

Pension Fund Committee Supplemental Agenda

Date: Wednesday 23 November 2022

. Agenda - Part I

3. **Minutes** (Pages 3 - 10)

That the minutes of the meeting held on 12 October 2022 be taken as read and signed as a correct record.

10. **Triennial Valuation** (Pages 11 - 54)

Report of Director of Finance

Appendix 1 – Draft Funding Strategy Statement 2022

11. **Draft Responsible Investment Policy** (Pages 55 - 64)

Report of Director of Finance

Appendix 1 – Draft Responsible Investment Policy

. Agenda - Part II

14. **Performance Dashboard and Update on Regular items** (Pages 65 - 68)

Report of the Director of Finance.

Appendix 4 – Independent Advisor Report

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Pension Fund Committee

Minutes

12 October 2022

Present:

Chair: Councillor David Ashton

Councillors: Nitin Parekh Krishna Suresh
Norman Stevenson

**Co-optee
(Non-voting):** Vacancy

**Trade Union
Observers:**

**Independent
Advisers:** Mr C Robertson Independent
Adviser
Honorary Alderman Independent
R Romain Adviser

Absent: Pamela Belgrave GMB

1. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

2. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Nitin Parekh as Vice-Chair of the Committee for the 2022/2023 Municipal Year.

3. Declarations of Interest

RESOLVED: To note that Councillor Norman Stevenson, a member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who

were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

4. Minutes

RESOLVED: That the minutes of the meeting held on 9 March 2022, be taken as read and signed as a correct record.

5. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

6. Co-opted member

The Chair stated that the Council did not appoint a co-opted member of the Committee at its annual meeting in May 2022. The Committee noted that Howard Bluston had served on the Committee for many years, previously as a Councillor and latterly as a co-opted member.

The Committee placed on record its thanks for his commitment and service and wished him well for the future.

RESOLVED: That the Committee's thanks be conveyed to Howard Bluston for his service as Co-opted Member of the Committee.

Resolved Items

7. Review of Pension Fund Governance Compliance Statement

The Committee received a report of the Director of Finance and Assurance which reviewed the Pension Fund's Governance Compliance Statement. An officer introduced the report stating that the arrangements were reviewed periodically with the last review being 24 March 2021. The Statement reflected the Pension Board's comments. It was noted that the role of the Pension Board was to review and test policies prior to submission to the Committee.

The officer informed the Committee that, in relation to principle G – Access, the Board had raised a concern that the Chair and members of the Pension Board were not able to attend Part II of the Pension Fund Committee meetings or to see Part II papers. The Committee noted that this matter had previously been raised with the monitoring officer who had ruled that this approach was correct.

Representatives of Aon and Hymans Robertson indicated that from their experience it was common for Pension Board members to be invited to Pension Fund Committees and to have full access to the papers. An Independent Adviser indicated that it would be more normal for the Chair of the Pension Board or their representative to attend the whole meeting, with the rest of the Board being given full access to papers, including Part II.

The Committee were of the view that it was logical that the Board attend and make comments as appropriate, particularly as it had been made aware that most other Pension Boards were allowed access. It was further noted that no voting rights were involved. It was agreed that the monitoring officer be requested to reconsider the matter.

In response to a question from an Independent Adviser regarding the delegated functions of the Director of Finance and Assurance, the Committee was advised that the Director would only act in accordance with decisions previously made by the Committee. The delegation meant that the signing off of agreements did not have to wait until the next meeting of the Committee.

RESOLVED: That

1. the latest position on the LGPS Good Governance Review be noted;
2. the updated Governance Compliance Statement be approved for adoption;
3. the Monitoring Officer be requested to review the advice that the Chair and Members of the Pension Board were not able to attend Part II of the Pension Fund Committee meetings or to see Part II papers.

8. Draft Pension Fund Annual Report for 2021-22

The Committee considered a report of the Director of Finance and Assurance which presented the draft Pension Fund Annual Report for the year ended 31 March 2022, and the External Audit Plan and invited the Members to comment. The report also updated on progress with the 2021-22 audit.

An officer introduced the report, stating that the audit had been delayed by some complex discussions on asset funds. It was hoped to submit the final audit report to the next meeting of the GARMS Committee and the Pension Fund Committee, subsequent to sign off of the Council's main accounts. The Committee agreed that it would be useful for the Council's external auditors to attend the meeting when the final audit report was received. In response to a question, it was noted that the appointment of External Auditors was part of a national procurement exercise with a fee scale based on the size of the authority.

A Member enquired about the membership of the Pension Fund by an independent school and was advised that it was historical, a common practice in the 1960s and 70s.

In response to a suggestion by an Independent Adviser, it was agreed that the strategic benchmark should be used when measuring performance. It was noted that underlying indices and not peer group returns were applicable.

The representative from Hymans Robertson drew attention to the fact that the fund was starting to be cash negative and suggested that there was a need to plan with advisers. The representative from Aon advised that at present it was

an operational issue rather than cash drag on solvency. The officer advised that the trend towards maturity would result in the need to look at cash flow modelling over the next few years. The representative from Aon stated that cash flow modelling would be used to inform the Investment Strategy review which would follow once the triennial valuation was completed.

An Independent Adviser referred to the Fund's investments with the London CIV which reinvest income from dividends and interest thereby accumulating income rather than distributing it. He suggested that distributing income could be a simple option in the first instance rather than realigning the investment strategy ahead of the completion of the triennial valuation.

RESOLVED: That

1. the draft Pension Fund Annual Report for 2021-22 be approved for publication and the Director of Finance and Assurance be authorised to make any changes arising from the audit of accounts before publication;
2. the Council's external auditors be invited to the next meeting;
3. the potential distribution of income be pursued with the London CIV.

9. Performance Dashboard and Update on Regular items

The Committee received a report of the Director of Finance and Assurance, together with confidential appendices, and an updated Appendix 5 which was included on a supplemental agenda, and which was considered as a matter of urgency. The report updated Members on:

- the draft work programme inviting Members' comments and agreement;
- the investment performance dashboard report summarising key fund statistics and data, and risk indicators;
- PIRC (Pension and Investment Research Consultants Ltd performance to 30 June 2022 and
- the meetings of the Pension Board.

An officer introduced the report and referred to the confidential appendices which would require further discussion in the private session of the meeting.

The officer stated that the work programme would be updated in accordance with discussions at the training session the previous day. It was agreed that the revised dates of meetings of the Committee for the remainder of the 2022/23 municipal year be circulated.

The Committee was informed that the estimated funding level had improved since the 2019 valuation and the probability of being able to meet the liabilities in full in 20 years' time had increased. No de-risking actions were recommended at the present time. The summary indicated that 78% of the Fund was managed by the London CIV or passive fee arrangements.

In response to a question from an Independent Adviser as to whether a 50% hedge should be retained, the officer stated that he had contacted Aon who had advised that, in essence, if it was from scratch the answer would be no, but it was not appropriate to take the hedge off at this time. The Aon representative stated that the 50% hedge was to protect against volatility arising from currency fluctuations rather than the underlying equities and that when the dollar strengthened the currency hedge had a negative impact, and the opposite happened when sterling strengthened. Although there had been a loss on the currency hedge this was offset by the higher sterling equivalent value of the overseas equities, and given that sterling was at historically low levels the hedge should be retained. An Independent Adviser stated that it was a strategic decision to hedge this exposure, and it had been taken because most of the equity portfolio was invested in overseas equities.

In response to a request, the officer agreed to circulate the 30 September valuation as soon as it was available. The officer stated that although market movements had reduced investment asset values, they had also reduced the value of liabilities, and the health of the pension field was good.

An Independent Adviser highlighted that the movements in markets meant that equities were now towards the upper end of their strategic range, and that risk control assets (fixed income) were towards the lower end, and hence rebalancing to the strategic benchmark should be considered. The representative from Aon supported this view and suggested that they work with officers to achieve this.

In response to queries about pooling of investments via the London CIV, , the Committee was advised as follows:

- the DCLG had determined that LGPS funds should be grouped into a number of 'pools' and it was felt that having 89 individual LGPS funds was inefficient and that having some groupings would drive fund management costs down through combined purchasing. It would also lead to a sharing of resources and facilitate investment in infrastructure which was a key part of the government's agenda. It was accepted that this would take place over a number of years. At this time Harrow has pooled a similar proportion of its investments to most London funds;
- the timing and direction of travel depended on the current pensions minister. The representative from Hymans Robertson advised of a backlog at DLU, meaning that the planned LGPS consultation including pooling was still to be drafted. The consultation on TCFD was in progress. Some pools worked together on certain asset classes eg London CIV and LPP had collaborated on the 'London Fund'.

RESOLVED: That

1. the Work Programme for the remainder of 2022/23 be agreed; and
2. the officers work with Aon to rebalance the Fund's equity and risk control assets back to the strategic benchmark.

10. Review of Investment Managers' Internal Controls

The Committee received a report of the Director of Finance and Assurance which summarised the contents of the latest internal controls reports for the Fund's investment managers. It was noted that the reports had been reviewed and showed that controls were operating effectively and, where exceptions had been identified, that there had been a satisfactory management response.

An officer introduced the report, advising that the Council audit required evidence that the review had taken place. The reports and management responses indicated that each of the fund managers demonstrated appropriate levels of control and very few exceptions had been highlighted.

In response to a suggestion by an Independent Adviser it was agreed that, as there were new Members on the Committee, information on the risk register be provided at the next meeting.

RESOLVED: That the report be noted.

11. Exclusion of the Press Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15.	Performance Dashboard and Update on Regular Items - Appendices	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
16.	Review of Investment Managers Internal Controls - Appendix	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
17.	Triennial Valuation 2022 – Initial Whole Fund Results	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority

holding that information).

18. LaSalle Property of Funds Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

12. Performance Dashboard and Update on regular items

Members received confidential appendices from Aon and an Independent Adviser. The Aon appendix set out its views on the Council's investment managers and a ratings summary. The appendix from the Independent Advisor included performance information that had been obtained from the London CIV or directly from the managers themselves rather than from PIRC.

RESOLVED: That the information in the confidential appendices be noted.

13. Triennial Valuation 2022 - Initial Whole Fund Results

The Committee received a confidential report of the Director of Finance and Assurance which provided a summary of the initial 'whole fund' results from the 2022 valuation and set out a proposed contribution strategy for the London Borough of Harrow for the period 1 April 2023 to 31 March 2026.

Members received a presentation from Hymans Robertson LLP on the actuarial valuation at 31 March 2022. The presentation included:

- Data and assumptions – financial and demographic
- Headline results
- Funding strategy and stress testing

The Hymans representative stated that he had contacted the Section 151 officer with regard to the valuation. The cost of living crisis could result in an increase in the numbers taking deferred pensions or moving to a 50-50 scheme. The Covid pandemic had not affected the fund significantly, although it had resulted in some deaths which had occurred earlier than might otherwise have been expected. The diversification of the fund's investments provided resilience.

An Independent Adviser reported that ten year gilt yields which were at 1.6% on 31 March were now up by a factor of between two and three. He suggested that the results of the valuation should be assessed using current financial market levels. He thought it might also be helpful to consider the 6% return cited and the historical returns used in real (after deducting inflation) terms. In addition, some numerical assurance would be helpful regarding the TCFD consultation on the three climate risk scenarios. The Hymans representative stated that sample cases could be prepared once all scheme member data had been received. He further reported that rising interest rates would provide higher than expected returns. Liabilities had shrunk faster than

assets but not to the extent that there was a need to revisit the entire valuation. The Independent Adviser agreed, adding that his suggestions were aimed at providing reassurance.

In response to questions, the Committee was informed:

- regarding the discount rates, the Committee was informed that new market data would be reviewed and monthly updates prepared;
- there were two types of updated valuation: using annual rebalancing and a formal valuation every three years;
- the Pension Fund Committee had previously agreed that the valuation should aim to deliver at least a 70% probability of being 100% funded in 20 years time. If this was achieved even when each of the various 'stress' tests were applied then the actuary would sign off the valuation report;
- most pension funds were looking at derisking and starting to purchase more liquid assets. Most were considering a small reduction in employer contributions;
- a funding update to 31 September would be produced.

The Chair stated that if agreement was given to proceed the situation could be reviewed if there was negative feedback. He thanked the Hymans representative for the presentation.

RESOLVED: That the report be noted and the contribution strategy be approved.

14. Property Investment - LaSalle Property Fund of Funds

The Committee considered a report from the Director of Finance and Assurance regarding the Fund's property investment in the La Salle Fund of Funds.

Members discussed the report and additional analysis from Aon.

RESOLVED: That the actions proposed in Aon's report, with the exception that the Insight DGF should not be used as a shorter-term home for sale proceeds, be agreed and that the officers be instructed to implement those actions.

(Note: The meeting, having commenced at 3.30 pm, closed at 5.30 pm).

(Signed) Councillor David Ashton
Chair

London Borough of Harrow Pension Fund
Funding Strategy Statement

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London Borough of Harrow Pension Fund – Funding Strategy Statement

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1 Welcome to the London Borough of Harrow Pension Fund's funding strategy statement

This document sets out the Funding Strategy Statement (FSS) for the London Borough of Harrow Pension Fund.

The London Borough of Harrow Pension Fund is administered by the London Borough of Harrow, known as the administering authority. The London Borough of Harrow worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for the administering authority to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, please contact Treasury and Pensions in the first instance at treasurymanagement@harrow.gov.uk.

1.1 What is the London Borough of Harrow Pension Fund?

The London Borough of Harrow Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. The investment strategy is set out in the Fund's Investment Strategy Statement which can be found on the fund's website.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

1.6 How is the funding strategy specific to the London Borough of Harrow pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- The primary rate also includes an allowance for the fund's **expenses**.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Local authority	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	70%	70%	50-80%
Maximum time horizon	20 years	20 years	20 years	15 years		Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Local authority	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Secondary rate	Monetary amount or % of pay at the discretion of the administering authority					
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority			Reduce contributions by spreading the surplus over the remaining contract term, where deemed appropriate by administering authority	
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority. Please see the Fund's policy on pass through ([Appendix C](#)) for further information

** See [Appendix D](#) for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the fund's local authority.

For the 3 years from 1 April 2023, the contribution rate for the London Borough of Harrow will be frozen at **16.0% plus £6,320,000**. Thereafter (from 1 April 2026) the annual increase or decrease in this employer's contribution rate will not exceed 1.0% of payroll.

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in [Appendix E](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is contribution rate pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across

a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments. Employers will be asked to make strain payments as a single lump sum.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance made available by the fund to manage ill-health early retirement costs. The option to use external insurance was communicated during the consultation phase of this FSS.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each triennial valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4.2).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement – see Section 5.3 below).

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). Where an academy school participates in a MAT, it is the MAT rather than the individual academy school that is the scheme employer and therefore the MAT is responsible for all participating schools' allocated assets and liabilities. Contribution rates may be certified at individual school level or a common rate certified for all employers in the MAT, depending on what the MAT has agreed with the Fund.

At the time of writing, the fund has the following MATs participating:

Academy pool	Pooling arrangement	Contribution rate approach
Bentley Wood and Aylward MAT	Full risk-sharing of past and future service costs	Common total rate
Avanti House Schools	Full risk-sharing of past and future service costs	Common total rate

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. The fund's approach is that a new contractor will participate in the fund via a fixed contribution rate (aka "pass through" agreement) with the letting employer. The Fund's policy on pass through is detailed in [Appendix G](#).

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower

- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using a basis derived using the same methodology and parameters that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is set out in [Appendix E](#).

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The fund's policy on the payment of exit credits is set out in the cessation policy ([Appendix E](#)).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The fund's policy regarding employer flexibility on exit is set out in the cessation policy ([Appendix E](#)).

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*’.

The consultation process included issuing a draft version to participating employers and attending an open employers’ forum. Any policy changes from the previous version of the FSS were highlighted to employers during this process.

A3 How is the FSS published?

The FSS is:

- published on the administering authority’s website
- sent to each participating employer
- included the in full statement or summary in the fund’s annual report and accounts
- sent to members of the local pension board
- available freely available on request.

The FSS is published at <https://www.harrowpensionfund.org/>.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at <https://www.harrowpensionfund.org/>.

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available at [modern.gov](#).

Details of the key fund-specific risks and controls are set out in the risk register which is regularly reviewed by the pensions committee and is included in the agenda and papers pack of those meetings. Please find the agendas and papers at [modern.gov](#).

C2 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. The fund included climate scenario stress testing in the contribution modelling exercise for the London Borough of Harrow at the 2022 valuation. The modelling results under the stress tests yielded likelihoods of success that were slightly lower than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provided assurance that the modelling approach does not significantly underestimate the potential impact of climate change. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for other employers. However, given that the same underlying model is used for all employers and that the London Borough of Harrow makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set employer contribution rates?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns											Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Index Linked Gilts (medium)	Index Linked Gilts (long)	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	Global Corporate FI GBP Hedged	All World Equity GBP Hedged	CorpMedium A			
10 years	16th %ile	-1.9%	-3.1%	-1.2%	-0.6%	-2.5%	0.7%	1.4%	1.7%	0.6%	-0.3%	-0.1%	1.6%	-1.7%	1.1%
	50th %ile	0.2%	-0.7%	9.4%	4.4%	5.8%	5.9%	3.2%	3.5%	2.2%	5.9%	1.6%	3.3%	-0.5%	2.5%
	84th %ile	2.4%	2.0%	20.1%	9.5%	14.4%	11.2%	5.1%	5.2%	3.5%	11.9%	3.2%	4.9%	0.7%	4.3%
20 years	16th %ile	-1.5%	-2.6%	2.4%	1.4%	0.1%	2.6%	2.1%	2.8%	1.6%	1.9%	1.1%	1.2%	-0.7%	1.3%
	50th %ile	0.1%	-0.9%	10.0%	5.0%	6.3%	6.5%	3.8%	4.4%	2.8%	6.4%	2.1%	2.7%	1.1%	3.2%
	84th %ile	1.9%	0.8%	17.6%	8.9%	12.8%	10.6%	5.7%	6.0%	3.9%	11.0%	3.2%	4.3%	2.7%	5.7%
40 years	16th %ile	-0.3%	-1.1%	4.7%	2.6%	2.1%	3.9%	2.5%	3.6%	2.3%	3.5%	2.0%	0.9%	-0.6%	1.1%
	50th %ile	1.2%	0.3%	10.3%	5.5%	6.8%	7.0%	4.4%	5.3%	3.6%	6.8%	3.1%	2.2%	1.3%	3.3%
	84th %ile	3.1%	1.9%	16.1%	8.8%	11.7%	10.3%	6.5%	7.1%	5.2%	10.4%	4.4%	3.7%	3.2%	6.1%
	Volatility (Disp) (1 yr)	7%	9%	30%	15%	26%	15%	5%	6%	5%	18%	7%	3%		

D3 What financial assumptions are used when setting employer contribution rates?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	2.2%
Low-risk basis	Community admission bodies closed to new entrants	0%

Pension increases and CARE revaluation

Deferral and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions are used when setting employer contribution rates ?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below

Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Admission bodies with no guarantor

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The market implied CPI assumption is derived as the difference between the yields on long dated fixed interest and index linked government bonds less 1.0% pa until 2030 and 0.1% pa thereafter.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Admission bodies with a guarantor

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the fund), the financial and demographic assumptions adopted for a cessation valuation will be derived in the same way as was used to allocate assets when the admission body joined the fund, updated for market conditions at the employer's cessation date.

Appendix E – Policy on cessations

London Borough of Harrow Pension Fund

Policy on cessations

Effective date of policy	DATE
Date approved	DATE
Next review	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-
 - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
 - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
 - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authority	Low risk basis ¹	Shared between other fund employers
Colleges	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	A basis derived using the same methodology and parameters as was used to allocate assets to the TAB on joining the fund, updated for market conditions at point of cessation ²	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

²Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing. (including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).

- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

Admitted bodies

- i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

- iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.
- vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Appendix F – Policy on contribution reviews

London Borough of Harrow Pension Fund

Policy on contribution reviews

Effective date of policy	DATE	
Date approved	DATE	
Next review	DATE	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix G – Policy on pass through

London Borough of Harrow Pension Fund

Policy on pass-through

Effective date of policy	DATE	
Date approved	DATE	
Next review	DATE	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

1.2 Background

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The [Local Government Pension Scheme Regulations 2013](#) (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils and academy trusts (“the letting authority”).
- The contractor’s pension contribution rate is will be as set out in Section 3.2 below.
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements, augmentations and above average pay increases.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor’s staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains, augmentations and/or salary experience. Likewise, no “exit credit” payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contractor's pension contribution rate is set equal to the contribution rate of the letting employer as at the date the contractor is admitted to the fund. This contribution rate will remain fixed until the end of the contractor's participation in the fund.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual	✓	
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual	✓	
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual	✓	
Exchange of pension for tax free cash	✓	
Ill health retirement experience*	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements))		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package	✓	
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓

Award of additional pension or augmentation		✓
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* The letting authority will only cover the cost of ill-health early retirements where these have been signed off by the letting authority's independent registered medical practitioner (IRMP). Failure to do this may expose the contractor to strain costs on ill-health early retirements.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.
- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the fund?" and the fund's policy on cessations (Appendix E to the funding strategy statement)

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Responsible Investment: Draft Fund policy

Continuing your Responsible Investment framework development

The Pension Committee (“the Committee”) of the London Borough of Harrow Pension Fund (“the Fund”) completed a survey to collect their views on Responsible Investment in November 2022. Based on the outcomes of that survey and the discussions held at a previous workshop, we have prepared a policy to document these views.

At a glance...

- This paper includes a draft Responsible Investment (“RI”) policy prepared by Aon, using the Committee’s responses to the recent survey undertaken prior to the 23 November 2022 meeting, and the subsequent discussion.
- This policy – once finalised and agreed by the Committee – will serve to:
 - guide your future investment implementation decisions (such as the recent agreement by the Investment Sub-Committee (“ISC”) to invest with Robeco, and the decision to switch to the “Paris Aligned” version of the global equity fund managed by Baillie Gifford);
 - inform Aon as your advisor, and your appointed investment managers; and
 - potentially be shared with the Fund’s members if desired, made publicly available, or retained as an internal document for the Committee’s own reference at this time.

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Why bring you this paper?

To support the Committee’s discussion and agreement of a suitable Responsible Investment policy to guide the Fund’s approach.

Next steps

- Discuss the contents of this paper at the 23 November Committee meeting
- Adopt the policy and agree how to document this (for example, within the ISS; or as part of a standalone document, whether public or internal only).

Prepared for: The Committee
Prepared by: Aon
Date: 23 November 2022

Summary of key views

Following completion of the survey by the majority of Committee members, Aon have reviewed the responses provided. The summary overleaf outlines the key views expressed by the Committee.

Summary of consensus beliefs

- Environmental, social and governance (ESG) factors are **financially material**; taking them into account is **consistent with the Committee's fiduciary duty** to members of the Fund.
- The Fund is a **long term investor**, and the Committee will invest in a manner that is consistent with that long-term outlook. You expect your investment advisor to reflect this long-term perspective in our advice to you, and for your appointed fund managers to, likewise, make decisions with longer term ESG risks in mind.
- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it is therefore important that the Fund's appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.
- While risk and return considerations are important, you believe that **your managers' approach to engagement and stewardship of assets** is a relevant factor in decision-making.
- You will consider investments which seek to deliver positive impacts on societal/environmental issues, as well as those which integrate ESG risk and opportunities, or 'tilt' towards certain investments.
- **Climate change is a key risk factor** to the Fund. This risk should be assessed and understood in order to protect the Fund and capture opportunities arising as a result of the transition over time to a low-carbon economy. However, you also believe that issues of social justice and broader consideration of nature-related outcomes are relevant to decision-making.
- Acting as responsible stewards of capital is important, and the Committee believe in the **value of engagement**. To that end, the Committee expects that the Fund's voting rights are exercised to the fullest extent possible, and that the Fund's managers will actively engage with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.

At the previous workshop meeting, the Committee agreed that the appropriate next step should be to document consensus views, outline supporting actions, and define these in a policy document that will serve to guide the Fund's direction, implementation, and articulation of its approach.

Key areas for discussion

In drafting your RI policy, we have incorporated views that the Committee expressed through the survey, and in discussions.

Where the Committee was in full agreement, these views are summarised in the policy. Where we have imputed views on the basis of discussions held, the Committee may wish to discuss the views further before finalising the actions and policy.

Some of these views represent a development or extension of existing actions that the Committee already take. Where this is the case, we have highlighted the relevant section in red for discussion at the upcoming meeting.

Next steps

We look forward to discussing the draft RI Policy with the Committee at the 23 November 2022 meeting.

Once the Committee is comfortable with the wording of the policy, we propose that:

1. it forms one of the key Fund documents and is formally reviewed annually, and that
2. the Committee determines whether publishing the policy online or otherwise making it available to members is desired at this time, or whether the Committee wish to maintain the policy as an internal document.
3. Dependent on above the Committee may also wish to share the full document or key principles with the Borough, London CIV, and/or other fund managers appointed directly by the Fund.



Actions

- Committee to discuss and provide feedback on the draft RI Policy, in particular the red highlighted areas
 - Consider how/if to discuss with the Borough
 - Once agreed, determine whether make the RI Policy available publicly (e.g. incorporated within the ISS, or via the Fund's website)
 - Aon and Fund Officers to agree and develop the action plan that will help meet the commitments set out in the RI Policy
-

The Fund's draft Responsible Investment policy

The purpose of this policy is to set out our Responsible Investment beliefs and principles, and to detail the approach we are taking to fulfil our commitments.

The effective date of this policy is November 2022.

Introduction

The London Borough of Harrow (the "Borough"), in its capacity as Administering Authority, has responsibility to administer the London Borough of Harrow Pension Fund (the "Fund"). The Council has delegated to us, the Pensions Committee (the "Committee") all the powers and duties of the Council in relation to its functions and authority. We are therefore responsible for making all investment decisions regarding the Fund.

As the Committee, we recognise that it is our fiduciary duty is to act in the best financial interest of members of the Fund and ensure that the objectives of the Fund are met. We therefore aim to seek the best investment return to meet the funding objective subject to an appropriate level of risk and liquidity.

In defining Responsible Investment ('RI'), we have looked to the Principles for Responsible Investment (PRI)'s definition as the integration and consideration of environmental, social and governance ('ESG') issues into both initial asset investment processes and then ongoing asset ownership practices.

We recognise that, as a long-term investor, we (and, by extension, our appointed fund managers and our advisor) should incorporate ESG risks into our investment decision making process, as the long-term value of investments may be negatively impacted if these risks are not understood or evaluated properly. Likewise, emerging opportunities may be missed if ESG factors are not roundly considered.

In developing the Fund's approach to RI, we seek to understand and manage ESG considerations to which the Fund is exposed, to the extent that these may impact on the Fund's asset portfolio or overall strategy.

This policy sets out our beliefs and approach to RI, including actions taken on behalf of members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Fund from ESG-related risks.

Our beliefs and principles

We have discussed and agreed consensus beliefs and principles relating to RI. These beliefs and principles form the basis of our policy and are set out below.

- Environmental, social and governance (ESG) factors are **financially material** and an important component of the Committee's decision making; taking these issues into account is **consistent with the Committee's fiduciary duty** to members of the Fund.
- The Fund is a **long-term investor**, and the Committee will invest in a manner that is consistent with that long-term outlook: investing in this manner is expected to generate greater and more sustainable risk-adjusted returns. The Committee expect the Fund's appointed fund managers to, likewise, make decisions with longer term ESG risks in mind.
- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it is therefore important that our appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.
- While risk and return considerations are key to ensuring the Fund's fiduciary duty to members is fulfilled, there are wider issues relevant to the Committee's decision making on investments. These include the approach to asset stewardship and engagement taken by prospective or current investment managers appointed by the Fund, and **wider social and environmental impact** of investments. In particular, awareness of negative environmental or social impacts arising from the Fund's investments is important in considering mitigation.
- **Climate change is a key risk factor** to the Fund which may impact on the achievement of its investment return objectives over the relevant time horizon. Therefore, climate-related matters should be assessed and understood in order to protect the Fund from this risk, and capture opportunities arising as a result of the transition over time to a low-carbon economy. The Committee also believe that issues of social justice and broader consideration of nature-related outcomes, both of which are impacted by climate change, are relevant to decision-making.
- The Committee will seek advice and information from its advisor with regard to how the Fund's **approach to climate risk mitigation** and management can develop over time, including with respect to setting relevant targets (such as 'net zero' by **2040**) and ongoing monitoring of the Fund's position.
- Acting as responsible stewards of capital is important, and the Committee believes in the **value of engagement**. To that end, the Committee expects that the Fund's **voting rights** are exercised to the fullest extent possible, and that the Fund's managers will **actively engage** with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.
- The Committee recognise that **the Fund's members may have an interest** in how RI is incorporated as part of the Fund's investment

Aon comment

Further information and training will be necessary to support discussion on net zero commitments and how other LGPS peers are incorporating climate considerations into their actions.

Aon will provide updates on this important area.

strategy. Accordingly, the Committee will **incorporate the RI policy and approach into member communication and engagement.**

Our RI approach

We take the important steps and follow the procedures below in order to ensure our investment strategy is aligned with our beliefs and principles toward RI.

Committee decision making

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

We do not apply personal, ethical or moral judgments when making investment decisions, and instead remain focused on the primary objective of acting in the best financial interests of the Fund's members. With the support of our advisors, we consider the availability, suitability and depth of conviction in an idea or strategy prior to investing and will take into account the expected cost versus potential benefit from a member perspective in line with our fiduciary duty.

We undertake periodic training on RI to understand how ESG factors, including climate change, could impact the Fund's assets/liabilities and members' retirement outcomes.

ESG risk monitoring and assessment

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

- Our investment advisors monitor the Fund's underlying managers on an ongoing basis, including detailed due diligence on many to assign an 'ESG rating' to underlying managers which reflects the quality of and commitment to ESG integration. We discuss and monitor ESG ratings of the Fund's investment manager on an ongoing basis.
- We recognise that developments will continue in this area. We ask our investment advisors to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- **At least as part of each formal triennial investment strategy review, we will specifically consider RI issues, including the merits of strategies which seek to generate not only positive financial returns, but also seek to make a wider positive impact on society.**
- We include ESG-related risks, including climate change, on the Fund's risk register as part of ongoing risk assessment and monitoring.

- To support our risk and opportunity identification and management, we will make use of the recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”), which has established a set of clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change.
- As part of formal investment strategy reviews, we will consider qualitative and quantitative climate change scenario analysis to review the potential risks and consider mitigating action as required.
- We expect our investment managers to understand our RI principles, beliefs and requirements. We provide our Policy to advisors and appointed fund managers and ask them to confirm their adherence.
- In the event that any fund manager or service provider does not meet any of the expectations listed in this policy, the Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

Expectations and monitoring of investment managers

- As part of our delegated responsibilities, we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. Whilst we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect transparency on these matters in order to facilitate a full understanding of the Fund's investments.
- We, with the support from our advisors, carry out a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the PRI, and alongside commentary from the advisor, can support the Committee in identifying areas of potential ESG risk and engagement points.
- We expect investment managers to align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, we will assess with our advisor how the manager is implicitly aligned as part of our monitoring.

Implementation

- Where applicable, we invest in assets that meet at least a certain minimum threshold ESG rating/requirement, and this threshold will be reviewed on a periodic basis to ensure that it meets our evolving requirements.
- We recognise that new investment solutions often come to market which aim to address both risks and opportunities presented by global challenges. We will consider such new investment solutions (across all asset classes) that are raised by the Fund's advisor, and will assess the suitability of such investments within the context of the wider Fund in discussion with its investment advisor.
- We expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.

Aon comment

LGPS are not **yet** within scope of the mandatory reporting requirement under the TCFD framework, introduced in 2021 for segments of the corporate pension fund universe. It is likely that legislation will be introduced to mandate this following consultation in Q4 2022.

Aon will support the Fund in readiness for this area.

Aon comment

A periodic ESG review, along with carbon intensity reporting, can be provided through an "ESG Dashboard" if this is of interest to the Committee.

- We expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When we look to appoint a new investment manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment advisor.

Training

On a regular basis, the Committee will receive training from the Fund's advisor on relevant RI matters, not limited to evolving regulatory requirements.

Stewardship – voting and engagement

We recognise the importance of our role as a steward of capital. Whilst we recognise that we do not control (or wish to control) the investment decisions that our investment managers take on our behalf, we believe in using our influence, where possible, through those fund managers to promote the highest standards of governance and corporate responsibility in the underlying companies in which the Fund's investments reside. We recognise that ultimately this protects the financial interests of the Fund and its beneficiaries.

We therefore expect the Fund's investment managers to use their influence as major institutional investors to carry out our rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies.

We request details on an annual basis of how the Fund's investment manager is undertaking voting and engagement activity.

Where possible, voting information should include details of voting actions and rationale with relevance to the Fund, in particular, where:

- votes were cast against management;
- votes against management generally were significant and
- votes were abstained

Similarly, engagement activity disclosures should be of relevance to the Fund's investments and include information on the rationale and outcome of engagement activity.

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

Aon comment

Committee to consider further training or discussion of beliefs.

Aon comment

These policies are consistent with those in the ISS.

Aon comment

Corporate pension schemes are required to prepare an annual statement that provides details of how managers have voted and engaged with companies on behalf of the trustees.

Whilst not a requirement for LGPS, this would align with best practice seen elsewhere.

Initiatives and industry collaboration

We recognise that collaboration with others and support of broader initiatives can be a powerful tool to influence behaviour.

We expect the Fund's investment managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

We expect our advisors to keep us informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with our beliefs and principles. The Fund is already a participating member of the Local Authority Pension Fund Forum ("LAPFF"), which is active in furthering responsible investment issues across participating LGPS members.

Evolving our approach

We acknowledge that the Fund's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.

We are committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy and are focused on making sure that it remains relevant and appropriate for our members.

Disclosure and reporting

We believe transparency is important. In support of this belief, we will consider our approach to incorporating this policy and its direction in engaging with members. This policy supplements additional disclosures and information available as part of our Investment Strategy Statement (available at <https://www.harrowpensionfund.org/resources/investment-strategy-statement-march-2019/>).

We will review this policy annually, as part of each formal triennial investment strategy review, or as required in response to changing regulations or broader governance developments.

Approved by the Pensions Committee of the London Borough of Harrow Pension Fund

Aon comment

Please let us know if you would like any further details on industry initiatives. Joining Aon's Responsible Investment Network, which provides virtual and in-person roadshows, events and training sessions, along with updates on relevant market developments, may be of interest to some or all of the Committee.



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