c) not meeting the liabilities set out in the LGPS. The Fund had a deficit of £442m when valued in 2013, and is following a 22-year recovery period.

To reduce absolute risk the Fund is diversified between managers, asset classes, markets and sectors so that investments are not concentrated in one theme or country / region. Investment managers are also to observe the Brent Pension Fund's investment restrictions, which are designed to reduce risk.

To add value, the Fund seeks exposure to a variety of risks. The search for out-performance will involve the risk of under-performance through the adoption of counter-cyclical positions. The extent of any under-performance has been reduced by diversification and the use of index-tracking with regard to publicly quoted equities.

The third definition of risk – failure to meet liabilities – is the key risk and is managed in three ways:

1) To enable the administering authority to meet benefit payments, managers may remit payments on a monthly basis when required. This will allow managers to plan any realisation of assets as necessary or, more likely, re-invest income from dividends or interest received.

2) Assets and liabilities are valued at least on a triennial basis by an independent actuary (the actuarial valuation) to determine the financial health of the Fund. If a deficit is forecast, employers' contributions may be increased to ensure that all liabilities are met.

3) The Brent Pension Fund is mature, there being many more pensioners than working members - to the extent that 66% of assets are 'owned' by pensioner liabilities. Therefore, there is a need to consider the risks involved in pursuing a long-term equity-based strategy when a market correction, and lower dividend payments, could reduce the value of the Fund. There is currently a 'mismatch' between the allocation of around 85% of the fund to real assets (equities, alternative investments and property, that increase with the growth of the economy) and the maturity of the Fund. However, this is balanced by the expectation that equities will generate additional returns to facilitate the payment of pensioners', active and deferred members' benefits. Contributions from employers and employees are calculated on the basis that they will be sufficient to meet benefit payments over the foreseeable future. Managers will be able to continue to re-invest income and change their stock selections without concern about the need to realise assets quickly. However, most assets (around 75%) are liquid and invested in recognised stock exchanges.

As a long term investor, the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

If the Chief Finance Officer becomes concerned that there may be an imminent severe market correction, that person is authorised in consultation with the Chair of the Sub-Committee and the Independent Adviser, to amend the Fund asset allocation and reduce exposure to those assets classes that may be affected.

The Pension Fund maintains a cash balance both to pay for benefits and to meet private equity and infrastructure cash calls. The treasury policy will be to deposit this cash balance with the Council's banker, NatWest, in an interest-bearing instant access account in the name of the Fund.

Performance assessment

Arrangements should be in place for:

The formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

In setting the overall investment objective and asset allocation and in the award of mandates to individual investment managers, the Pension Fund Sub-Committee has set benchmarks for each asset class.

The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's investment objectives.

The Fund engages the WM Company to provide an independent measurement of investment managers' returns at quarterly and annual intervals. These are used for comparison purposes against specific and peer group benchmarks. The reporting from the WM Company also comprises performance attribution broken down by asset class, and the impacts of asset allocation and stock selection.

LGPS regulations state that the administering authority should review, at least every three months, the investments made by managers and should have regard to professional advice. The Myners' review has emphasised the importance of monitoring dealing costs – these will be reviewed with other aspects of investment.

Reports are produced quarterly and annually to allow proper consideration of performance over both the short and medium term. If a manager consistently underperforms in relation to their benchmark over a 'substantial' period (defined as two years), a review of the mandate will be considered.

The Chief Finance Officer monitors managers' activity on a daily, monthly and quarterly basis, and is in regular contact with investment houses. The Pension Fund Sub-Committee receives quarterly reports from the investment managers and the Chief Finance Officer detailing activity and investment performance.

The Pension Fund Sub-Committee will review the performance of the Fund's Independent Adviser on a triennial basis, looking at the quality of advice and inputs made.

The Pension Fund Sub-Committee (trustees) will agree an annual and three year business plan to ensure that all areas of activity, including member training and development, are adequately examined and reviewed. The Pension Fund Sub-Committee will review its own performance on an annual basis, looking at the performance of the Fund overall and progress against the business plan.

The appointment of the investment managers will be reviewed regularly by the Pension Fund Sub-Committee to consider the desirability of continuing or terminating the appointment. Decisions will be based on monitoring the investment performance and processes at quarterly and other meetings.

Amongst the criteria by which managers will be selected are:

a) Investment process, including investment philosophy, research, the asset allocation process, controls on stock selection, and risk controls

b) Past performance, including spread of results and volatility

c) Personnel, including levels of experience, staff turnover, and the individual managers offered

d) Administration, including systems, contacts, references from other customers, and the ability to meet requirements on reporting

e) Resources, including the number of professionals employed, the number of funds serviced, the number of funds gained or lost over the last 5 years, and the controls on over-rapid growth

f) Professional judgement.

A manager may be replaced if, amongst other things, they fail to meet the investment objectives or it is believed that they are not capable of achieving the performance objectives in the future. Consistent under-performance over a two-year period would automatically place the manager's mandate under review.

Responsible ownership

Administering authorities should:

Recognise and ensure that their partners in the investment chain adopt the Financial Reporting Council's (FRC) UK Stewardship Code;

Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and

Report periodically to scheme members on the discharge of such responsibilities.

The Pension Fund Sub-Committee has instructed its managers to exercise the Fund's responsibility to vote on corporate governance issues wherever possible. They have also been instructed to intervene in companies that are failing and thus jeopardising the Fund's interests, by voting or by contacting company management direct.

All managers adopt the Council of Institutional Shareholders' Committee Statement of Principles on 'The Responsibilities of Institutional Shareholders and Agents'. Managers do not make moral judgements on individual stocks.

The Brent Pension Fund has an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk. However, the Fund recognises that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities. The Fund has delegated to the external investment managers responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments.

Each investment manager is asked to work positively with companies to promote forward-looking social, environmental and ethical standards. This should not, however, deflect from the primary objective of achieving the best possible financial return for the Fund, in accordance with the Fund's fiduciary duty.

In line with the above, fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products, due to the risk that tobacco companies may face large liabilities from outstanding court actions.

Transparency and reporting

Administering authorities should:

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and

Provide regular communication to scheme members in the form they consider most appropriate.

The decision-making structure for the Fund has been set out earlier. The key decision-making forum is the Pension Fund Sub-Committee. The minutes of this Sub-Committee are available to the public through the Brent Council website at: www.brent.gov.uk.

The Fund's SIP and other documents relating to investment decision-making and performance will be made available to stakeholders on request.

In accordance with LGPS (Administration) Regulations 2008, the Brent Pension Fund has published a Communications Policy Statement which describes the Fund's policy on:

- providing information to members, employers and representatives
- the format, frequency and method of distributing such information
- the promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

Business Plan

Introduction

The Business Plan details the actions to be taken in order further to strengthen governance, administration and investment, on a structural basis. The aim is to be compliant on all key governance fronts, and to further improve the

1. **Governance: Global custodian appointment**

   Brent PF will use the National Framework Agreement to tender for a Global Custodian. This was presented to the sub-Committee in 2013, but the NFA only came into existence in 2014. A Global Custodian will improve the monitoring of the fund, and should lead to cost savings. The appointment of a Global Custodian will move Brent into line with LGPS best practice. The aim is to have a Global Custodian appointed by the end of 4Q14.

2. **Governance: Involvement with developing CIV structure**

   Pension Officers will continue to engage in the debate surrounding the development of Collective Investment Vehicles (CIVs). Once the final structure of the CIV emerges, Brent will use the CIV to cut fund management costs and pool fund management monitoring and search resources where possible. The timetable will be dependent on external bodies and regulatory authorities. Brent Pension Fund aims to use the CIV from inception.

3. **Asset allocation review**

   The asset allocation should be agreed, forming the foundation on which the review of existing and potential fund managers is conducted. The framework should be agreed at the sub-committee meeting of the 29th July.

4. **Review of existing fund managers**

   A review of fund managers is to be completed, to identify managers who are not performing satisfactorily. The review has already taken place.

5. **Short list of fund managers to be hired, or as replacement for existing fund manager**

   Short list fund managers who fulfil the strict criteria for new mandates, as produced by the asset allocation review. The short list should be presented to the committee members in 3Q14.

6. **Appointment of new fund managers**

The committee will interview and select fund managers from the short list. This process should start at the 2nd sub-committee meeting.

7. Focus on costs: internal and external

The focus on costs is not a one-off, but a continual process, and hence no one target date can be given; the process has started. This means reviewing the costs of external suppliers, and also looking to see where collaboration within the LGPS network (whether through a CIV or an ad hoc basis), will yield cost savings. The Brent PF Annual Report is moving to greater disclosure of costs, by detailing non-cash costs as far as possible.

The value for money of existing fund managers will be under scrutiny. Some fund managers are reducing costs “voluntarily”, i.e. before they are forced to do so. In other cases, Pension Officers will explore all available ways of reducing fees if the performance of the fund manager simply does not justify the fees.

Internally, attention must be paid to the direct and indirect costs allocated to the fund. The cost of administering the collection of pensions and pension member data, as well as the quality of the service provided, must be closely monitored in accordance with the Pensions Administration Strategy.

It should be noted that the reporting requirements of LGPS Pension Fund Annual Reports are moving rapidly towards the need for greater transparency with regard to the breakdown of all costs.

Risk Framework

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

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

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

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

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

Third party risks such as payments of contributions are robustly monitored, as laid out in the Pensions Administration Strategy.

Assurance over third party operations is sought by requesting relevant documentation, such as AAF 01/06 assurance reports on the internal controls of these service organisations.

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

PENSION ADMINISTRATION STRATEGY (PAS)

The commencement date for this Strategy is 1 September 2014.

This document sets out the framework for the Pensions Administration Strategy of London Borough of Brent Pension Fund (the Fund), outlining the policies and performance standards to be achieved when providing a cost effective, inclusive and high quality pensions administration strategy. The delivery of the service is a joint partnership arrangement between employers and the administering authority.

1 Introduction

The Local Government Pension Scheme (LGPS) Administration Regulations 2008, enables an administering authority' to introduce an administration strategy for the purpose of improving pension administration matters and facilitating the delivery of effective and efficient pension administration services to all scheme members.

The extent to which the levels of performance established under this Strategy have been achieved will be published in the Brent Pension Fund Annual Report.

This PAS includes:

- an overview of the administration of the Brent Pension Fund;
- the Regulations;
- review process for this Strategy;
- the responsibilities of Scheme employers and the administering authority;
- policy on charging employers for poor performance.

Administration of the Brent Pension Fund

The Brent Pensions Team monitors and manages the Fund's contractor for pension administration services, Capita Employee Benefits. The Team is a contact point for employees who wish to join the Scheme, for advice on procedures and for general enquiries and complaints.

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

The Regulations

This Strategy is made under regulation 65(1) of the Local Government Pension Scheme Regulations 2008 (formerly Regulation 76C of the Local Government Pension Scheme Regulations 1997). Related legislation include:

- the LGPS (Benefits, Membership & Contributions) Regulations 2007;
- the LGPS (Transitional Provisions) Regulations 2007;
- the Local Government (Early Termination of Employment)(Discretionary Compensation)(England and Wales) Regulations 2000;
- the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 – amended by the Occupational Personal & Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010.

In addition, Regulation 43 of the (Administration) Regulations allows an administering authority to recover all costs from an employing authority where they are directly relating to:

- Level of performance of the employing authority
- Extra costs incurred by the administering authority due to no data, poor quality data or the timeliness of the data submitted by the employing authority.

Interest

- 44.—(1) An administering authority may require an administering or employing authority from which payment of any amount due under regulations 39 to 42 (employers' contributions or payments) or regulation 86 (changes of fund) is overdue to pay interest on that amount.

Review of this Strategy

The Fund will review the strategy every three years or sooner following a material change in policies which affect the content of the document. All employers will be consulted and informed of the changes.

Employer responsibilities

The delivery of high quality and cost effective pension administration service is dependent on joint working relationship between the Fund, Capita, and employers. Each Scheme employer shall nominate a representative who will act as the primary contact responsible for ensuring that all documentation and/or instructions are forwarded to the Brent Pension Fund in accordance with the agreed timescales.

This partnership arrangement should encompass the following key activities:

a) Ensure an excellent working relationship between the Fund and appropriate staff within an Employer e.g. HR, Pensions teams, Payroll teams and Finance teams are established and maintained.

b) Ensure that standards and levels of service are maintained.

c) Ensure the timely submissions of data to the Fund by the Employers and jointly with the Fund provide assurance with regard to data quality.

d) Ensure that details of all nominated employer signatories are correct and notify the Fund of any changes immediately.

e) Assist and liaise with the Fund on promotional events and scheme (Fund) literature to increase knowledge about the overall benefits of LGPS to all members.

f) Inform the Fund of any alternative service arrangements which ensure equitable member access to the pension service.

Each employer is required to produce, publish and update a statement of policy regarding discretionary functions as part of the LGPS regulations. All employers must send the policy statement to the Fund including any regular revisions.

Administration Standards
New Starters

Employer Responsibility	Fund Responsibility
To provide new/prospective Scheme members with pension information and Scheme guide (or refer them to the Fund website) within 5 working days of commencement of employment or change in contractual conditions.	To update pension information leaflets on line in accordance with regulatory changes.
To ensure that pension information is included as part of the induction	To provide employers on request with appropriate

process	tools for induction.
To notify the Fund of new starters within two months of the employee joining, or such shorter period as required by any auto-enrolment obligations. Data should be submitted via Hartlink Exchange allowing the employer to transfer member data directly to Capita's administration system, Hartlink by way of a secure encrypted website.	To accurately record and update member records on pensions administration system.
To ensure that all employees subject to contractual admission are brought into the scheme from the date of appointment. Where there is more than one employment with the same employer, each membership shall be maintained separately.	To accurately record and update member records on pension administration systems.
To send opt out form and store copy of opt out form with employers records for that employee.	To accurately record and update. member records on pension administration systems within four weeks of receipt of document
Change in circumstances Active Members	
Employer Responsibility	**Fund Responsibility**
To ensure that fund is informed of any changes in circumstances of employees Status : • Change of name • Marital Status • NI Number Conditions of Service: • Contractual hours • Pensionable Pay • Contribution Rate • Department and payroll number • Date joined scheme Absence : • Maternity / Paternity Leave • Paid / Unpaid absence • Industrial Action • Any other material periods of absence	To record and update member records on pension administration system
End of Year Data	
To provide the Fund with full and up to	To provide data to the Fund

date information on members working hours, breaks in service and pensionable pay, in accordance with agreed timescales.	Actuary and Government Actuary's Department to enable employer contribution rates to be accurately determined and new cost sharing arrangements applied.
To ensure that all errors highlighted from the annual contribution posting exercise are responded to and corrective action taken promptly.	To provide a copy of the valuation report and contributions certificate to each employer and answer any questions arising.
Annual Benefit Statements	
To provide an initial point of contact (Pension Officer or helpline number) for handling queries – this will be printed on the annual benefits statements sent to members.	To produce annual benefit statements for all active members at financial year-end and post to members' home addresses.
Annual Benefits - AVCs	
To collect from employee payroll, contributions and to arrange prompt payment directly to the appropriate provider according to the published schedule and to be no later than the 19th of the month following deduction.	To provide information and offer alternative Scheme-negotiated providers that offer a portfolio of additional voluntary contribution (AVC) options. To review provision to ensure services offered are reasonable.
Annual Benefits ARCs	
To collect from employee payroll, contributions and arrange the prompt payment to the Fund according to published schedule and to be no later than the 19th of the month following the deduction.	To provide information and quotations to a Scheme member on the option of making additional regular contributions. (ARCs)
Members electing to opt out of scheme after three months of membership	
Employer Responsibility	**Fund Responsibility**
To send the Fund a completed opt out form signed by any eligible employees subject to automatic entry, who do not wish to join, or elect to leave the Scheme after three months of appointment.	To accurately record and update member records on pension administration systems within four weeks of receipt of document.
Members leaving employment/retiring	
To provide members retiring with relevant forms at least two months before retirement.	Pre-retirement events.

If benefits are to be brought into payment on the member leaving their employment (i.e. retirement, including flexible retirement) the employer is to notify the Fund, ideally in advance of the leaving date but no later than four weeks following the actual date of leaving to enable payments to be made promptly.	To notify member of their retirement options within ten working days. To pay the retirement lump sum within five working days of receipt of the completed option form.
To inform the Fund within four weeks of any changes affecting former employees, especially re-employment and retrospective pay awards.	To accurately record and update member records on pension administration systems within two months of the event.
To keep a record of all tier 3 ill-health retirements particularly in regard the 18 month review of their gainful employment and any subsequent appointment with an occupational medical officer for a further medical certificate.	To notify the employer of their legislative responsibility to review tier 3 ill-health cases at 18 months.
Death in Service	
To inform the Fund immediately on the death of an employee.	To assist employers and the next of kin in ensuring the pension options are made available and that the payment of benefits are expedited in an appropriate and caring manner.

The Brent Pensions Team is available for day to day contact to discuss any aspect of the administration of the Scheme. It publishes and keeps up to date an *Employer Manual* which contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request.

The service objective is to operate in 90% (or better) accordance with standards that are in summary as below:

Task	**Target (days)**
Letter detailing transfer-in quote	10
Letter detailing transfer-out quote	5
Process refund and issue payment voucher	10

Letter notifying **estimate** of retirement benefit	3
Letter notifying **actual** retirement benefit	2
Process and pay lump sum retirement grant	3
Letter acknowledging death of member	3
Letter notifying amount of dependant's benefits	3
Calculate and notify deferred benefits	15
Pensions forecasts issued for deferred members as at 31 March each year	By the first week of May annually
Pensions forecasts issued for active members as at 31 March each year	By 31st August annually

Results of these key performance indicators are published in the Brent Pension Fund Annual Report, for the previous financial year.

The pensions team use this data to target areas of improvement in service provision and it helps us to understand the specific service pressures that the Fund faces and to operate as effectively and efficiently as possible.

Employers Performance

In consultation with employers and as part of this strategy, the Fund will develop arrangements for reporting all performance measures quarterly. This approach will facilitate regular engagement with employers.

The pensions team will work closely with employers to identify where performance should be improved and provide training where possible. In the event that there is no improvement in performance and /or no remedial action is taken by the employer the Fund will seek to recover any administrative costs. Additional costs incurred by the Fund include: fines imposed by the Ombudsman, extra charges in respect of actuarial fees, additional printing and distributing costs.

Glossary

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

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

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

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

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

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

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

Asset Allocation / Asset Mix
The apportionment of the Fund's assets between asset classes and/or markets. Asset allocation may be either strategic, i.e., long term, or

Tactical, i.e., short term, aiming to take advantage of relative market movements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Emerging Markets
The financial markets of developing economies.

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

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

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

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

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

Funding Level
The ratio of assets value to liabilities value.

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

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

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

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

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

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

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

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

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

Index-Linked Securities
Investments which generate returns in line with an index.

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

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

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

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

LIBOR
London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.

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

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

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

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

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

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

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

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

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

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

Portfolio
Term used to describe all investments held.

Private Equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not

easily turned into cash) and higher-risk investments that should provide high returns over the long term.

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation
An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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