Pension Fund Committee AGENDA

DATE: **Tuesday 29 July 2014**

TIME: **6.30 pm**

VENUE: **Committee Room 5, Harrow Civic Centre**

MEMBERSHIP **(Quorum 3)**

Chairman: **Councillor Keith Ferry**

Councillors:

Adam Swersky	Barry Macleod-Cullinane
	Bharat Thakker

(Non-voting Co-optee): Mr H Bluston

Trade Union Observer(s): Mr S Compton - UNISON
Ms P Belgrave - GMB

Reserve Members:

1. Antonio Weiss	1. Norman Stevenson
2. Nitin Parekh	2. Kam Chana

Contact: **Una Sullivan, Democratic & Electoral Services Officer**
Tel: 020 8424 1785 E-mail: una.sullivan@harrow.gov.uk

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Panel;
(b) all other Members present.

3. APPOINTMENT OF VICE-CHAIRMAN

To consider the appointment of a Vice-Chairman to the Committee for the Municipal Year 2014-15.

4. MINUTES (Pages 1 - 6)

That the minutes of the meeting held on 19 March 2014 be taken as read and signed as a correct record.

5. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, 24 July 2014. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

6. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

7. **DEPUTATIONS**

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

8. **LONDON PENSIONS COLLECTIVE INVESTMENT VEHICLE** (Pages 7 - 86)

Report of the Director of Finance and Assurance

9. **APPOINTMENT OF INDEPENDENT ADVISERS** (Pages 87 - 94)

Report of the Director of Finance and Assurance

10. **STATEMENT OF POLICY ON EMPLOYER DISCRETIONS UNDER THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS** (Pages 95 - 102)

Report of the Corporate Director of Resources

11. **INFORMATION REPORT - LBH PENSION FUND - ANNUAL REPORT 2013-14** (Pages 103 - 242)

Report of the Director of Finance and Assurance

12. **INFORMATION REPORT - UPDATE REPORT AND ACTION POINTS FROM PREVIOUS MEETINGS** (Pages 243 - 254)

Report of the Director of Finance and Assurance

13. **ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

14. **EXCLUSION OF THE PRESS AND PUBLIC**

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
15.	Upgrade of Pensions Administration System	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
16.	Severance Payments of £100,000 or Greater	Information under paragraph 1 (contains information relating to any individuals).

17.	Information Report - Investment Manager Monitoring	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
18.	Information Report - Performance of Fund Managers for Quarter Ended 31 March 2013	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).

AGENDA - PART II

15. UPGRADE OF PENSIONS ADMINISTRATION SYSTEM (Pages 255 - 264)

Report of the Director of Finance and Assurance

16. SEVERANCE PAYMENTS OF £100,000 OR GREATER (Pages 265 - 276)

Report of the Director of Finance and Assurance

17. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 277 - 336)

Report of the Director of Finance and Assurance

18. INFORMATION REPORT - PERFORMANCE OF FUND MANAGERS FOR QUARTER ENDED 31 MARCH 2013 (Pages 337 - 342)

Report of the Director of Finance and Assurance

[Please note that Aon Hewitt, Advisers to the Fund, will be attending this meeting.]

* DATA PROTECTION ACT NOTICE

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

PENSION FUND COMMITTEE
MINUTES

19 MARCH 2014

Chairman:	* Councillor Richard Romain	
Councillors:	* Tony Ferrari * Keith Ferry	* Sachin Shah
Co-optee (Non-voting):	† Howard Bluston	† Steve Compton † Pamela Belgrave

[Tony Baily and Steve Sawyer of Aon Hewitt attended in an advisory role, as the Council's Adviser.]

* Denotes Member present
† Denotes apologies received

46. Attendance by Reserve Members

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

47. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

48. Minutes

RESOLVED: That

(1) the minutes of the meeting held on 25 November 2013 be taken as read and signed as a correct record, subject to the following amendment:
Page 15, Minute 33, first bullet point – amend to read:
"Councillor Sachin Shah requested that he would not be allocated the Regulation responsibility"; and

(2) the minutes of the meeting held on 14 January 2014 be taken as read and signed as a correct record.

49. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

50. London Pensions Collective Investment Vehicle

The Committee received the report of the Director of Finance and Assurance which set out developments in the establishment of a Collective Investment Vehicle (CIV) for London boroughs, and which proposed that the Committee recommend to Council that the Council become a shareholder in the management company.

Members considered the benefits of joining at the outset, given that the initial financial commitment was small and further contributions could be decided later, against the advantages of monitoring the situation until the membership and direction of the CIV became clear, and the potential outcomes and benefit to Harrow could be more realistically assessed.

Members discussed the structure and governance of the CIV, and the role of borough Leaders, elected members, and expert advisers in determining its management, strategy and direction. A Member expressed the view that Harrow would have more influence in shaping the future of the CIV as a member on the inside than as an observer on the outside. The Chair commented that the decision on joining should be left until after the election, given the scope for change in the composition and focus of all the London boroughs. The Committee noted that the initial deadline for requesting membership was before the next Council meeting at which any recommendation could be ratified.

The officer stated that 25 boroughs had contributed towards the cost of developing the CIV, and it was felt by some of these that membership of the CIV offered some protection against possible, future changes to the Local Government Pension Scheme (LGPS).

Members were clear that their priority was to achieve the best possible outcome for Harrow's Pension Fund, and they agreed that they had insufficient information before them at this stage to be confident that early membership would secure this. They wanted clarity on costs, tax liability, and the degree to which constituent members could be selective in their levels of investment. They agreed to defer the decision until the next meeting, when they hoped that the Director of Finance and Assurance would be available to answer questions and provide further information.

RESOLVED: That the decision on joining the Collective Investment Vehicle for London boroughs be deferred until the next meeting of the Committee.

51. Update Report and Action Points from Previous Meetings

The Committee received the report of the Director of Finance and Assurance which provided an update on actions taken since the last meeting, and the meeting plan for 2014.

The Chair requested that training be provided for any new members appointed to the Committee following the election in May, as the Committee was required to understand and determine complex and technical issues in its management of the Council's Pension Fund. The Committee agreed that this was essential, and that it was also important for any new members to meet with investment fund managers at an early stage.

RESOLVED: That the report be noted.

52. Exclusion of the Press and 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 items for the reasons set out below:

Item	Title	Reason
11.	Appointment of Unconstrained Equities Manager – Developed World	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
12.	Appointment of Unconstrained Equities Manager – Emerging Markets	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
13.	Information Report – Investment Manager Monitoring	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
14.	Information Report – Performance of Fund Managers for the Quarter Ended 31 December 2013	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
15.	Information Report – Monitoring of Operational Controls at Investment Managers	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

16.	Information Report – Decision taken Under the Urgency Procedure	Information under paragraph 1 (contains information relating to any individual).
17.	Severance Payments of £100,000 or Greater	Information under paragraph 1 (contains information relating to any individual).

53. Severance Payments of £100,000 or Greater

The Committee received a confidential and urgent report of the Corporate Director of Resources, which sought the Committee's approval for the termination of a contract and resulting severance package for an officer.

The Chair expressed his strong disapproval that the Committee was, in effect, being asked to 'rubber-stamp' a decision, having been presented with a 'fait accompli' in respect of the individual and business case involved. He expressed concern with the level of information provided, and the style of its presentation, as it was not possible to assess what the strain on the pension fund would be.

A Member observed that as the payment was contractual, there was no discretion to vary the terms of the package. Members noted that the decision had come to the Committee for approval as recent changes to the Constitution required that all severance packages of £100,000 or greater were approved by the Pension Fund Committee. Members were of the view that the Committee should be involved at a much earlier stage in the process for such decisions in order to make a meaningful contribution. They also requested that any future cases should be presented in a clear and consistent format.

RESOLVED: That

(1) in accordance with the Local Government (Access to Information) Act 1985, the following item be admitted to the meeting by virtue of the special circumstances and grounds for urgency stated below:

Item	Special Circumstances / Grounds for Urgency
17. Severance Payments of £100,000 or Greater	The redundancy letter was sent on the working day after the management response following a restructure. Three months notice would fall before the next meeting of the Committee and the decision needed to be taken, both for clarity for the employee and to have appropriate governance as funds requested for release exceeded the £100k threshold. The business case was signed off following agenda despatch and the report could not be submitted before this.

(2) the severance package, as set out in the business case, be agreed;

(3) the views of the Committee, in respect of the Committee's involvement at all stages of the process, be noted.

54. Appointment of Unconstrained Equities Manager - Developed World

The Committee received a confidential report of the Director of Finance and Assurance on the process for the appointment of an Unconstrained Equities Manager for Developed Markets, followed by a presentation from two of the shortlisted fund managers. Each presentation lasted 30 minutes and included a question and answer session.

Members discussed the merits of each company, in the light of their investment strategy, attitude to risk and recent performance. Having considered all relevant factors it was

RESOLVED: That Oldfield Partners be appointed as the Unconstrained Equities Manager for Developed Markets on behalf of Harrow Council's Pension Fund.

55. Appointment of Unconstrained Equities Manager - Emerging Markets

The Committee received a confidential report of the Director of Finance and Assurance on the process for the appointment of an Unconstrained Equities Manager for Emerging Markets.

Five shortlisted companies had made presentations to Committee Members on 28 February 2014 and the officer had drafted a table assessing their scores against agreed criteria. Members were mindful also of their prior selection of an Unconstrained Equities Manager for Developed Markets, in order to ensure complementarity across the Fund.

One Member had been unable to attend the presentations and stated that he would abstain from the decision for that reason.

RESOLVED: That GMO UK Ltd be appointed as the Unconstrained Equities Manager for Emerging Markets on behalf of the Harrow Council Pension Fund.

56. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance and Assurance which presented Aon Hewitt's quarterly report on Harrow's Fund Managers, detailing strengths and weaknesses and overall ratings, and noted that the ratings remained unchanged from the November report.

RESOLVED: That the report be noted.

57. Information Report - Performance of Fund Managers for Quarter Ended 31 December 2013

The Committee received a confidential report of the Director of Finance and Assurance which set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 31 December 2013.

RESOLVED: That the report be noted.

58. Information Report - Monitoring of Operational Controls at Investment Managers

The Committee received a confidential report of the Director of Finance and Assurance which summarised the internal control reports of each of the Fund's managers.

RESOLVED: That the report be noted.

59. Information Report - Decision Taken Under the Urgency Procedure

The Committee received notice of a confidential and urgent decision that had been taken by the Director of Finance and Assurance, following consultation with the Chair and Vice-Chair of the Committee, in respect of the termination of employment of two officers.

RESOLVED: That the report be noted.

60. Vote of Thanks

The Chair announced that this was the last meeting of the Pension Fund Committee for the 2013-14 municipal year, and added that it would be his last meeting as he would be standing down as a Councillor. He stated that it had been a privilege to chair the committee, that he had enjoyed the work, and hoped that his interrogative style had been received in the right spirit as his intention had always been to ensure the best decisions were made for the benefit of the pension fund, and to achieve consensus among Members in doing so.

The Vice-Chair, speaking on behalf of the Committee, thanked the Chair both for his stewardship of the Committee, but also for his long and exemplary service as a Member of Harrow Council for over 30 years. He added his personal thanks, commending the Chair for the knowledge, expertise and experience he had brought to the work of the Committee, and from which he himself had learnt a great deal. He commented that as the Chair, he had set an example in striving for excellence and consensus aside of political perspectives, and that the Committee would be the worse for his absence. Members concurred and added their thanks.

(Note: The meeting, having commenced at 6.30 pm, closed at 9.30 pm).

(Signed) COUNCILLOR RICHARD DAVID ROMAIN
Chairman

REPORT FOR: PENSION FUND COMMITTEE

Date of Meeting:	29 July 2014
Subject:	London Pensions Collective Investment Vehicle
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No.
Wards affected:	All
Enclosures:	Annex 1 - London Pensions Collective Investment Vehicle: Report to Pension Fund Committee on 19 March 2014 Annex 2 – Local Government Pension Scheme - Opportunities for collaboration, cost savings and efficiencies: DCLG Consultation

Section 1 – Summary and Recommendations

The report sets out the latest developments in the establishment of a Collective Investment Vehicle (CIV) to be available for London boroughs' pension funds to access should they wish. It also advises the Committee of the latest consultation being carried out by the Department of Communities and Local Government (DCLG) and the importance of the CIV concept in this consultation. It seeks the Committee's agreement to request that the Council resolves that Harrow becomes a shareholder in the company to be charged with setting up and managing the Vehicle and to a contribution of £25,000 towards the set-up costs of the CIV.

NB The acronym CIV is used variously to mean "Collective Investment Vehicle," "Collaborative Investment Vehicle" and "Common Investment Vehicle." In this report these terms are used interchangeably but with the same meaning.

Harrow COUNCIL LONDON

Recommendations:

The Committee is invited to recommend to the Council that it resolves to:

1. become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator") of the Collective Investment Vehicle;
2. contribute £1 to the ACS Operator as initial capital;
3. delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Deputy Chairman of the Pension Fund Committee to act in his absence and;
4. agree to join the London Boroughs' "Pensions CIV Joint Committee" to be formed under Section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

Subject to the Council agreeing the above recommendations, the Committee is asked to authorise the Director of Finance and Assurance to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund, to seek agreement from the Committee

Also subject to the Council agreeing the above recommendations, the Committee is asked to agree to contribute £25,000 to be used to commission specialist expert professional advice associated with the development of the proposed CIV.

Section 2 – Report

Introduction

1. On 19 March 2014 the Committee considered the report as attached as the annex to this report and their discussion was minuted as follows:
    - The Committee received the report of the Director of Finance and Assurance which set out developments in the establishment of a Collective Investment Vehicle (CIV) for London boroughs, and which proposed that the Committee recommend to Council that the Council become a shareholder in the management company.
    - Members considered the benefits of joining at the outset, given that the initial financial commitment was small and further contributions could be decided later, against the advantages of monitoring the situation until the membership and direction of the CIV became clear, and the

potential outcomes and benefit to Harrow could be more realistically assessed.

- Members discussed the structure and governance of the CIV, and the role of borough Leaders, elected members, and expert advisers in determining its management, strategy and direction. A Member expressed the view that Harrow would have more influence in shaping the future of the CIV as a member on the inside than as an observer on the outside. The Chair commented that the decision on joining should be left until after the election, given the scope for change in the composition and focus of all the London boroughs. The Committee noted that the initial deadline for requesting membership was before the next Council meeting at which any recommendation could be ratified.
- The officer stated that 25 boroughs had contributed towards the cost of developing the CIV, and it was felt by some of these that membership of the CIV offered some protection against possible, future changes to the Local Government Pension Scheme (LGPS).
- Members were clear that their priority was to achieve the best possible outcome for Harrow's Pension Fund, and they agreed that they had insufficient information before them at this stage to be confident that early membership would secure this. They wanted clarity on costs, tax liability, and the degree to which constituent members could be selective in their levels of investment. They agreed to defer the decision until the next meeting, when they hoped that the Director of Finance and Assurance would be available to answer questions and provide further information.

- **RESOLVED**: That the decision on joining the Collective Investment Vehicle for London boroughs be deferred until the next meeting of the Committee.

2. Whilst Council officers have attended a number of meetings and briefings where the CIV has been discussed and have provided information about the Harrow Fund's manager structure, they have not played a leading role and have relied on briefings to remain up-to-date. They understand that the latest position on progress was stated in a report to London Councils Leaders' Committee on 15 July. They main points from that report are summarised as "Current Position" in paragraphs 3 to 16 below.

Current position

Borough engagement

3. At their meeting in February 2014 the London Councils Leaders' Committee recommended to each local authority which decides to participate, that they resolve a number of recommendations necessary to the establishment of the CIV. Since then 24 boroughs have given formal notification (in the form of a letter to the London Councils Chief Executive) that such resolutions have been made, five more are expected to give notification shortly and four have decided that they will not be participating at this time.

4. Twenty eight boroughs have agreed to contribute £25,000 each to the fund (£700,000 in total), another is likely to contribute shortly, and four have decided not to participate at this time. The fund is being used to commission specialist expert professional advice associated with the development of the proposed CIV. At this point £470,000 of the fund has been committed to cover the costs of expert advisors, Eversheds, Deloitte, Northern Trust and Mercer, and the engagement of a Programme Manager on a one year fixed-term contract.

Governance and structures

5. The CIV is being developed for and on behalf of the London boroughs, and the boroughs will participate on an entirely voluntary basis. As such, considerable attention has been given to ensuring that the proposed governance and operational structures of the CIV reflects the wishes and needs of the boroughs, both on day one and into the future.

6. From advice to date the governance and structures described below are considered to give sufficient ownership and control for the participating boroughs that the CIV can be treated as if it is a department of each borough (procurement professionals would recognise this as being "Teckal compliant"). As such, there is no requirement for a borough to procure either the services of the Operator or entry in the Fund.

7. A key element of the governance structures is a new Sectoral Joint Committee (the "Pensions CIV Joint Committee"). This committee will act as a representative body, made up of elected members, for those local authorities that resolve to participate in the arrangements. At its March 2014 meeting, Leaders' Committee agreed, in principle, the Pensions CIV Joint Committee terms of reference. London Councils will shortly approach participating boroughs for nominations to this committee.

8. The CIV will be a Financial Conduct Authority (FCA) regulated UK domiciled Authorised Contractual Scheme (ACS). There are a number of separately regulated elements to the structure, including an ACS Operator and the ACS Fund.

9. The ACS Operator is a limited liability company, which will be wholly owned by the participating boroughs. It will initially have interim directors, as proposed in the February report to Leaders' Committee, with final directors appointed later, ahead of the Operator becoming operational.

10. Action is currently in hand to incorporate the company, which includes:
    - Each participating borough completing a "shareholder details" form and agreeing model Articles of Association (which will be tailored later to reflect the company's final operating model);
    - Each of the agreed interim directors submitting a "director details" form and agreeing the model Articles of Association.

11. It is anticipated that, initially, the Operator will be based on an outsourced model. As such it will have a limited number of directly employed staff, with most functions being provided through outsourced partners. Over time, it is likely that a number of the outsourced functions could be brought

in-house, but this will depend on establishing the necessary level of skills, knowledge and expertise, either through recruitment or training.

12. Procuring the outsourced partners is a complex and time consuming exercise and the Technical Sub-Group (of London Councils Pensions Working Group) have begun the process of drawing up specifications and engaging with the market. It is hoped to have the key partners in place by the autumn.

Structuring the ACS fund

13. Final decisions about the initial fund structure will be taken later in the year, following consultation with the participating boroughs and the Investment Management industry. However, it is thought that a pragmatic starting point is to analyse which Investment Managers (IM) boroughs are currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in an identical mandate), and to discuss with boroughs and IMs which mandates would be most appropriate to transition to the ACS fund for 'day-one'. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund.

14. Over time the ACS fund will evolve and develop, with the potential for some mandates to be removed and others to be brought on. The Operator will not be regulated to give investment advice to the boroughs (at least not initially), and so thought is being given to the governance structures that might inform decision making of the boroughs and ensure that the boroughs needs and wishes are reflected in the ACS fund going forward. Current thinking is that an investment committee might be formed, with a number of LGPS experts drawn from across the boroughs and, potentially, some independent experts. This committee would meet to consider how the ACS fund is performing and how it might be developed. Those considerations would be informed by input from a panel of procured investment advisors. Reports and recommendations would flow from the investment committee to the Pensions CIV Joint Committee (PCJC) (similar to the way borough officers and investment advisors support borough pension committees). The PCJC would consider the recommendations made by the Investment Committee and feed its recommendations to the Operator. The Operator will act on the recommendations of the PCJC, subject to the necessary due diligence checks and so on, that it will be required to carry out as the regulated body with responsibility for the good management of the ACS fund.

Next steps

15. There are a number of complex dependencies that impact on the detailed project plan, and some of these have yet to be resolved. However, it remains the intention that the ACS fund will be established and operational in the spring of 2015.

16. Key next steps include:
    - Now
        - Incorporate the Operator as quickly as possible;

- Commence the procurement of outsourced partners (legal advice is that the Operator will be required to follow EU procurement rules);

- By the autumn:
  - Finalise contracts with key outsourced partners;
  - Finalise issues connected to the wider LGPS;
  - Settle decisions connected to the ACS fund structure for launch;
  - Seek decisions from participating boroughs about the expected extent of investment into the ACS fund at launch;
  - Recruit (final) directors for the Operator to replace the interim directors that are being appointed now – this is likely to require the engagement of a specialist recruitment consultant;
  - Engage staff in the Operator, and settle an SLA with London Councils
- Before Christmas:
  - Approach the FCA for authorisation of the Operator and ACS fund;

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies – DCLG Consultation

17. Attached as Annex II is the consultation document published by the DCLG arising from their call for evidence on the future structure of the Local Government Pension Scheme and their wish to identify opportunities to reduce administration and investment management costs.

18. The consultation period ran from 1 May until 11 July. DCLG advises that it drew on three sources of evidence:

- A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013; 133 responses were received and analysed, helping to inform the consultation
- An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board
- Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson.

19. In paragraph 3.1 of the consultation document the Government have put together proposals which “balance the opportunities from aggregation and scale whilst maintaining local accountability.” Some of these proposals are stated in paragraph 3.2 as follows:
- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme

- A proposal not to pursue fund mergers at this time

20. In paragraph 3.15 the Government say that “this consultation focuses on the cost savings to be found through collaboration and more efficient investment.”

21. Having considered the various responses and the Hymans Robertson’s analysis, in paragraph 3.31 the Government appears to be focussing its attention primarily on “achieving economies of scale through the use of common investment vehicles.”

22. In paragraphs 4.1 to 4.11 the Government makes the case for common investment vehicles and three of their five consultation questions relate to them as follows:

    Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

    Q2 Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

    Q3 How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles

    Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

    Q5. In the light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson’s evidence on aggregate performance, which of the options set out above [paragraph 4.30 of the consultation document] offers best value for taxpayers, Scheme members and employers?

23. With consultations of this type it would be appropriate for the Committee to be invited to agree responses but for two main reasons no response is recommended:

    - The Committee did not meet during the consultation period
    - The current views of the Committee on common investment vehicles are such that answers to Q1, Q3 and Q4 would be difficult to construct

24. In view of the second point above officers did not feel able to send a response “subject to Committee” ratification though they would have felt reasonably confident in answering Q2 and Q5 as follows:

    Q2. Yes – with explanatory comments covering the benefits of local decision making

Q5. Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper [the consultation document] and the Hymans Robertson report.

25. Whilst the LGPS consultation document is not, in itself, a reason for the Committee to agree to the recommendations in this report it is, perhaps, an indication that the Government is giving some credibility to the CIV concept and may provide an ancillary reason to join the London CIV.

Financial Implications

26. A reduction in administration and investment management costs would be a contributory factor to the overall well being of the Pension Fund.

Risk Management Implications

27. Risk included on Directorate risk register? No

28. Separate risk register in place? No but risks are extensively discussed in the Pension Fund Statement of Investment Principles and Annual Report

Equalities implications

8. Was an Equality Impact Assessment carried out? Yes

9. There are no direct equalities implications arising from this report.

Council Priorities

10. Administration and investment management costs have a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name Simon George Date: 17 July 2014	•	Director of Finance and Assurance
Name: Caroline Eccles Date: 17 July 2014	√	on behalf of the Monitoring Officer

Ward Councillors notified: NO

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot, Treasury and Pension Fund Manager 0208 424 1450

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ANNEX I

REPORT FOR: Pension Fund Committee

Date of Meeting:	19 March 2014
Subject:	London Pensions Collective Investment Vehicle
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No.
Enclosures:	Appendix I – London Councils Leaders' Committee report of 11 February 2014 Appendix II – Summary of Questions and Answers from officers' meeting of 5 February 2014 Appendix III – Advice from Eversheds

Section 1 – Summary and Recommendations

The report advises the Committee of the latest developments in the establishment of a Collective Investment Vehicle to be available for London boroughs pension funds to access should they wish. It seeks the Committee's agreement to request that the Council resolves that Harrow becomes a shareholder in the company to be charged with setting up and managing the Vehicle.

Recommendations:

The Committee is invited to recommend to the Council that it resolves to:

1. become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator") of the Collective Investment Vehicle;
2. contribute £1 to the ACS Operator as initial capital;
3. delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Deputy Chairman of the Pension Fund Committee to act in his absence and;
4. agree to join the London Boroughs' "Pensions CIV Joint Committee" to be formed under Section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

Subject to the Council agreeing the above recommendations the Committee is asked to authorise the Director of Finance and Assurance to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund, to seek agreement from the Committee

Section 2 – Report

Introduction

5. At their meeting of 25 June 2013 the Committee received a report from the Director of Finance and Assurance which considered the Government's plan to consult on views relating to the collaboration and merger of London local authority pension funds. They were advised that proposals to set up a voluntary Collective Investment Vehicle (CIV) were being developed by the London Leaders. (**Note:** In some documents CIV is said to be an acronym for Common Investment Vehicle rather than Collective Investment Vehicle but they are one and the same products).

6. The Committee were invited to agree:

   - to support the investigation and establishment of voluntary collaboration models for London pension funds, including a CIV, and
   - to delegate authority to the Section 151 officer after consultation with the Chairman to approve expenditure relating to the investigation and set up costs of the CIV up to a limit of £50,000.

7. As minuted, the Meeting considered the matter as follows:

   An officer introduced the report and reminded the Committee that Members had not been enthusiastic about the proposal when first presented. However, some authorities were now in favour of exploring the scope for collaboration and Wandsworth had offered to lead on one such scheme.

   Members discussed the advantages and disadvantages of collaboration and the pooling of funds and considered the political dimension, nationally and locally. They discussed the possibility that such a scheme would counter the Government's stated preference for a single London pension fund and queried whether early involvement on the part of Harrow Council would constitute an "expression of interest" which might mitigate against the imposition of other, unwelcome initiatives.

It was agreed that there would be economies of scale in pooled funds and shared management but Members voiced concerns about retaining autonomy and flexibility and doubted the need to be in the vanguard of authorities signing up to the scheme. Members were also unwilling to commit a nominal fee of up to £50,000 to the scheme at this stage and, while generally supportive of the proposals, agreed to retain a "watching brief" and await further information.

RESOLVED: *That*

(1) the investigation of voluntary collaboration models for London pension funds, including a collective investment vehicle, be supported;

(2) the Committee be kept informed of future developments.

Current Position

8. Since the Committee last discussed the matter considerable progress has been made and officers have been kept informed through attending various briefing meetings, most recently on 5 February 2014, and receiving written advice from London Councils and the London Borough of Wandsworth. The remainder of this report reflects these briefings and, in part, has been prepared from a template supplied by Wandsworth.

9. London Councils Leaders' Committee have considered the issue of collective investments for London pension funds throughout 2012 and 2013. They have concluded that more collaboration between boroughs that wished to invest some or all of their pension funds collectively would be likely to produce significant savings. The Leaders' Committee has approved the detailed business case and a proposed governance structure. They have also approved that a London Local Government Pension Scheme (LGPS) CIV, in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up.

10. At their meeting on 11 February 2014, London Councils Leaders' Committee agreed that they should recommend to the London boroughs that they proceed to establish an ACS and the ACS Operator, which is a company that would manage the ACS. For this to occur boroughs would need to agree to become shareholders in the ACS Operator and delegate oversight of the company to a Joint Committee hosted by London Councils. A copy of the paper submitted to the Leaders' Committee is attached as Appendix I. Attached as Appendix II is a "Summary of Questions and Answers" arising from the most recent officers' meeting held on 5 February 2014.

11. It should be noted that participation by boroughs is voluntary and even if Harrow decides to participate it will continue to make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that the Pension Fund Committee do currently.

12. The business case considered by London Councils analysed the savings, benefits and costs for a variety of different levels of collective

assets under management - £24bn, £10bn and £5bn – producing annual net savings of £112.2m, £44.9m and £20.9m respectively. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5bn. This is based on an analysis of existing investments held by London borough funds and also takes into account that, initially, the majority of investment mandates are likely to be passive. Over time it is expected that actively managed mandates and investments into alternatives such as property and infrastructure assets may be added to the range of investments offered by the ACS.

13. The London Councils Leaders' Committee report sets out the likely governance structures and key principles. The principles include: investment in the ACS should be voluntary; ability to choose how much to invest in individual asset classes; boroughs should have sufficient control over the ACS Operator; the ACS Operator would provide regular information to participating boroughs; and authorities seeking to invest in the ACS will also take a shareholding interest in the Operator and have membership of the Pensions CIV Joint Committee. This Joint Committee will be established under the existing London Councils arrangements to assist in the appointment of directors to the ACS Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. Information will be provided regularly by the ACS and the ACS Operator to boroughs investing and their Pensions committees and officers and the Pensions CIV Joint Committee. Directors of Finance will provide advice to both the borough Pensions Committee and to their borough's representative on the Pensions CIV Joint Committee. The London Councils report proposes that the Chairman of the Pensions Committee represents the Council or, in the event that all 33 boroughs decide to join, the Leader fulfils this role, as in that event, the existing London Councils Leaders' Committee can undertake the role.

14. In order that Harrow can participate in the CIV the full Council must agree a resolution. In addition the Council will need to delegate powers formally to the Joint Committee in respect of pensions investments. This would be done by giving the Pension Fund Committee the ability to place funds with the CIV and to invest in one or more of the funds or fund managers selected by the CIV to manage various asset classes.

15. In broad terms the proposed structure is that the boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough) but this capital requirement will increase once the Operator is authorised and investments are made in the ACS.

16. Eversheds LLP has been asked to prepare a "high level note" to provide additional clarity for borough legal advisers in relation to the governance requirements proposed and the FCA regulation of the proposed ACS Operator. This was intended to supplement the legal advice set out in the report to the Leader's Committee on 11 February 2014 and is attached as Appendix III.

17. So far as the capital costs of setting up and operating the company are concerned, at this stage, there are a number of uncertainties with the issues being discussed in paragraphs 14- 24 in Appendix I. It is recommended that the Director of Finance and Assurance be authorised to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund he will seek agreement from the Pension Fund Committee.

18. In addition to agreeing to the proposal in paragraph 14 above the Committee is asked to recommend to the Council that it resolves to:

(a) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator") of the Collective Investment Vehicle;
(b) contribute £1 to the ACS Operator as initial capital;
(c) delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Deputy Chairman of the Pension Fund Committee to act in his absence and;
(d) agree to join the London Boroughs "Pensions CIV Joint Committee" to be formed under Section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

15. London Councils have asked that boroughs respond on their Council's decision before 22 May 2014. The next meeting of the Council is not scheduled until 12 June hence it is proposed that a reply be sent based on the decision of the Committee but with the proviso that it needs to be formally resolved by the Council.

Financial Implications

16. Financial implications are discussed in paragraph 14 and Appendix I.

Risk Management Implications

17. Risk included on Directorate risk register? No

18. Separate risk register in place? No

19. Setting risk tolerances and measuring outcomes is central to the strategy.

Equalities implications

20. Was an Equality Impact Assessment carried out? Yes

21. There are no direct equalities implications relating to the pension fund.

Corporate Priorities

22. Corporate Priorities are not applicable to the Pension Fund as it does not have a direct impact on Council resources.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 5 March 2014	√	Chief Financial Officer
Name: Linda Cohen Date: 5 March 2014	√	on behalf of the Monitoring Officer

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: Nil

APPENDIX I

Leaders' Committee

Pensions Working Group: Progress report, business case, and proposed next steps towards a London LGPS CIV

Item no: 7

Report by:	Hugh Grover	**Job title:**	Director, Fair Funding, Performance and Procurement
Date:	11 February 2014		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary

This report follows on from previous discussions, in particular at Leaders' Committee throughout 2012, and in May and December of 2013, and discussions at the Executive in September and November 2013. Those discussions have focussed on the potential for more collaboration between boroughs that wished to do so, on the management and investment of pension funds.

In response to the report presented to Leaders' Committee in December 2013, London Councils has engaged expert legal and financial services advisors to develop a robust business case and formal proposal to inform decisions for implementation of a London LGPS Collective Investment Vehicle (CIV), in the form of a UK based,Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS).

This report which reflects the views and advice of the advisers, in consultation with London Councils' legal advisors from the City of London Corporation, fulfils that request. It sets out the current thinking of the Pensions Working Group (PWG) and asks Leaders' Committee to recommend to the boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (which is the company that would manage the ACS)

It should be noted that, all the proposals outlined in this report are based on voluntary participation by boroughs, and the decision as to whether to invest in the ACS would be made by individual boroughs later in the year. There is nothing proposed in the report that locks any borough into any level of commitment to invest.

Dialogue with HM Government relating to the Government's review of Local Government Pension Schemes is ongoing, and it is apprised of the progress made to date by London Councils and the PWG. At the time of writing the report, we still await the Government announcement on their proposed direction of travel.

This report provides an overview of the proposals and recommendations, Annex A provides Elected members with the underlying detail.

Recommendations Leaders' Committee is asked to:

1. Consider the report and the underlying business case supporting the establishment of a collective investment vehicle, in the form of an authorised contractual scheme (the "ACS"), for local authority pensions in London ("the Arrangements"); AND

2. Endorse and recommend to each local authority which decides to participate that, they resolve that:

   (a) a private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator"), structured and governed as outlined in this report, and that the local authority agrees –

      (i) to become a shareholder in the ACS Operator, and

      (ii) to contribute £1 to the ACS Operator as initial capital, and

      (iii) to appoint an elected Councillor who will have power to act for the local authority in exercising its rights as a shareholder of the ACS Operator, and

      (iv) that Mayor Pipe, Councillors O'Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O'Brien (Chief Executive, London Councils) be appointed as the interim Directors of the ACS Operator, subject to the consent of their relevant authorities to the appointments. These directors may be replaced once FCA authorisation is formally applied for; and

   (b) a representative body, in the form of a new sectoral joint committee (the "Pensions CIVJoint Committee"), is established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)) to act as a representative body for those local authorities that resolve, in accordance with 2(a) above, to participate in the Arrangement (or in the alternative, should all 33 London authorities resolve to participate, that Leaders' Committee exercise these functions and the Governing Agreement be varied accordingly); and

   (c) All London local authorities respond in writing to the London Councils Chief Executive, by 14 April 2014, or before the day of the local government elections (22 May 2014), to advise of their decisions regarding the matters set out at paragraphs 2(a) and 2(b) above.

Pensions Working Group:
Progress report and proposed next steps towards a London LGPS CIV

Introduction

1. At its December 2013 meeting, Leaders' Committee received a progress update from the Pensions Working Group (PWG), which outlined the views and recommendations of the PWG in respect of the potential London LGPS Collective Investment Vehicle (CIV). Leaders' Committee agreed the recommendations of the PWG that a business case and formal proposal should be prepared to inform decisions for implementation of a CIV which should be structured as a UK based, Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS). This report sets out the proposed business case, and formal proposal as to how to proceed. Leaders' Committee is asked to endorse the formal proposal for the formation of the ACS and its Operator, and to recommend the proposal to their own Council.

2. This paper recaps the financial benefits which may arise from operating an ACS, and sets out further details of the expected costs. It also sets out further details of the proposed structure of the ACS and potential governance arrangements (including the ACS Operator), together with the steps that are required to progress the project and establish the ACS and its Operator. This is set out in detail in Annex A, which should be read in conjunction with this report. The decision as to whether to invest in the ACS, once established, will remain with each Borough Pensions Committee and is distinct from the decision which is now being recommended to establish a new Pensions CIV Joint Committee and the Operator of the ACS. Any decisions regarding investment in the ACS will not begin until later in the year and are likely to be on an asset class by asset class basis.

Background

3. In 2012, a report from PwC set out options for reconfiguring the London LGPS funds, and indicated the possible financial benefits of a CIV. Since then, the matter has been discussed several times, and it was agreed that further consideration should be given to creating a CIV, and that the most appropriate structure for the CIV would be an ACS. A number of the local authorities agreed to contribute £25-£50k towards exploring the proposal which are held in a designated fund by London Councils. These contributions will fund the professional costs associated with development of the proposed ACS and its Operator.

4. The Government issued a call for evidence on the future structure of the LGPS last year, and sought professional advice to consider either Collective Investment Vehicles or merger of funds as potential routes forward. This advice, being provided by Hymans Robertson, and the Government consultation are expected to be published shortly. However, it is unlikely that this will be ahead of Leaders' Committee meeting. Nonetheless, informal indications are that, while undoubtedly Leaders' Committee position will need to be considered in the light of whatever is published, it seems unlikely that the benefit of CIVs will be fundamentally challenged.

5. At its December 2013 meeting, Leaders' Committee resolved to engage expert legal and financial services advisors to assist in the development of the ACS and its Operator. These advisors, along with a Custodian advisor, have been appointed and over recent weeks further analysis has been undertaken on the legal, regulatory, and financial aspects of implementing the CIV, in consultation with City of London lawyers who are London Councils' general legal advisors. The Leaders' Committee asked the PWG, having regard to that specialist advice, to develop a robust business case and formal proposal to proceed with implementation of the ACS to inform Boroughs' decisions, and this is set out in the sections which follow.

Proposed structure

6. It was previously agreed that the most appropriate structure for the CIV is an ACS fund and nothing has emerged to suggest that that recommendation should change. The ACS will require an FCA regulated ACS Operator to be established. The board of directors and employees of this company will have overall responsibility for the operation of the ACS.

7. In considering the proposed structure of the ACS and its Operator, the PWG has sought to adhere to the following overarching principles, in order that the arrangement can best meet the requirements of the boroughs:

   a) Investment in the ACS should be voluntary. A borough should be able to decide it does not wish to participate, or to the extent itinitially decided to participate, to choose to withdraw itsinvestment.
   b) If a borough chose to invest, it will be able to choose which asset classes to invest into, and how much itmight invest into each asset class.
   c) The boroughs should have sufficient control over the ACS Operator, in order to be assured that it will be acting in their best interests.
   d) The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continues to be available to the same extent it is currently in order for boroughs to make investment decisions.
   e) Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIVJoint Committee).
   f) The ACS will not increase the overall investment risk faced by boroughs.

8. The ownership structure and process for governance and decision making of the ACS Operator has been considered in some detail and is set out in the diagram below. The analysis contained in this paper including the Annex is a summary of the key issues associated with the establishment of the structure. Additional detail including in particular legal and regulatory analysis will be required in due course as the project progresses.

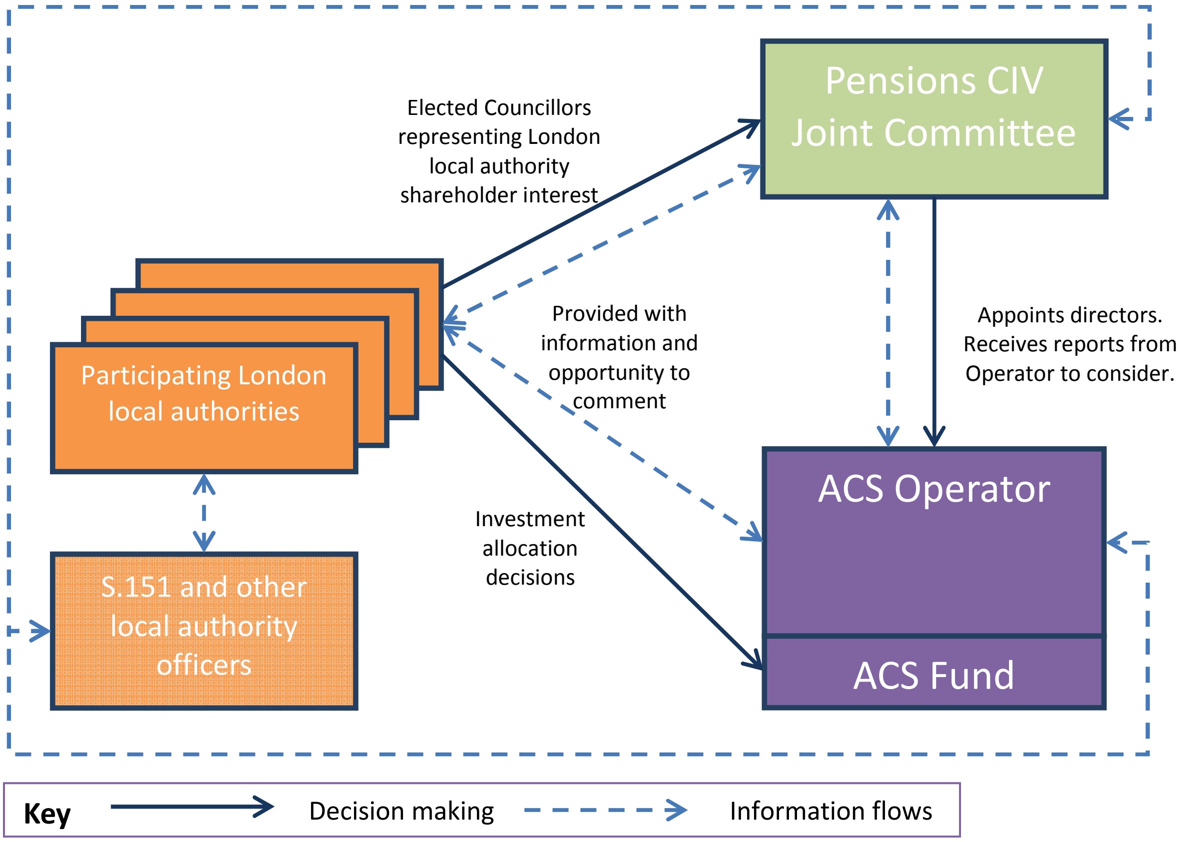
9. In broad terms, the proposed structure is that the boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough) but this capital requirement will increase once the operator is authorised and investments

are made in the ACS. The capital requirements are considered in more detail below (see paragraphs 14-18).

10. A new 'Pensions CIVJoint Committee' will be established under the existing London Councils arrangements to assist in the appointment of directors to the ACS Operator. The Pensions CIVJoint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. Information will be provided regularly by the ACS and the ACS Operator to local authorities investing, and their Pension Committees and officers, and the Pensions CIV Joint Committee. Borough treasurers will provide advice to both the borough Pension Committees (as they do now) and to their authority's representative on the Pensions CIV Joint Committee.

11. The governance arrangements and lines of communication between various interested parties are illustrated in the diagram below.

Fig 1 – CIV governance and communication lines



12. The proposed structure has been designed to allow boroughs to have strong oversight and control over the ACS Operator. This oversight and control is achieved at a number of levels including the following:

a) The boroughs will own all the shares in the ACS Operator and will be able to exert influence over the ACS Operator's board and activities through their shareholdings;

b) The 'Pensions CIV Joint Committee' will be made up of elected Councillors nominated by their boroughs. This Joint Committee will represent and assist the boroughs having a shareholding in the ACS and will have the power to identify and appoint key directors to the ACS Operator. It would also be a forum to discuss key issues which affect the participating local authorities, both individually and collectively;

c) Subject to regulatory requirements, the board of directors of the ACS Operator is likely to include some representatives of the shareholders of the ACS Operator (expected to be appointed from the elected Councillors who will sit on the Pensions CIV Joint Committee and who will represent all participating local authorities' interests);

d) The ACS operator will require staff (on a part-time basis) to assist in activities including investment manager selection and it is proposed that as many of these roles as possible may be undertaken by existing elected Councillors and officers of boroughs with relevant experience; and

e) Information relating to the performance of investments and the ACS Operator will be made available on a regular basis to boroughs investing and the Pensions CIV Joint Committee representing the boroughs' shareholding interest in the Operator.

13. Should boroughs be minded to proceed with establishing the ACS Operator, at this stage the company can be established with interim directors, with formal appointments for the ongoing directors made in the autumn, prior to FCA approval.

Capital requirements of the ACS Operator

14. Initially the ACS Operator will only require minimal share capital and, as such, it is recommended that each borough that wishes to proceed will acquire £1 of share capital in the company.

15. Immediately before the ACS Operator receives regulatory approval (expected to be 4th quarter 2014 or 1st quarter 2015), it will require capital of c£100,000. It is proposed that this capital would be contributed by those boroughs who choose to move forward with the ACS in Autumn – so for example if 10 boroughs decided to proceed with the ACS in Autumn, this would require a capital contribution of £10,000 per borough.

16. Once the ACS starts receiving investments, it will require additional capital.It is proposed that boroughs who invest pension assets in the ACS, would contribute capital to the ACS Operator in proportion to the assets invested, expected to be c.2 to 3 basis points of assets invested (e.g. for £5bn of assets invested in the ACS, the ACS Operator would require capital of £1m to £1.5m). It should be noted that this contribution is an investment rather than an expense as this capital would be invested in liquid assets such as gilts rather than being used to pay expenses.

17. It should be noted that this contribution is an investment rather than an expense as this capital would be invested in liquid assets such as guilts rather than being used to pay expenses. It is not expected that this should materially impact any return to the boroughs as the funds invested could be from existing pension assets which are currently invested in gilts or similar investments. As such the borough fund could retain

exactly the same investment profile except that a very small proportion of its assets invested via gilts would be held indirectly through the ACS Operator rather than directly as at present.

18. It should be noted that boroughs who contribute £1 of share capital now will be under no obligation to make any further capital payments to the ACS operator. To the extent a borough takes a subsequent decision to invest in the ACS, it is proposed the borough would at that point invest further capital. (see paragraph 15).

Financial case

19. Previous work undertaken by PwC estimated savings in the region of £120m per annum from the creation of a CIV (the ACS), provided there was close to full participation by the 33 London local authorities. These benefits arose from reduced investment management fees, and improved performance. Costs of running the ACS were estimated to be £4.8m if there was full participation from all the authorities. At lower levels of participation, both the financial benefits and the costs would reduce.

20. More work has now been undertaken on potential costs and benefits, based on high level assumptions, and these are summarised in the table below. Additional details on the savings and costs are set out at Annex A. It is clear that, based on the expected savings previously identified, forecast costs should be comfortably covered by savings in reduced management fees.

Fig 2 - Summary of savings and costs

	Assets under management £24bn **£ 000's**	**Assets under management £10bn** **£000's**	**Assets under management £5bn** **£ 000's**
Expected savings per annum	120,000	50,000	25,000
On-going Costs per annum	(6,100)	(3,650)	(2,750)
Establishment Costs	(1,700)	(1,500)	(1,400)

21. Savings and costs have been analysed for assets under management of £24bn, £10bn and £5bn. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5bn. This is based on analysis of existing investments held by LGPF funds undertaken by the PWG and also takes into account that initially the majority of investment mandates are likely to be passive mandates. Over time, it is expected that active mandates and investments into alternatives such as property and some infrastructure assets may be added to the range of investments offered by the ACS.

22. Even at a level of assets under management of £5bn, the expected savings materially outweigh the expected costs. The actual savings and costs will naturally depend on the number of participating boroughs, amount of assets under management and the mix of investments that are selected for the ACS. It is expected that additional work to decide

on new investment managers and to agree costs will begin in the 4th quarter 2014 in order that boroughs can make investment decisions in 1st quarter 2015.

23. There will be professional fees and other costs associated with making the ACS fully operational (described as Establishment Costs in Fig 2 above). £625,000 of these costs has already been funded by boroughs and £344,000 committed to date. It is currently proposed that any additional costs of establishment, over and above the £625,000, would be borne by boroughs that choose to participate further in Autumn.

24. It should be noted that there is no obligation for any boroughs that choose to agree the recommendations set out in this paper to commit to any additional funding of costs. To the extent a borough takes a subsequent decision to invest in the ACS, it is proposed the borough would at that point invest further capital. (see paragraph 15).

Next Steps

25. Broadly, if the recommendations of this paper are agreed, and a number of boroughs wish to participate in the joint arrangements, the following steps will be undertaken:

a) A new joint committee, (the 'Pensions CIV Joint Committee') will be established under the relevant legislation and existing London Councils Governing arrangements. To the extent all 33 boroughs wish to participate, London Councils Leaders' Committee would fulfil this role instead and the London Councils' Governing Agreement varied accordingly.

b) The ACS Operator will be established, with participating boroughs having £1 of share capital in the company, and interim directors appointed.

c) Further work will be undertaken regarding the final design and operation of the ACS Operator and ACS. The documents required by the FCA for the ACS and the ACS Operator to become authorised will be prepared.

26. A proposal will be prepared for Leaders' Committee to consider in the Autumn which will provide a clear timetable and costs for obtaining regulatory approval for the ACS Operator and the ACS, request a commitment for the initial capital of c. £100,000 from those authorities wishing to participate such that the ACS Operator can be authorised and request funding for establishing the initial staffing of the ACS Operator, and to meet any further establishment costs (per paragraphs 23 and 24 above).

Recommendations

27. Leaders' Committee is asked to:

1. Consider the report and the underlying business case supporting the establishment of a collective investment vehicle, in the form of an authorised contractual scheme (the "ACS"), for local authority pensions in London ("the Arrangements"); AND

2. Endorse and recommend to each local authority which decides to participate that, they resolve that:

(a) a private company limited by shares be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator"), structured and governed as outlined in this report, and that the local authority agrees –

(i) to become a shareholder in the ACS Operator, and

(ii) to contribute £1 to the ACS Operator as initial capital, and

(iii) to appoint an elected Councillor who will have power to act for the local authority in exercising its rights as a shareholder of the ACS Operator, and

(iv) that Mayor Pipe, Councillors O'Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O'Brien (Chief Executive, London Councils) be appointed as the interim Directors of the ACS Operator, subject to the consent of their relevant authorities to the appointments. These directors may be replaced once FCA authorisation is formally applied for; and

(b) a representative body, in the form of a new sectoral joint committee (the "Pensions CIV Joint Committee"), is established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)) to act as a representative body for those local authorities that resolve, in accordance with 2(a) above, to participate in the Arrangement (or in the alternative, should all 33 London authorities resolve to participate, that Leaders' Committee exercise these functions and the Governing Agreement be varied accordingly); and

(c) All London local authorities respond in writing to the London Councils Chief Executive, by 14 April 2014, or before the day of the local government elections (22 May 2014), to advise of their decisions regarding the matters set out at paragraphs 2(a) and 2(b) above.

Legal Implications

28. The main legal implications are contained in this report and the attached Annex. The detail of the structure and governance of the ACS and its Operator will be firmed up as the preparatory work progresses. The establishment of a joint committee will be in accordance with arrangements under the Local Government Act 1972 and the Local Government Act 2000 to arrange for the joint discharge of decision making by the participating local authorities to support the arrangements for the collective investment vehicle. The Joint Committee will initially be established under the London Councils Governing Agreement, and the Terms of Reference of the new joint committee will provide for shared administrative functions, a forum to discuss key issues and power to appoint key directors of the ACS Operator; and it could be used more broadly if boroughs felt that to be appropriate. Should all 33 London local authorities resolve to participate, Leaders' Committee would discharge the relevant local authority functions and the Governing Agreement formally varied accordingly.

29. The Councils have power to enter into these arrangements as part of their function as an administering pensions authority taking account of its duty to invest in the interests of the pension fund and obligations in the Local Government (Pension Scheme) Management and Investment of Funds Regulations 2009. Additionally Councils have power to invest further to Section 12 of the Local Government Act 2003 and must act in accordance with principles of best value and their general fiduciary duty.

Financial Implications

30. The Director of Corporate Resources reports that the estimate of possible costs and benefits arising from the establishment of a collective investment vehicle are detailed in full within the Annex of this report and summarised in the table at paragraph 20.

31. These figures are initial estimates and will be firmed up as preparatory work progresses, particularly in relation to the establishment and on-going costs. As detailed in paragraph 23, 25 boroughs have each been invoiced for a sum of £25,000 as a contribution towards establishment costs, amounting to £625,000 in total, with £344,000 of that sum committed to date.

32. There are some governance related issues that require further clarification, particularly surrounding the accounting requirements of the newly proposed PensionsCIV Joint Committee and how this will relate to the existing London Councils financial structures and work will continue to clarify this position.

Equalities Implications

33. There are no equalities implications for London Councils.

Attachments

Annex A: Business Case

Background Papers

13 March 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=4796

13 November 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5072

11 December 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5109

14 May 2013, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5252

19 September 2013, Executive report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5353

26 November 2013, Executive report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5490

10 December 2013, Leaders' Committee report
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5495

Annex A

Business Case

1. At its December 2013 meeting, Leaders' Committee agreed the recommendations of the PWG that a business case and formal proposal should be prepared to proceed with implementation of a Collective Investment Vehicle, in the form of an Authorised Contractual Scheme (ACS). This Annex sets out the proposed business case.

2. This paper sets out further details of the proposed structure of the ACS and potential governance arrangements, including the establishment and capital requirements of the ACS Operator. It then recaps the financial benefits which may arise from operating an ACS, and sets out further details of the expected costs.

Proposed structure

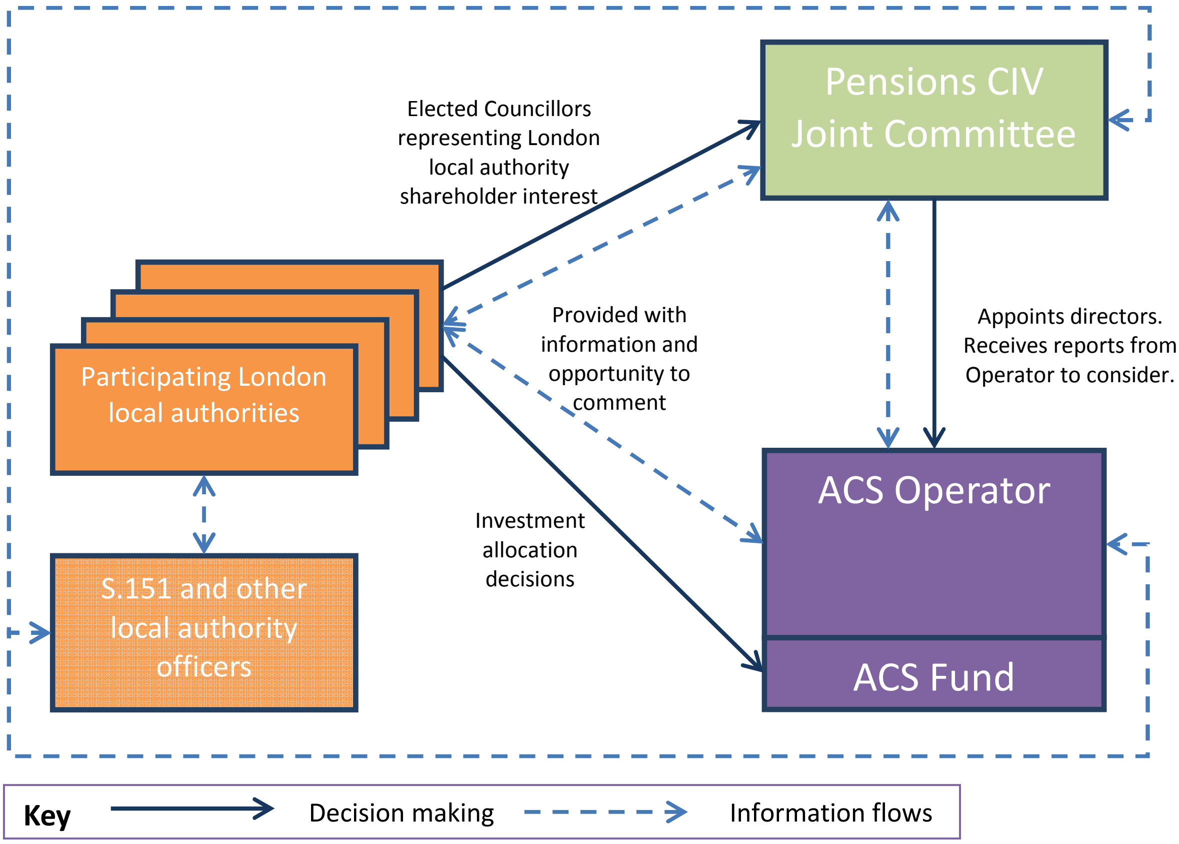
3. It was previously agreed that the most appropriate structure for the CIV is an ACS fund and nothing has emerged to suggest that that recommendation should change. The ACS will require an FCA regulated ACS Operator to be established. The board of directors and employees of this company will have overall responsibility for the operation of the ACS.

4. In broad terms, the proposed structure is that the participating boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough from those who wish to participate) but this capital requirement will increase once the operator is authorised and investments are made in the ACS. The capital requirements are considered in more detail at paragraph 32 onwards.

5. A new 'Pensions CIVJoint Committee' will be established to assist in the appointment of key directors of the ACS Operator, such as the Chairman and Chief Executive Officer. The Pensions CIVJoint Committee will comprise elected Councillors nominated by participating boroughs. Information will be provided regularly by the ACS Operator to investors in the ACS and borough Pension Committees and officers, and the Pensions CIVJoint Committee.

6. The governance arrangements and lines of communication between various interested parties are illustrated in the diagram below.

Fig 1 – CIV governance and communication lines



7. The following sections set out the above arrangements in more detail, setting out the governance arrangements, potential staff requirements, and the proposed process for investment manager selection and asset allocation.

Governance structure of the ACS Operator

8. The process for governance and decision making has been considered in some detail, and there are a range of options for how the governance arrangements could be structured. The precise arrangements would always be open to Council scrutiny and amendment, and subject to FCA requirements, but what is laid out below is seen as appropriate initial proposals to take the project forward at this point. Extensive legal advice has been taken and has been used to formulate the proposals that lead to the framework described below.

9. It is proposed that anew joint committee (the 'Pensions CIVJoint Committee') will be established under both section 102 of the Local Government Act 1972, Section 9EB of the Local Government Act 2000, and clause 3.1 of the existing London Councils' Governing Agreement, to act as a representative body for those local authorities that have chosen to participate, and would be made up of the Leaders (or another nominated elected Councillor) of those councils participating in the ACS. Should all the boroughs participate, this role would be performed by London Councils' Leaders' Committee (and the Governing Agreement would need to be formally varied). In relation to the make-up of this joint committee, it is proposed that boroughs that agree to

become a shareholder in the ACS Operator would appoint a representative who will sit on this committee. Whilst typically the borough Leader might be appointed as the representative on the joint committee, in the event that meetings are required to deal with specialist matters e.g. discussions on investment matters, it may be that a person with appropriate expertise would act as a deputy to attend such meetings, e.g. for investor matters, the Chair of the relevant Borough Pension Committee could be appointed. A deputy would need to be appointed at the same time as the main representative. Provision is made for these arrangements under the existing London Councils Governing Agreement dated 13 December 2001 (in particular refer to clauses 3.1 and 4.5 of the Agreement and Standing Orders).

10. One of the main purposes of the Pensions CIVJoint Committee will be to act as a forum to recommend/approve the appointment of key directors to the board of the ACS Operator. The ability to appoint directors of the ACS Operator ultimately rests with the shareholders (who in practice, the Elected Councillors sitting on the joint committee represent) and analysis is currently on-going to determine the most appropriate methodology for the wishes of the shareholders to be executed in a manner which is acceptable given various constraints that exist within local government, Companies Act 2006 requirements, and FCA regulations.

11. The exact mandate of the joint committee will require further consideration. The frequency of meetings of the joint committee also needs to be decided.

12. Should boroughs be minded to proceed with establishing the ACS Operator, at this stage the company can be established with interim directors, with formal appointments for the ongoing directors made later in the year, prior to FCA approval. It is proposed that, subject to no impediment for the individuals, the members of the Pensions Working Group would sensibly be asked to take the roles of interim directors, augmented by the Chief Executive of London Councils. For clarity that would be Mayor Pipe, Councillors O'Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O'Brien (Chief Executive, London Councils). Their appointment would be subject to the consent of their relevant authorities.

13. It is proposed that up to three elected Councillors from the Pensions CIVJoint Committee could be directors of the ACS Operator. The directors have to be approved by the FCA and will have fiduciary duties and responsibilities. The decision as to who could be in these roles is to be decided. It is not a requirement for Elected Councillors sitting on the joint committee to have any director roles, and this will be one of the early matters on which the initial participating boroughs who join the joint committee and participate in the ACS will be asked to decide.

14. The ACS Operator will provide regular information to the participating Borough Pensions Committees about the ACS. The Borough Pensions Committees would be given the right to receive presentations by the investment managers on performance.

15. As illustrated in Figure 1, it is recognised that s.151 officers will provide advice to both their representative joint committee elected Councillor, and their Borough Pension Committee. In addition, it is anticipated that Treasurers may require occasional

opportunities to receive information directly from the ACS Operator and to raise any issues or questions. The Society of London Treasurers is likely tohave a role in facilitating discussions with the ACS Operator at an officer level where those matters under discussion collectively affect Treasurers‘authorities.

Staff resources

16. In terms of staffing requirements, there are a number of roles required within the ACS Operator, and the precise detail of the final establishment of the ACS Operator will need to be confirmed later. However, in order to understand costs, the following has been assumed. Firstly, there would be 2-3 FTE admin staff, whoare likely to be graded at bands B and C on London Councils' salary scales. These staff would assist in the running of the ACS Operator, for example drafting and reviewing reports, and providing support to the meetings of the board of directors, relevant committees of the board, and support teams.

17. At the outset, there will also be a lot of activity in respect of investment management selection. This may require 5 to 6 individuals, with a strong level of understanding of the process for selection of managers. It is thought that this group could comprise of a number of existing borough pensions staff, potentially seconded into the ACS Operator for a period of time. Potentially an external hire may also be required. This group would undertake the activities which would ultimately lead to a recommendation being made to the ACS board as to investment mandates of the ACS and the managers to appoint, in a similar fashion to the existing arrangements within boroughs where pension officers will report to their Pensions Committee. Further details are set out at paragraph 22 onwards.

18. To oversee the activities set out above, and oversee and manage suppliers, it is expected that a chief operating officer would be required. In the first instance, this is likely to be a full time role, however once the ACS Operator and ACS are fully established, the time required may decrease. The need for this role, its responsibilities, and options for filling it, could be considered by the ACS Operator interim directors (see paragraph 12).

19. In addition, a chief executive officer and finance director would be required. These are expected to be part time roles, and could potentially be undertaken within the existing roles of London Councils. These decisions do not need to be taken immediately and, again, could be addressed by the interim directors as one of their early decisions. A compliance director, risk officer, anti-money laundering officer, and chief investment officer will also be required, and how to source these individuals will be considered as an early part of the process. It should be noted that, in addition to the liability of the corporate entity, individuals in these roles need approval from the FCA and have personal liability.

20. To the extent that resource is not available, either from within London Councils or seconded from boroughs, additional third party or professional costs may be incurred. It is anticipated that these costs will be analysed in due course once the key roles have been more fully defined and the availability of suitable internal resources have been considered.

21. The fact that the boroughs will have a significant role both at the level of the ACS Operator and as investors in the ACS means that the FCA will require a robust conflicts of interest policy to be in place.

Investment manager selection and asset allocation

22. There are two key areas of responsibility which will allow boroughs to select the investments they wish to make. Following consultation with boroughs, the ACS Operator will offer a number of mandates to investors and will select a number of managers for this. The final decision over the selection of managers rests with the board of directors of the ACS Operator. The decision regarding asset allocation and whether to invest in the mandates being offered will be at the full discretion of eachborough.

23. It is proposed that investment manager selection would be undertaken by an investment advisory team of the ACS Operator as described in paragraph 17 above which would report into the board of directors. There are a range of options for how this is set up, as the team can comprise elected Councillors, officers, and external hires if required. The preferred composition of this group would be decided in due course, but it is expected to be a mix of elected Councillors and officers, probably 6 to 8 in number. The majority of the roles on this group are expected to be part time although as more assets are added to the ACS and additional mandates and alternative investments are added, some of these roles may become full-time.

24. Once the ACS itself is established, it would be at the discretion of the boroughs whether they choose to invest in any or all of the ACS sub-funds. In order to allow individual borough to decide asset allocations between managers, the assumption is that the fund structure will be an umbrella fund, with each sub-fund having a specific investment mandate and investment manager. If a borough decides to invest in a particular mandate, they would simply acquire units in the relevant sub-fund. Please see Appendix A for a visual representation of this structure.

Legal and regulatory considerations

25. This section sets out some of the legal and regulatory considerations in connection with the set-up of the ACS Operator and the ACS, and sets out a timeline for achieving this.

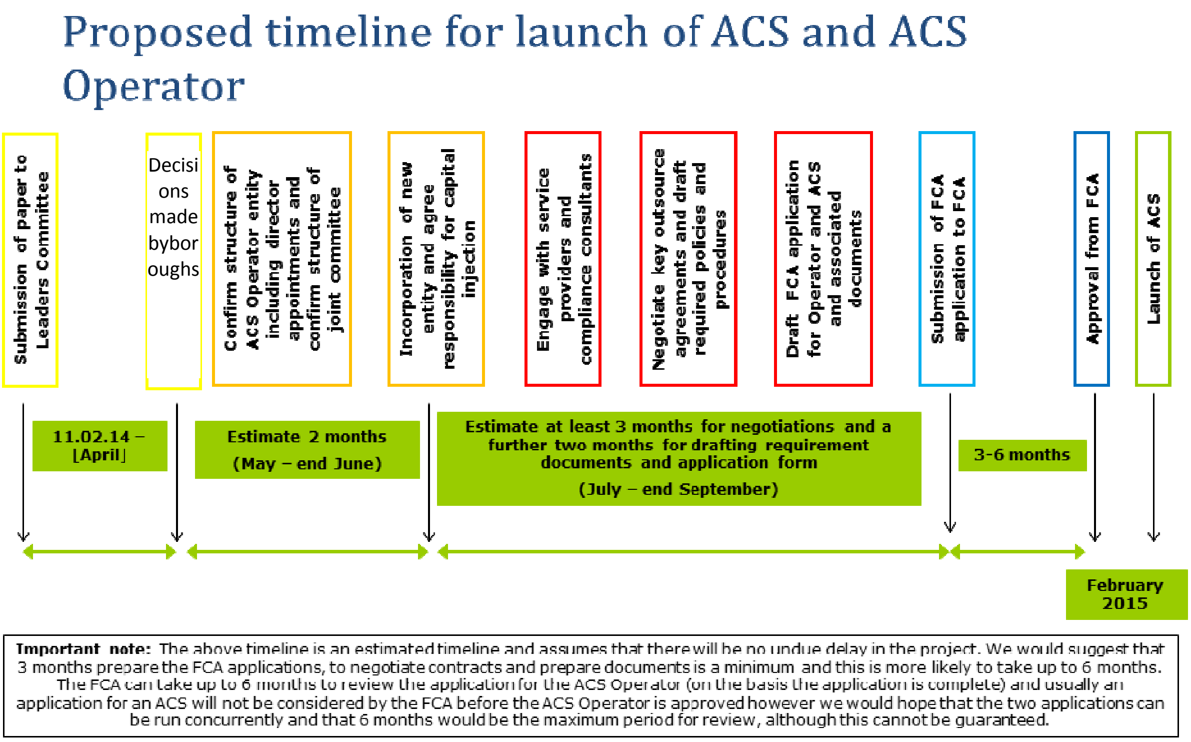
26. The ACS will require a Financial Conduct Authority (FCA) regulated ACS Operator to be established. Typically this is in the form of a limited liability company, which is proposed here. The ACS Operator and the ACS are heavily regulated. There is a separate authorisation process for each of them, involving different divisions of the FCA. The process for the authorisation of the ACS Operator requires detailed information to be supplied in particular around the qualifications of the board and key employees, their ability to carry out the key operational functions or supervise delegates, financial requirements etc. The form requires detailed information. The authorisation process can take between 6 and 12 months. As this application is for local authorities it is hoped that the application for the ACS operator and the ACS would be run concurrently by the FCA and we would hope the authorisation process would take nearer to six months than twelve, however this cannot be guaranteed.

27. The board of directors and employees of the ACS Operator will be responsible for the overall operation of the ACS. In order to meet these obligations it will need to appoint a number of external service providers, including the administrator, the registrar and transfer agent and investment managers. These appointments will need to be reasonably advanced to submit detail and draft documents to the FCA at the time of the application for authorisation.

28. In addition to the corporate entity being authorised individuals performing certain functions as described in this paper also require personal approval by the FCA.

29. We have set out below a proposed timetable for the launch of the ACS Operator and the ACS. This is subject to change and dependent on a number of factors, such as consideration by Leaders' Committee, relevantdecisions being taken by the boroughs wishing to participate in the arrangements, selection of key personnel and negotiation of key contracts.

Fig 2. Proposed timetable for launch



30. The proposed timeline emphasises when certain decisions will need to be made. For example the fund mandates and strategies, and you will also note that certain service providers will need to be identified shortly following the incorporation of the ACS Operator entity, so that key commercial terms and service levels can be agreed. As discussed further below, the FCA application forms require in depth detail and draft documents which will take time to agree and complete and as such it is critical to consider these factors at the outset.

31. During the ACS establishment process, some regulatory clarifications will be required although it is not currently expected that there will be any material difficulties. In

particular, it will be important to confirm that a borough will be able to invest substantially all of its pension assets in a single ACS vehicle. Restrictions currently apply to certain collective investment vehicles. Whilst specific reference to ACSs is not made it will be important to ensure that the legislation is either amended or made clear that ACSs (and possibly other collective investment vehicles) which are operated by local authorities are carved out from these restrictions.

Capital requirements of the ACS Operator

32. Initially the ACS Operator will only require minimal share capital and, as such, it is recommended that each borough that wishes to proceed will acquire £1 of share capital in the company.

33. Immediately before the ACS Operator receives regulatory approval (expected to be 4th quarter 2014, see timetable comments at paragraph 30), it will require capital of c. £100,000. The calculation of regulatory capital is complex, and depends on a variety of factors, including the expected fixed overheads of the ACS Operator.

34. It is proposed that the c. £100,000 of ACS capital would be contributed by those boroughs whichchoose to move forward with the ACS in Autumn – so for example if 10 boroughs decided to proceed with the ACS in Autumn, this would require a capital contribution of £10,000 per borough. It should be noted that this contribution is an investment rather than an expense as this capital would be invested in liquid assets such as gilts rather than being used to pay expenses.

35. Once the ACS starts receiving investments, the ACS Operatorwill require additional capital, which may be c.2 to 3 basis points of assets invested in the ACS (for £5bn of assets invested in the ACS, the ACS Operator would require capital of £1m to £1.5m). This capital is broadly required at the point in time when the assets under management are due to increase. The total required regulatory capital of an ACS Operator will not exceed 10m euros.

36. Once boroughs choose to invest pension assets in the ACS, it is proposed that they would contribute capital to the ACS Operator in proportion to the assets invested. It is not expected that this should materially impact any return to the boroughs as the funds invested could be from existing pension assets which are currently invested in gilts or similar investments. As such the borough could retain exactly the same profile for its pension investments except that a very small proportion of their assets invested via gilts would be held indirectly through the ACS Operator rather than directly as at present. The precise capital requirements, and the mechanism for the contribution of this capital, will be considered in more detail in the next phase of the project.

37. It should be noted that boroughs who contribute £1 of share capital now will be under no obligation to make any further capital payments to the ACS operator. To the extent a borough takes a subsequent decision to invest in the ACS, it is proposed the borough would at that point invest further capital.

Financial Case

38. Having considered the potential structure and process for establishment, the following sections consider the financial case in more detail. There are a number of areas to

consider. Firstly the potential financial benefits of the ACS, and then the potential costs. These are considered in more detail below. It is clear that, based on the expected savings previously identified, forecast costs should be comfortably covered by savings in reduced management fees.

Financial benefits

39. The 33 London boroughs currently have over £20bn of pension assets under management. Previous work undertaken by PwC estimated savings in the region of £120m per annum from the creation of a CIV, provided there was close to full participation by authorities. Costs of running the ACS were estimated to be between 1 and 5 basis points (0.01% to 0.05%) of assets under management with the estimated costs, for full participation from all 33 London localauthorities, estimated to be £4.8m per annum. At lower levels of participation, both the financial benefits and the costs would reduce. More work has now been undertaken on potential costs and benefits, based on high level assumptions, and these are summarised in the table below. It is clear that, based on the expected savings previously identified, forecast costs should be comfortably covered by savings in reduced management fees.

40. The primary cost savings previously identified were in respect of lower investment management fees, and improved performance. Further work since then indicates that there may be further savings in other areas. For example, when investing in a third party fund, it is likely that income from activities such as stock lending and foreign exchange will be earned, however may not be passed on to the boroughs and their pension investments to the same level as could be possible in the ACS. It has been estimated that the income from these activities could be in the region of 10 to 20 basis points. There is no current information available about the level of return that is currently allocated to boroughs in relation to their existing pension investments.

41. Additional analysis of costs has been undertaken since the PwC report. The broad conclusion of this analysis is that, depending on the level of participation, the marginal costs for investing in the ACS are likely to be in the middle of the original 1 to 5 basis point estimate and that there are potential additional savings that could be made.

42. A reasonable minimum target size of assets management for the ACS is considered to be in the range of £5bn of assets. This is based on work undertaken by the PWG, which shows that there are a number of boroughs who currently have very similar investment mandates with exactly the same investment managers. This research suggests that if 6 of the largest similar mandates with identical investment managers across a range of passive and active equity and bond mandates were selected in the ACS, scale of around £3bn could be achieved without any individual borough pension funds materially changing their currently selected mandates or manager. On the assumption that a number of other London boroughs would also be minded to invest in the ACS if it offered these mandates and given the initial interest expressed by boroughs in participating, a minimum target size of £5bn appears a reasonable assumption.

43. Indicative costs and potential savings are set out in the table below, for assets under management of £24bn, £10bn, and the minimum target size of £5bn explained at paragraph 42.

Fig 3. Summary of potential savings and costs

	Assets under management £24bn £ 000's	Assets under management £10bn £000's	Assets under management £5bn £ 000's
Expected savings per annum[(1)]			
Investment management fees - 15 bps	36,000	15,000	7,500
Improved performance - 35 bps	84,000	35,000	17,500
Total expected savings	**120,000**	**50,000**	**25,000**
On-going Costs per annum[(2)]			
Custody costs			
Custody costs (at 3.5bp, 4bp and 5bp)	(8,400)	(4,000)	(2,500)
*Incurred in existing third party funds **(3)***	3,600	1,500	750
Net Custody Cost	(4,800)	(2,500)	(1,750)
Other Costs			
Salaries –e.g. COO/Admin	(400)	(400)	(400)
- Audit/advice	(200)	(150)	(100)
- Offices/expenses	(200)	(200)	(200)
- Misc. Advisory	(500)	(400)	(300)
Total On-going Costs	**(6,100)**	**(3,650)**	**(2,750)**
Establishment costs [(2)(3)]			
- Transition advisory including custody selection	(700)	(500)	(400)
- Other misc. fund advisory	(500)	(500)	(500)
- Legal, regulatory, and financial advice (funded already)	(600)	(600)	(600)
Total Establishment Costs	**(1,700)**	**(1,500)**	**(1,400)**

Notes

(1) These savings are as previously reported. They have been allocated on a straight-line basis for assets under management less than £24bn. This is an assumption made for simplicity and any real savings may well be less and will depend on types of mandate, asset mix, etc. There are also other potential areas where financial benefits may arise, such as increased income from activities such as stock lending, which have not been quantified within the above.

(2) All costs (other than custody costs) are estimated on very high level assumptions and may not reflect final costs.

(3) For “other costs” and “Establishment costs”, some of these expenses would be incurred in existing investments or on changes of manager/investment. No attempt has been made to estimate these existing costs to date.

Custody costs

44. The main cost associated with running the ACS is from the custody of the assets. Custody costs are calculated as a basis point fee on the amount of assets, with the basis point fee reducing on a sliding scale as the amount of assets under custody increases.

45. In order to consider potential costs, assumptions regarding the potential value of the fund and number of sub-funds and investors have been made. These consider 3 possible scenarios based on the most commonly used asset classes, which are set out below. The assumptions used are not recommendations and are purely for illustration purposes for the business model:

    - sub-funds representing the most frequently used asset classes with minimal uptake by London local authoritiesinvesting 50% of total value in these asset classes into the fund,
    - broader range of sub-fund asset classes with a third of London local authoritiesinvesting 50% of total value in these asset classes into the fund,
    - all London local authoritiesinvesting 75% of total value in these asset classes into the fund.

46. Based on the above, the indicative cost of running the fund may be as follows:

    - 5 investors in 4 sub-funds (made up of mix of passive and active, global equity and UK equity) total £1bn, up to 10bps/minimum charge circa £500k per annum,
    - 11 investors in 10 sub-funds (made up of mix of passive and active, global equity, UK equity, global bonds, & alternatives) total £6bn, up to 5 basis points,
    - 33 investors in 15 sub-funds (made up of mix of passive and active, global equity, UK equity, global bonds, UK bonds & alternatives) total £14bn, up to 3.5 basis points.

47. These costs include Fund Administration (Transfer Agency and Fund Accounting), Depositary and Custody. These costs would reduce where additional services e.g. a proportion of cash, foreign exchangeand Securities Lending services are also conducted by the appointed Custodian (which is standard with London boroughs existing custody arrangements). Other factors that feed into the cost consideration include the frequency of investor dealing and frequency of valuation points. It should also be noted that Fund Accounting fees typically operate on a sliding scale with minimum fees per sub-fund, therefore the larger each sub-fund in terms of value the more cost effective.

48. In terms of a cost-benefit analysis, it is important to note that borough pension funds already pay custody fees either directly for existing segregated mandates or indirectly in third party fund investments. Accordingly, the cost-benefit analysis needs to look at the amount by which the custody costs that would be incurred from investing in an ACS exceed current custody costs borne by the boroughs on their existing investments.

49. In relation to existing segregated mandates, it is likely that savings would be achieved through moving such mandates to an ACS as this would reduce custody costs. This is because most existing segregated mandates are relatively small and accordingly consolidating these mandates in the ACS should increase the amount invested in each mandate which in turn would result in a lower basis point custody charge.

50. In relation to existing third party funds, the cost-benefit analysis is more complex because it is difficult to determine the custody fees that are payable by the investment managers that have established these funds as such numbers are not always publicly available. An estimate of these costs would be in the 1 to 2 basis point range.

51. Based on this analysis, it appears that for higher levels of participation the costs will be lower than previously anticipated. For very low levels of participation (e.g. £1bn) the costs could be higher than the 5 basis point charge previously anticipated. Even at a £1bn level of participation, there may well be financial benefits associated with establishing an ACS but this level of participation is below the minimum level that might reasonably be expected.

52. At a level of assets of £5bn the additional custody costs would be expected to be in the range of 3 to 4 basis points (or £1.5 to £2m per annum), being an ACS custody cost of c.5 basis points less the 1 to 2 basis point charge which would have been incurred on existing investments.

Other costs and benefits

53. Other on-going costs of the ACS are likely to include staff costs, FCA fees, consultancy fees and administration costs including audit and taxation. These fees would be charged directly to the fund, as they would be now. Consultancy fees might include professional advice on investment manager selection. As this would be performed centrally at the ACS level rather than multiple times at individual borough level, it is likely that savings would be achieved in this regard. Admin costs would not be expected to be significant compared to the benefits identified.

54. In relation to staff costs, this is considered in more detail below but on the basis that it is expected that a majority of functions may not be full time and might be performed by existing local authority personnel, additional staff costs are not expected to be significant. For the purposes of the cost benefit analysis undertaken, an estimate of £400,000 per annum has been made. Practically, the roles which might be required are set out below.

Establishment costs

55. There will be a number of establishment costs incurred in setting up the fund. These will be one-off costs in the first year.

56. £625,000 has already been contributed to these costs by the boroughs, in order to engage professional advisors to perform the necessary financial and regulatory work. It is currently expected that this work will be performed within this existing budget.

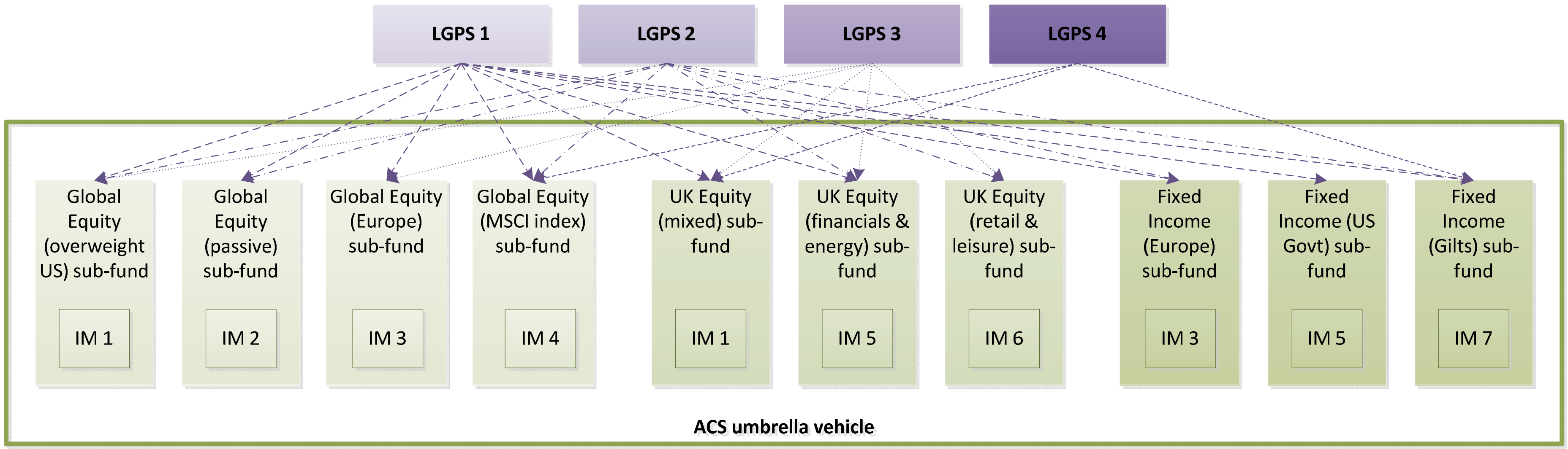
57. As the project progresses, additional professional fees are likely to be incurred, for example to assist in training relevant individuals on their regulatory roles and to assist in

the development of procedure manuals. It will become clearer in due course where costs may arise in this regard.

58. The transition of assets into the fund will also need to be considered, as assets are moved from existing managers to new managers appointed to the ACS. To a large extent, boroughs already incur similar costs as they transition assets to different managers in the ordinary course of their pension activities. As such these costs may well simply offset existing costs incurred by boroughs although clearly this depends on the level of fees currently charged and the number of transitions. Until further decisions are taken on the mandates that will be launched in the ACS, it is difficult to estimate accurately what these costs might be. An estimate of advisory fees required in connection with this transition management is included within the table, and is based on the experience of advisors on similar projects. It should be noted that the boroughs currently have regular manager transitions, and as such the costs of transition from setting up the ACS should result in lower annual transition costs going forwards.

59. From a tax perspective, the transfer of UK securities into an ACS should not be subject to UK stamp duty reserve tax (SDRT), and a tax clearance can be obtained in advance to give comfort. It is envisaged that the costs of transition would be borne by the pension funds who are moving their assets into the fund, and the cost would depend on the assets being moved. Due diligence will be needed for individual pension funds should they choose to invest, to consider the most appropriate way to transition into the fund.

Appendix A - Indicative ACS umbrella structure



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APPENDIX II

London LGPS CIV Seminar
5th February 2014

Summary of Questions and Answers

Introduction

The s.151 officersand pension officers from many of the London Boroughs met on 5th February 2014, to discuss thePension Working Group's report to Leaders' Committee on the progress of the project to develop a Collective Investment Vehicle (CIV). The session addressed a number of questions from officers, with the key area of discussion around governance issues. A summary is set out below.

Aspects of the report

1. **Regarding the recommendations, should the decisions be made by local pension committeesrather than at full council meetings?**

   The decision making process will vary between boroughs, and depends on the delegation of powers at each borough. It is thought that in most cases, a full council meeting will be required to agree to the creation of the new joint committee.

   It should be noted that decisions made now do not tie boroughs into investing in the CIV in the future. Nothing in the current paper requires a decision as to whether boroughs wish to use the ACS for pension investment.

2. **How many positive responses from boroughs are required to continue the project?**

   London Councils would require sufficient quantum and enthusiasmfor the project in order to continue to act on behalf of the London boroughs collectively; however there is no set number of responses required.

   Nevertheless, we are mindful of the local elections, and how this may affect each borough's ability to reach decisions, and the position will be monitored over the coming weeks.

   For boroughs that cannot reach a decision now, the option to join later will always remain open.

   [**NB**. The positive response received to the report at the 11 February Leaders' Committee meeting makes it easier for London Councils to continue in its facilitation role.]

3. **How concrete is the proposed timeline for the launch of the ACS and ACS operator in order to take things forward?**

   The proposed timeline shows the possible time it may take to launch the ACS and the ACS Operator, and the work that needs to be completed. There is a minimum period of time that will be required to negotiate contracts and prepare FCA applications, and the amount of time the FCA may take to consider the application can vary (it is likely that the FCA will require 6 months to review the applications for the ACS and the ACS Operator although it cannot be guaranteed that both applications will be reviewed concurrently). As such, the timeline is only indicative, but based on previous experience it is a reasonable estimate.

4. **The report suggests £5bn of assets is a sensible target.If the £5bn threshold is not achieved what are the implications?**

   Analysis has suggested that £5bn of asset within the fund would be a sensible target to achieve the economies of scale which have previously been identified; however it is not a critical target size. If the fund size is smaller, the costs would increase per borough, as each borough would pick up a larger share, but this does not mean the costs would outweigh the benefits. Again, this will need to be monitored as the project progresses.

The proposed structure

5. **The report is brief on the benefits of the ACS itself. Why is the ACS vehicleconsidered most appropriate?**

   There are a number of advantages of using an ACS for the fund, including:

   - It is tax efficient e.g. for VAT there is an exemption on investment management fees, ensuring that VAT costs do not increase for the boroughs.
   - As the ACS is tax transparent, the withholding tax benefits the pension funds are currently entitled to can be maintained.

   It is also worth noting that the ACS structure was developed by HM Treasury, and launched last year, as an attractive alternative to other similar vehicles based in Ireland and Luxemburg. As such, they are very interested, and broadly supportive, of our proposals.

   The selection of an ACS as the most appropriate fund vehicle wasset out in greater detail in a previous report to Leaders.

6. **Will the nominated interim directors have the required skills and qualifications to fulfil the role of directors in the ACS Operator?**

   One point to emphasise is that the interim board of directorsis not intended to remain in place after FCA authorisation. It is temporary. It is there to steer the initial set up phases to assist in progressing the detailed work. The suggested interim directors are current Pensions Working Group members and have been involved in this project from an early stage.

   The interim directors will be representing you and the company to facilitate it being established.Going forward new appointmentswill be madefrom candidates who are confirmed as suitable by the FCA.Selecting who these individuals may be, and deciding on the selection process, will be one of the tasks for the next phase of work.

7. **What are the risks associated with the ACS?**

   This model is an authorised scheme by the FCA and so is heavily regulated. It is more highly regulated than similar funds in both Ireland and Luxembourg. As such, the risks are as if you were to make any normal investment. These risks include:

   - Incorrect valuations
   - Holding misrepresented on the register
   - Fraud

   These risks will exist in the fund, however there will be controls in place to mitigate these risks. This involves both legal clauses in contracts, and having the people with the correct skills, knowledge and expertise to manage the fund.

Regarding tax risk, the key tax risk is that the pension fund's investments are less tax efficient than they would have otherwisebeen. HMRC have provided assuranceswith regards to this vehicle to seek to provide comfort, for example, by confirming a VAT exemption on investment management fees.

8. **What measures have been taken to prevent the ACS going bust? What would happen to the assets?**

   ACS operator is a limited liability company, in order to protect shareholders. It will have significant capital, which would mean that,although the ACS operator could be closed down if the participating boroughschose to,it is very difficult for it to go bust. This is because the London boroughs will own the entity and so will control it as shareholders. The ACS will only have a maximum of 33 'clients' and so will be acutely client focussed in its approach.

   The assets would be protected legally since they will be ring-fenced through the corporate entity, the ACS operator company. If the decision was made to close down the ACS the current value of the investments made would be returned to investors (subject to payment of any charges and any change in value caused by movement in the market).

   The board of directors of the company will be responsible for monitoring the performance of the funds and so will receive detailed reporting on a regular basis. As boroughs are involved, there should be sufficient warning if it is felt the ACS is not providing value and boroughs wish to remove their funds.

   If action was taken to wind up the ACS, it should be noted that the FCA will not allow the participants in the ACS to drop to a level where all the costs of closure would be borne by a few remaining participatingcouncils in the vehicle. If any such action was taken significant redemptions would be managed to prevent few investors suffering the closure costs involved.

9. **What assurances can you provide that HM Government will not intervene?**

   The risk of Government intervention must be taken into account, but London Councils have been maintaining activedialogue with the Department for Communities and Local Government. Nothing from this dialogue has given London Councils reason to believe that the current direction of travel will be stopped. London Councils believe the structure delivers much of what central Government are seeking to achieve. The Government are exploring the options for the reform of the LGPS, but it seems unlikely that any reforms will be mandated at this stage.

10. **How confident are we that the identified savings will be made?**

   Avery high level summary of the potential savings and costs have been provided in the report delivered to Leaders. The savings included here are based on work previously undertaken by PwC.

   From some initial discussions in the market, it is considered that fund managers would be able to provide volume discounts due to the size of the fund.

   As an example, analysis of data provided by the councils to Wandsworthshowed that 7 councils use the services of the same fund manager, which has an ad valorum fee, with a total investment of c £750m.If those councils had pooled their assets through the ACS, then by not each having to pay higher fees on the first part of their investment, the overall fee saving would have been approximately £750k p.a. This is a simpleexample from the initial analysis, but indicates that savings that can be made through the ACS structure.

It was also noted that if the overall performance of the boroughs had been in line with the top performers, overall improved returns of close to £100m would have been achieved. Even if these mandates had been passive this could have resulted in a saving of £50m. These figures illustrate the potential benefit of a pooled approach, albeit future returns cannot be guaranteed.

11. How will the CIV be better equipped at selecting the fund managers than the boroughs are now?

There is of course no guarantee to this. However, the vehicle will have a core staff team looking after the fund, taking advice, and being able to spend more time on analysis on a full-time basis, and not as a smaller part of an existing and already busy day job, as can be the case now.

12. How would mandates such as Infrastructure or Real Estate be governed? Is there a risk fund investments could be politicised?

As a regulated company the ACS will require a robust governance structure that recognises the need for close engagement with its 'clients', whilst ensuring that its investment decision making is independent.

Any mandates for alternative assets will be considered by the ACS Operator, and discussed with the boroughs (as 'clients') in advance of being offered. As investors, each borough Pension Committee will be able to choose whether to invest in such mandates (and any such decision will need to comply with any investment restrictions applicable to a borough).

Similarly, if a number of councils wanted to make investments with a particular strategy, for example ethical investments, it may be that the ACS could offer this as one of the options should there be sufficient interest, but it would be for each borough to choose if this was one of the mandates it would invest in.

Currently, the Government cannot control the mandates of a regulated fund such as this. Therefore, they would need to change regulation if they wanted to do this.

[NB. An infrastructure fund 'think piece' will be developed in the coming weeks for discussion with the Pensions Working Group and boroughs.]

13. Will boroughs need to go through a procurement exercise to invest in the ACS?

If the scheme is kept to just the 33 London councils, then there should not be a need for individual boroughs to undertake procurement. Legal advice will be shared on this point. If the fund is offered more widelythis will need to be consideredfurther, but only in the context of the impact on those other local authorities seeking to join.

If boroughs wished to market test the ACS by undertaking a procurement exercise they would of course be able to.

14. Is there a risk other investment managers would undercut the fees offered by the ACS in a procurement exercise?

The ideal scenario is that the market will support the ACS and undercutting does not happen, although it would demonstrate further that better value has been driven by the existence of the CIV. It should also be noted that fees are not the only consideration when undertaking procurement, it is considered there is not a comparable offering in the market, where the mandates available have been so tailored to the needs of the London boroughs.

15. If the government wants the structure to be adopted across the UK, what are the implications?

A number of authorities are watching the developments here in London. In terms of this ACS, it may be that you choose (as owners) that other non-London LGPS funds can come in as investors, however they would not be shareholders of the Operator, and as such would not participate in decision making in the same way the participating London boroughs would.

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APPENDIX III

Local Government Pension Schemes

High level detail on the governance arrangements and FCA regulation of the ACS Operator and the Pensions CIV Joint Committee

1. **Executive Summary**

It is intended that two UK based FCA authorised entities are set up: the investment fund itself (the "ACS") and the entity which operates this, the ACS Operator.

Those local authorities who contribute capital to the ACS Operator will be shareholders of the ACS Operator and have typical shareholder rights e.g. around the approval and appointment of directors and others as agreed between the shareholders. Please refer to paragraph 4.2.1 of this note for further information on these rights. It is envisaged that those local authorities who participate in the ACS Operator will invest in the ACS in due course, although there is no obligation they do so.

A new joint committee (the "Pensions CIV Joint Committee") will be set up to act as a representative body acting on behalf of the participating local authorities. This will be set up by the local authorities using their powers in sections 101 and 102 of the Local Government Act 1972 and section 9EB of the Local Government Act 2000. It will allow the local authorities to streamline their decision making by delegating responsibility for decisions to the Pensions CIV Joint Committee, rather than requiring decisions from the individual local authorities. The Governing Agreement under which Leaders' Committee and the Grants Committee operate was entered into in pursuance of arrangements made under sections 101 and 102 of the Local Government Act 1972 and other powers that were relevant at the time. (The Agreement also sets out the Standing Orders, Financial Regulations and the administrative framework under which all London Councils' activities operate.) The establishment and use of a joint committee in this instance is, therefore, a familiar arrangement which is consistent with the provisions of the Governing Agreement. Please refer to paragraph 4.2.1 of this note for further information on the powers of the Pensions CIV Joint Committee.

The ACS Operator will be set up as a company using the powers in sections 1 and 4 of the Localism Act 2011. Sections 1 and 4 of the Localism Act 2011 provide power to set up the company and trade for commercial return. The local authorities need to ensure that they act reasonably in the exercise of their powers. This means that they would need to take account of all relevant factors, disregard irrelevant factors, observe any procedural requirements, act for proper purposes, not act in bad faith, and not take a decision that no reasonable local authority could take.

Each local authority that decides to participate in the Pensions CIV Joint Committee and in the ACS Operator would need to recognise that the Pensions CIV Joint Committee would be collectively acting in the interests of all participating authorities in exercising their rights as shareholders of a company. Additionally, councillors or officers whom the local authorities nominate to serve as directors of the ACS Operator (if any) would be obliged to act in the best interests of the company and they would need to be satisfied that there would not be a conflict of interests when they balance this duty with their role as a councillor or officer of the local authority that nominates them as a director.

2. **The ACS Operator**

2.1 Key functions of an ACS Operator

The key functions for which the ACS Operator is responsible are:

2.1.1 Investment management of the portfolio of assets of the ACS - this includes front office functions (i.e., day to day decisions about the composition of the funds' portfolios), middle office functions (such as trade processing, portfolio accounting, pricing and valuation and client reporting),back office functions (such as income and tax reclaim collection and settlement management), and the entering into of contracts with brokers and other market participants. These functions will almost certainly be delegated – the investment management to a series of investment management houses and the middle and back office functions to parties with the relevant expertise and infrastructure.

2.1.2 General administration functions– i.e. setting up and generally operating the ACS on a day-to-day basis. The obtaining and maintaining FCA authorisation, appointing and overseeing auditors and regulatory compliance monitoring, tend to be carried out internally and will require detailed knowledge of the FCA Rules as they relate to FCA authorised funds. Other functions e.g., dealing with orders for subscriptions and redemptions of units in the ACS by investors, record keeping and fund accounting services, tend to be outsourced to third parties who have the relevant expertise.

2.1.3 Risk and compliance functions – a separate risk and compliance functions to monitor and assess compliance with the FCA Rules is required and tends not to be outsourced.These functions have a high level of responsibility and personal risk attached.

2.2 Where any functions are delegated/outsourced, the ACS Operator needs to be able to demonstrate to the FCA that it can supervise such delegations.

2.3 **Governance**

The directors of the ACS Operator and those people who perform certain key functions (the chief executive, compliance officer, the money laundering officer, customer function, potentially client assets officer) have to be approved by the FCA and the performance of the functions carries personal responsibility.The responsibility to ensure that such persons are competent and retain FCA approval lies with the ACS Operator.

This may require a mix of internal candidates and external experts to ensure the required level of expertise and independence is achieved.

2.4 **Regulation**

2.4.1 The ACS Operator is authorised by the FCA to perform certain activities appropriate to operating an ACS.

2.4.2 On an ongoing basis the ACS Operator must comply with the relevant provisions in the FCA's Handbook (http://fshandbook.info/FS/index.jsp) (the "FCA Handbook"), which sets out in detail the high level standards and requirements that are applicable to regulated firms in terms of operating their businesses and organisational requirements, senior personnel, systems and controls, delegation, conflict management, interaction with customers, market conduct, remuneration, disclosures, investment restrictions and borrowing powers, and capital adequacy etc.

3. **Application for FCA authorisation**

The process for obtaining FCA authorisation for the ACS Operator is a separate and distinct process from that of setting up and authorising the ACS itself (although it may be possible to run these concurrently).

The FCA will only provide authorisation if it is satisfied that certain threshold conditions are met: whether the proposed ACS Operator has appropriate resources (including financial resources and that all the above functions can be carried out by the ACS Operator directly or on an outsourced basis) in relation to the activities is wishes to carry on, whether a firm is fit and proper to carry out the proposed activities and whether the proposed business model is suitable.

The ACS Operator's proposed procedures and policies also need to be submitted to the FCA, including: a compliance manual, and a compliance monitoring programme, risk management, Internal Capital Adequacy Assessment Process

("ICAAP"), conflicts management etc and in addition to these certain draft documents and agreements (e.g., investment management agreements) will also be required.

The amount of capital the FCA will require the ACS Operator to have will be dependent upon the quantum of assets which the ACS Operator will manage (further detail on the capital requirement is given in the Report considered by Leaders Committee on 11 February 2014).

Each participating local authority will need to seek approval from its Full Council (unless approval can be given under delegated authority) for contributing capital to the ACS Operator. Further information about this is in the following section.

4. The Pensions CIV Joint Committee

4.1 Formation

4.1.1 A new joint committee, the Pensions CIV Joint Committee,will be set up to act as a representative body to act collectively on behalf of the local authorities participating in the ACS (as shown in the structure diagram at Schedule One). The Pensions CIV Joint Committee will be formed of representatives of those local authorities participating in the ACS. Should all the London local authorities participate, this role would be performed by the Leaders' Committee (and the Governing Agreement would need to be varied to delegate functions involving the exercise of sections 1 and 4 of the Localism Act 2011 to that joint committee). The Pensions CIV Joint Committee will need to have terms of reference which set out the powers of the Pensions CIV Joint Committee and the functions for which it is responsible (i.e., the functions relating to acting as a representative of the shareholders in the ACS Operator). The terms of reference will be agreed in accordance with the Governing Agreement of London Councils which established Sectoral joint committees and made provision for additional Sectoral joint committees to be established. Clause 7.2 of the Governing Agreement referred to "Each Sectoral joint committee established hereunder from time to time" and provided that such committees would discharge the functions delegated to them by the local authorities which agreed to subscribe to them and would act in the collective interests of those local authorities. "Sectoral joint committee" is defined in the Governing Agreement as "a joint committee appointed under section 102 Local Government Act 1972 to discharge functions which a minimum of three and a maximum of 32 of the London Local Authorities have agreed to delegate to it, whose terms of reference have been approved by ALG (as it then was known) and which shall operate in relation to ALG, in accordance with this

Agreement". The Governing Agreement provides for standing orders and rules of debate and procedure for the conduct of meetings of the Leaders' Committee and says that these also apply, wherever appropriate to any Sectoral joint committee (as well as other committees and forums that are mentioned). Therefore, appropriate provisions in those standing orders would apply to the new Pensions CIV Joint Committee. The standing orders and rules of debate and procedure have been amended since they were adopted and are kept under review. Although some of the provisions would not be relevant to the new Pensions CIV Joint Committee, it would be clear which provisions apply.

4.1.2 Whilst the Leader of each participating local authority could be appointed as the representative on the Pensions CIV Joint Committee (and this would reflect the arrangements already provided for in the existing London Councils Governing Agreement, which states at clause 4.5 that each London Local Authority shall appoint its Leader as its representative to any Sectoral joint committee and shall be entitled to appoint deputy representatives in accordance with standing orders), it will be important to have a Councillor with the right skills set and time to devote to the responsibilities to ensure the relevant matters can be consulted on appropriately between the participating local authorities and the Pensions CIV Joint Committee. (As you know the existing London Councils arrangements provide for the appointment of Deputies.) In the event that meetings are required to deal with specialist matters e.g. discussions on investment matters such as the setting of original investment mandates by the ACS Operator (which is an FCA responsibility of the ACS Operator), we would recommend that a person with appropriate expertise attend such meetings, e.g., for investor matters, the Chair of the relevant Borough Pension Committee could be appointed.

4.1.3 There is an inherent conflict of interests in the structure that is proposed where representatives of the Borough Pensions Committee sit on the Pensions CIV Joint Committee as they will be both shareholder representatives of the ACS Operator and also make decisions on investments into the ACS itself. This inherent conflict will be managed in the terms of reference of the Pensions CIV Joint Committee and the conflicts policy of the ACS Operator which is required by the FCA.

4.1.4 One point to emphasise is that the interim board of directorsis not intended to remain in place after FCA authorisation. It is temporary. It is there to steer the initial set up phases to assist in progressing the detailed work. The suggested interim directors are current Pensions

Working Group members and have been involved in this project from an early stage. The interim directors will be representing the local authorities and the proposed ACS Operator to facilitate it being established. Going forward new appointments will be made from candidates who are confirmed as suitable by the FCA. Selecting who these individuals may be, and deciding on the selection process, will be one of the tasks for the next phase of work and do not need to be considered by local authorities at this point.

4.2 **Roles and responsibilities**

4.2.1 Although, as shown on the structure diagram at Schedule One, there will be a level of information flowing between the Pensions CIV Joint Committee, the participating Councils and the ACS Operator it is important to note that the Pensions CIV Joint Committeewill be a representative body acting on behalf of the shareholders in the ACS Operator collectively and its functions will be consistent with the provisions of the existing London Councils framework.

The decision to invest through the ACS in the future, as well as the size of investment and mix of assets,will remain with each Borough Pensions Committee. Any such investments will, of course, need to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which contain certain restrictions on the type of assets that can be invested in and the amount of fund property that can be invested in these assets. However, these are not matters which the local authorities are being asked to agree at this time. The decisions boroughs need to take now relate solely to the establishment of the ACS Operator and the associated Pensions CIV Joint Committee.

The Pensions CIV Joint Committee will take decisions in accordance with the functions which have been delegated to it by the participating local authorities. The Pensions CIV Joint Committee will have usual shareholder powers of appointing the directors (subject to FCA approval) and auditors of the ACS Operator, changing the articles of association of the ACS Operator, and the ability to wind up the ACS Operator. The Pensions CIV Joint Committee will act for the shareholders of the ACS Operator collectively, and the shareholders (i.e. the participating local authorities) will nominate the representatives of the Pensions CIV Joint Committee to act for them.

5. **Receiving services from the ACS Operator – Public Procurement**

5.1 The local authorities that participate in the ACS Operator are contracting authorities as defined in the Public Contracts Regulations 2006. Therefore, in usual circumstances, when they arrange to receive services from another entity under a contract in writing for consideration, they would need to procure the service provider through a procurement process which is compliant with the Public Contracts Regulations 2006 and associated legislation and the EC Treaty principles of non-discrimination, equal treatment and transparency,and compliant with the local authority's own standing orders or other rules relating to contracts.

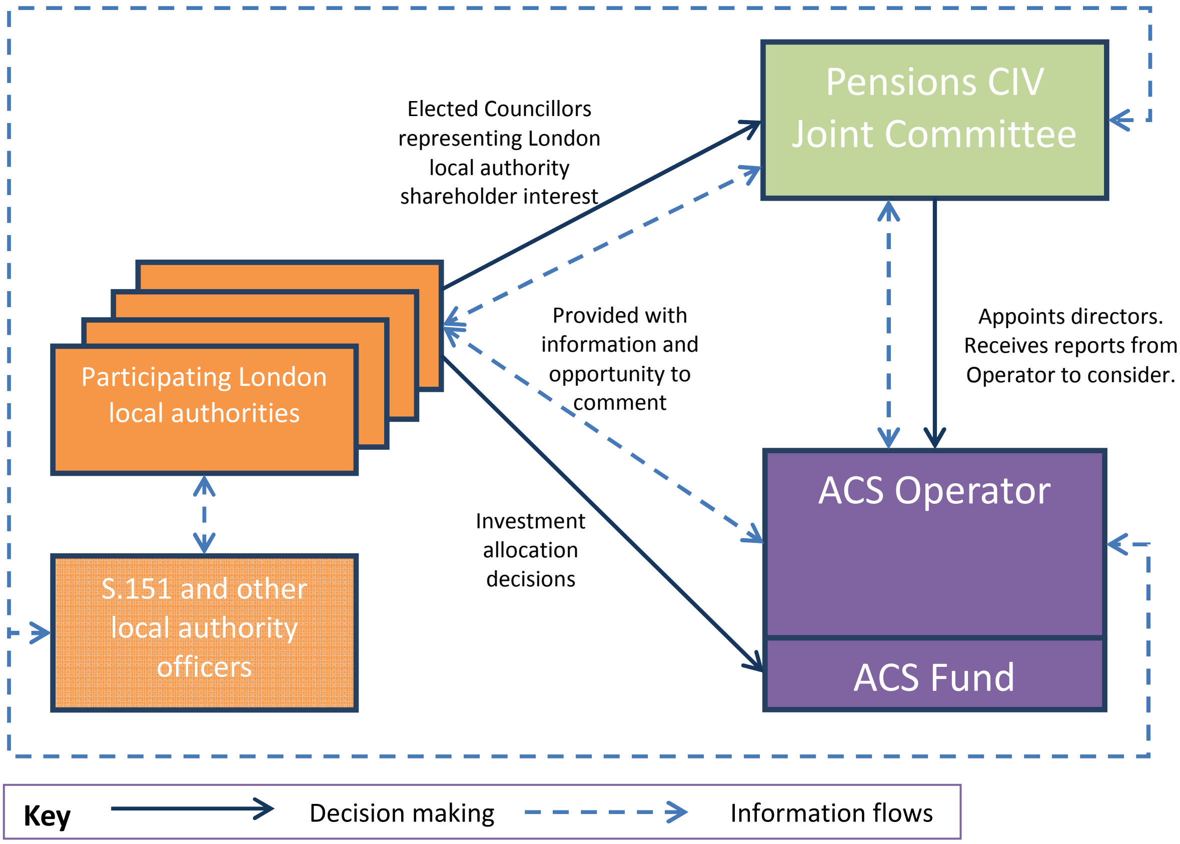
5.2 However, it would be possible for there to be an arrangement for the ACS Operator to provide services to any of the participating local authorities if this arrangement were within the scope of the "*Teckal*" exemption. This is an exemption which was recognised in the case of Case C-107/98 *Teckal Srl v Comune di Viano* and which allows a contracting authority to receive services from an in-house company without being subject to public procurement if certain requirements are satisfied. The requirements are that the contracting authority must exercise over the company a similar level of control as it exercises over its in-house units (the control test) and that the company carries out the essential part of its activities for the contracting authority (the activity test).

5.3 Since it is expected that the ACS Operator would be wholly owned by the local authorities that intend to receive services from it and that it would be established to provide such services, it would be expected that the arrangement would be able to come within the scope of the *"Teckal" exemption*.

...

Pamela Thompson and Frances Woodhead
***for* Eversheds LLP**
13 February 2014

Schedule One – proposed structure



Department for
Communities and
Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
Department for Communities and Local Government

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Contents

1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.

1.4 The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

1.6 A copy of the Consultation Principles is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

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[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

[4] Independent Public Service Pensions Commission: Final Report p.17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf

[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

[6] Local government pension scheme funds summary data: 2012 to 2013
[7] Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

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[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view

[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	Net present value of savings over 10 years (£ billions)
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

“There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link.”

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund’s unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely “local”, as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

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[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

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[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

[16] Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.

[17] Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

> Local Government Shared Services (“LGSS”) Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

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REPORT FOR:	**PENSION FUND COMMITTEE**
Date of Meeting:	29 July 2014
Subject:	Appointment of Independent Advisers
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out the background to the proposed appointment of independent advisers to the Committee and recommends accordingly.

Recommendations:
The Committee is recommended to agree to the appointment of Mr Colin Robertson and Mr Richard Romain as independent advisers to the Committee on the terms described in paragraph 10 (fee of £15,000 pa).

Harrow COUNCIL LONDON

Section 2 – Report

1. At their recent meetings the Committee have discussed increasing the advisory resources available to them and a process for making the necessary appointment(s).

2. The role of independent adviser, as agreed by the Committee, was advertised in the Harrow Observer, the Harrow Gazette and on the Council's website on 6 February 2014 with a closing date for applications of 28 February 2014. A copy of the role description is attached as Appendix 1.

3. All members of the Committee were invited to be members of a panel tasked with making a recommendation to the Committee but the then Councillors Romain and Shah asked not to be involved. .

4. Eight candidates applied all of whom are residents of the Borough or have a close affinity to it.

5. The then Councillors Ferry and Ferrari, advised by the Director of Finance and Assurance, met on 8 April 2014 and agreed a shortlist of four candidates who were invited to meet the panel on the evening of 1 May 2014.

6. The interviews were structured as follows:

    - Candidate to explain what he would bring to the role and how he could help the Committee with its work in the future
    - Candidate to argue a case either in favour or against a move to fewer administering authorities and larger funds
    - Questions and general discussion

7. The panel felt that there were two outstanding candidates, Mr Colin Robertson and Mr Richard Romain. The particular skills that each would bring to the Committee were considered to be as follows

    <u>Colin Robertson</u>

    - Experience at a senior level in the investments / pensions industry
    - Practical understanding of liability management
    - Knowledge of strategies suitable for long-term investments
    - Experience of interacting with Councillors and trustees
    - Good understanding of the public service environment and the Local Government Pension Scheme

Richard Romain

- Good understanding of the public service environment and the Local Government Pension Scheme
- Experience of the Harrow Pension Fund and the practicalities of managing a Fund within the Local Government Pension Scheme
- Knowledge of strategies suitable for long-term investments
- Ability to challenge fund managers and advisers
- Continuity

8. The panel felt that not only did these two candidate offer different skill sets but that they would complement each other thereby offering the prospect of optimum advice.

9. The panel therefore agreed to ask officers to recommend to the Committee the appointment of both Mr Robertson and Mr Romain.

10. The conditions of the appointment would be:

- The appointment will be for three years with the possibility, at the Fund's discretion, to extend for a further two years. The contract may be terminated by the Fund at any time with three months' notice.

- Subject to reasonable circumstances the successful candidate will be expected to attend all of the Committee meetings which will take place on approximately five occasions during the year and are normally held in the evenings. Additionally he/she will be expected to attend up to ten ad hoc meetings during the year which, occasionally, last for a whole day but, more usually, for a few hours. The total commitment to meetings during the year would therefore be of the order of 7/8 days though it is expected that much more time than this will be spent preparing for meetings and maintaining professional expertise.

- A fee of circa £15-20,000 pa is payable quarterly in arrears. Attendance at meetings in addition to those mentioned above will be compensated on a pro-rata basis.

11. In addition the Committee agreed that, on appointment, the successful candidate would be asked to obtain Professional Indemnity Insurance at an appropriate level for which the Fund will reimburse the costs.

Financial Implications

12. The recommended expenditure of £30,000 pa would be a charge to the Pension Fund. Regulation 4(5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 allows the costs, charges and expenses of administering the fund to be paid from it.

Risk Management Implications

13. Risk included on Directorate risk register? No

14. Separate risk register in place? No but risks are extensively discussed in the Pension Fund Statement of Investment Principles and Annual Report

Equalities implications

15. Was an Equality Impact Assessment carried out? Yes

16. There are no equalities implications beyond those covered in Appendix 1.

Council Priorities

17. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name Simon George Date: 17 July 2014	•	Director of Finance and Assurance
Name: Caroline Eccles Date: 16 July 2014	•	on behalf of the Monitoring Officer

Ward Councillors notified:	NO

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

LONDON BOROUGH OF HARROW PENSION FUND
APPOINTMENT OF INDEPENDENT ADVISER

The London Borough of Harrow Pension Fund is seeking an individual with the requisite skills and experience to become an additional adviser to the Fund.

The Fund already receives advice from Council officers, its Investment Adviser, AonHewitt, and an independent adviser. It is seeking someone who either lives in the Borough or who has an affinity to the area who can bring additional skills to bear on the management of the Fund.

Local Government Pension Scheme (LGPS) and its management

The LGPS is a common scheme throughout England and Wales, administered by 89 individual funds (mainly county councils and London borough councils) and, in aggregate, is the largest funded occupational pension scheme in the UK.

It is managed according to local government law and the local democratic process with benefits guaranteed and the financial risks falling on the local authority and its taxpayers

Elected Councillors have legal responsibilities for the prudent and effective stewardship of LGPS funds and a clear fiduciary duty in the performance of their functions. Each administering authority can delegate its Fund investment management to committees and officers.

The successful candidate will be expected to understand these various administrative relationships and the differences between the LGPS and private sector schemes and the role of their trustees.

London Borough of Harrow Pension Fund

The Borough has been administering the Fund since its inception in 1965 and, at 31 March 2013, its assets were valued at £552m The Fund is invested in a wide range of asset classes including UK and Global equities, fixed and index linked bonds, property, private equity and other alternative investments. None of the investments are managed in-house and the Fund currently uses the services of nine investment managers.

The Borough has delegated several of its powers to its Pension Fund Committee.

Pension Fund Committee

The Committee comprises seven members, four of whom are Councillors with full voting rights, two are co-optees from UNISON and GMB unions with no voting rights and the final member is a co-opted adviser again with no voting rights.

The Committee has the following powers and duties:

- To exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- The determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- To administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- To establish a strategy for the disposition of the pension investment portfolio; and
- To appoint and determine the investment managers' delegation of powers of management of the Fund.

Role specification

An individuals with the requisite skills and experience is sought to support and assist members of the Pensions Committee and, as appropriate, Council officers.

The principal responsibilities of the role are:

- To analyse and comment on developments in the UK and World economies and financial markets and their implications for the Fund
- To provide the Committee with an unbiased and independent perspective on investment issues across the Fund's broad range of asset classes and other asset classes in which the Fund is not invested.
- To provide a perspective on the Fund's strategic asset allocation and the performance of its assets and liabilities
- To review and comment on the quarterly performance reports of the Fund's investment managers and to support the Committee in understanding related issues.
- To provide support in the selection / appointment of investment mandates
- To provide and present written reports on the above and related issues as required.
- To support training initiatives as required.
- To attend all meetings of the Committee which will be expected to meet for about three hours in the evenings on approximately five occasions each year

- To attend up to ten ad hoc meetings per year which occasionally cover a whole day but, more usually, last for a few hours.

Required knowledge / personal attributes

- To be a resident of the London Borough of Harrow and / or to have a particular affinity to the area
- To have experience at a senior level in the investments / pensions industry
- To have a good understanding of the Local Government Pension Scheme
- To have an understanding of the implications for pension schemes of developments in the economy and financial markets
- To have a practical understanding of liability management and the matching of pension liabilities with suitable investments including derivatives
- To have a knowledge of strategies suited to long term investments
- To have an ability to communicate and explain economic and investment concepts simply in both written and verbal form.

Desirable knowledge / personal attributes

- To be comfortable in an environment where challenge but also teamwork is expected.
- To have experience of interacting with Councillors or trustees
- To have an understanding of the public service environment in which the Fund operates
- To have a broad knowledge of the pensions environment and of defined benefits schemes in particular
- To have an awareness of responsible investment issues
- To have an investment-related qualification

Conditions of appointment

The appointment will be for three years with the possibility, at the Fund's discretion, to extend for a further two years. The contract may be terminated by the Fund at any time with three months' notice.

A fee of circa £15-20,000 pa is payable quarterly in arrears. Attendance at meetings in addition to those mentioned above will be compensated on a pro-rata basis.

Subject to reasonable circumstances the successful candidate will be expected to attend all of the Committee meetings which will take place on approximately five occasions during the year and are normally held in the evenings. Additionally he/she will be expected to attend up to ten ad hoc meetings during the year which, occasionally, last for a whole day but, more usually, for a few hours. The total commitment to meetings during the year would therefore be of the order of 7/8 days though it is expected that much more time than this will be spent preparing for meetings and maintaining professional expertise.

REPORT FOR: **PENSION FUND COMMITTEE**

Date of Meeting:	29 July 2014
Subject:	Statement of Policy on Employer Discretions under the Local Government Pension Scheme Regulations
Responsible Officer:	Tom Whiting – Corporate Director of Resources
Exempt:	No
Wards affected:	NA
Enclosures:	None

Section 1 – Summary and Recommendations

The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 requires the Council to publish a pensions policy statement on discretions contained within the LGPS regulations.

This report summarises the pension policies that need to be reviewed and makes recommendations for the adoption of new pension policy statements.

Recommendations:

The Committee is requested to consider the information detailed in the report and agree the following recommendations:

1. To only award an additional pension in exceptional circumstances (see 2.8 to 2.11 below).
2. To only contribute to a Shared Cost AVC arrangement in exceptional circumstances (see 2.12 to 2.14 below)
3. To amend the Council's current Flexible Retirement Policy as referenced in 2.18 and 2.19 below.
4. To apply the policy on the 85 year rule and the waiving of any actuarial reduction as shown in 2.27 below.

Harrow COUNCIL LONDON

Section 2 – Report

2.1 Background

2.2 The Local Government Pension Scheme (LGPS) in England and Wales was amended from 1 April 2014 so that benefits accruing for service after 31 March 2014 will accrue on a Career Average Revalued Earnings (CARE) basis, rather than on a final salary basis.

2.3 The provisions of the CARE scheme, together with the protections for members' accrued pre 1 April 2014 final salary rights, are contained in the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

2.4 As a result of the changes, Scheme employers participating in the LGPS in England and Wales have to formulate, publish and keep under review a Statement of Policy on five particular discretions which they have the power to exercise in relation to members of the CARE Scheme.

2.5 In formulating a policy statement the LGPS regulations stipulate that the employer *"must have regard to the extent to which the exercise of the function in accordance with its policy could lead to a serious loss of confidence in the public service".*

2.6 The implication of the Regulations is that the statement should be finalised by 1 July 2014 although this has not been possible due to the Pension Fund Committee's change of meeting date (originally scheduled for 26 June 2014). However, following legal advice it was considered disproportionate to hold a special meeting for this item alone.

2.7 The discretions requiring a policy statement are shown below.

i. Whether to grant additional annual pension of up to £6,500 to an active scheme member or within 6 months of ceasing to be an active scheme member by reason of redundancy or efficiency.

ii. Whether, how much, and in what circumstances to contribute to a shared cost Additional Pension Contribution scheme (APC).

iii. Whether to permit flexible retirement for staff aged 55 or over and whether to waive in whole or in part any actuarial reduction which would otherwise be applied to the flexible retirement benefits if taken before normal pension age.

iv. Whether to apply the '85 year rule' for a scheme member wishing to voluntarily draw benefits on or after age 55 and before age 60.

v. Whether to waive, in whole or in part, any actuarial reduction on benefits which a member voluntarily draws before normal pension age.

2.7 Current Situation

2.8 **Granting additional annual pension**

2.9 The regulations introduce from 1 April 2014 the ability for an employer to grant additional annual pension of up to £6,500. This facility was also available in the previous regulations (LGPS (Administration) Regulations 2008) although the maximum was lower at £5,000.

2.10 An employer could choose to use this facility for various reasons. For example, as an aid to recruitment and retention or as compensation or reward upon retirement. However, the employer costs in terms of reimbursement to the pension fund could make it prohibitive. By way of example, the employer cost to award a 55 year old male an additional annual pension of £6,500 would be £83,265.

2.11 Under the previous regulations Harrow Council chose not to award an additional pension in any circumstances however, this could be interpreted as not exercising the discretionary power at all. It is therefore recommended that an additional annual pension should only be awarded in exceptional circumstances.

2.12 **Shared Cost Additional Pension Contribution Scheme**

2.13 The regulations also allow active scheme members to purchase additional annual pension of up to £6,500 and where this is the case, the employer could voluntarily contribute towards the cost of purchasing that extra pension via a Shared Cost Additional Pension Contribution (SCAPC). For example, a 55 year old female wishing to make contributions over a 10 year period in order to purchase an additional £6,500 will be required to pay £913.25 per month. The employer could decide to pay a certain percentage of the above monthly contribution.

2.14 This is a new facility within the LGPS regulations so there is no existing statement of policy in place. However, due to the reasons laid out in 2.11 above, it is recommended that the Council should only contribute towards a SCAPC arrangement in exceptional circumstances.

2.15 **Flexible Retirement**

2.16 The new regulations retain the use of flexible retirement which permits the immediate payment of pension benefits, at the employers' discretion, where a scheme member reduces his/her hours or moves to a lower grade even though the scheme member has not retired from employment and continues to build up benefits in the Scheme.

2.17 Employers may also continue to waive, in whole or in part, any actuarial reduction that may apply to a scheme member's flexible retirement benefits. (An actuarial reduction is applied if a scheme member draws their benefits earlier than their normal pension age).

2.18 Harrow's current policy on Flexible Retirement is detailed below:

a) All requests for flexible retirement will be considered;

b) Approval will only be granted if it is in Harrow Council's best interest to do so and where the service area can demonstrate operational efficiencies;

c) There will have to be a sufficient reduction in the scheme member's grade or hours to ensure that the pension fund is reimbursed for any shortfalls.

d) The waiving of any early retirement actuarial reduction (either in part or in full) will only be considered in exceptional circumstances.

e) Flexible Retirements must be approved by a Director and agreed by;

I. The Officer Sub Group and Members of the Pension Fund Committee where there is a strain on the pension fund; or

II. The Divisional Director of HRD & Shared Services where there is no strain on the pension fund.

2.19 The above statement of policy could continue to be applied however, as any pension fund strain must be reimbursed through the salary saving and thus having no impact on the fund, it is recommended that the policy is amended to allow the Officer Sub Group in consultation with the Portfolio Holder for Finance & Major Contracts to approve flexible retirement requests where there is a strain on the pension fund.

2.20 **Application of the 85 year rule and the waiving of any actuarial reduction on early retirements**

2.21 Under the previous regulations a scheme member aged 55 or above could receive, subject to the employer's consent, the immediate payment of their pension benefits upon leaving (or having previously left with a deferred pension entitlement). If the member met the 85 year rule (i.e. age plus scheme membership totalled 85), there would be no (or a lower) actuarial reduction applied to their pension benefits.

2.22 From 1 April 2014 it became possible for a scheme member to retire early and receive immediate pension benefits from age 55 onwards without the employer's consent. However, the pension would be actuarially reduced depending on how long before normal pension age the scheme member is retiring irrespective of whether they meet the 85 year rule or not.

2.23 In view of the above, a new employer discretion has been introduced which allows the employer to 'switch on' the 85 year rule in order for the scheme member to receive unreduced or partially reduced benefits. If the 85 year rule was switched back on, the employer would be responsible for meeting any strain on the pension fund. This position is no different to that which applied under the previous regulations where an employer consented to payment of early retirement benefits.

2.24 As in the previous regulations, the employer discretion to waive, in part or in full, any actuarial reduction applied to a scheme member's pension benefits still exists. Prior to April 2014 the actuarial reduction could only be waived on compassionate grounds and this remains the case relating benefits accrued up to March 2014 (or longer for certain scheme members). (NB: there is no definition in the regulations of 'compassionate grounds'). However, in respect of benefits accrued post April 2014 the actuarial reduction can be waived on any grounds. Again, if the actuarial reduction is waived to any degree the employer would be responsible for meeting any strain on the pension fund.

2.25 Prior to April 2014 early retirement requests required final approval from the Pension Fund Committee as the pension costs were indirectly charged to the Council through employer contribution rates which are assessed triennially. This approach had the potential to create a negative impact on the health of the pension fund overall.

2.26 From April 2014 this position has since changed in that any pension strain costs is now directly charged to the Council (service area) and will therefore not impact the pension fund. This means that the financial impact on early retirements fall outside of the pension fund.

2.27 In light of the above, the recommendation for the statement of policy in relation to the application of the 85 year rule and the waiving of actuarial reductions is shown below:

a) All requests for the application of the 85 year rule or the waiving of any actuarial reduction, in part or in full, will be considered;

b) Approval will only be granted if it is in Harrow Council's best interest to do so and where the service area can demonstrate operational efficiencies;

c) Any strain on the pension fund must be met by the service area.

d) The waiving of any early retirement actuarial reduction (either in part or in full) on compassionate grounds and/or on any grounds will only be considered in exceptional circumstances.

e) Subject to (f) below, requests must be approved by a Director and agreed by the Officer Sub Group in consultation with the Portfolio Holder for Finance & Major Contracts.

f) In line with DCLG guidance, where a scheme member's lump sum retirement grant amounts to £100,000 or more, requests must also be approved by full Council or the relevant delegated committee of Council.

2.28 **Financial Implications**

2.29 Contained within the body of the report.

2.30 **Risk Management Implications**

2.31 The recommendations ensure that there is no risk to the pension fund and mitigates budgetary risks to revenue.

2.32 Risk included on Directorate risk register? No

2.33 Separate risk register in place? No

2.34 **Equalities Implications**

2.35 None

2.36 **Council Priorities**

2.37 NA

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 29 May 2014	☐	Chief Financial Officer
Name: Caroline Eccles Date: 4 June 2014	☐	on behalf of the* Monitoring Officer

* Delete the words “on behalf of the” if the report is cleared directly by Simon George or Hugh Peart.

Ward Councillors notified:	**NO**

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Section 4 - Contact Details and Background Papers

Contact: Linda D'Souza, Service Manager – Shared Services, 020 8424 1426. Linda.D'Souza@harrow.gov.uk

Background Papers:

If appropriate, does the report include the following considerations?

1.	Consultation	YES
2.	Priorities	NO

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REPORT FOR: Pension Fund Committee

Date of Meeting:	29 July 2014
Subject:	**Information Report** – London Borough of Harrow Pension Fund – Annual Report 2013-14
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix – Draft London Borough of Harrow Pension Fund Annual Report 2013-14

Section 1 – Summary and Recommendations

The report sets out the draft London Borough of Harrow Pension Fund Annual Report 2013-14.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

1. Attached is the draft Annual Report of the Pension Fund. The Report and its various certifications were signed by the Director of Finance and Assurance on 30 June 2014 in accordance with Regulations. The audit of the Accounts will take place during July and August and the results will be reported to the Committee and the Governance, Audit, Risk Management and Standards Committee in the autumn.

2. The value of the Fund increased by £38.6m in the year reflecting strong performance in the equity and property markets. The Fund continues to mature in that benefit payments exceed contributions. This trend can be expected to continue as the number of pensioners grows and active membership either stabilises or falls. However, when investment income is taken into account, cashflow remains positive. The impact of falling membership, longevity and pension increases will steadily increase future cash outflows which, in the longer term, may have to be factored into the investment strategy. Discussions with the Actuary on longer term cashflow modelling are ongoing.

Financial Implications

3. These are all contained within the report and Appendix.

Risk Management Implications

4. Risk included on Directorate risk register? No

5. Separate risk register in place? No but risks are extensively discussed in the attached Annual report which includes the Statement of Investment Principles.

Equalities implications

6. Was an Equality Impact Assessment carried out? Yes

7. There are no direct equalities implications arising from this report.

Council Priorities

8. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name Simon George Date: 17 July 2014	•	Director of Finance and Assurance
Name: Caroline Eccles Date: 11 July 2014	√	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

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London Borough of Harrow Pension Fund

Annual Report 2013 - 2014

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CONTENTS

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1. Introduction

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Fund ('the Fund') for the financial year to 31 March 2014. This report also explains the administration and management of the Fund, the investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the net assets statement. The actuarial funding level is reported in paragraph 12.14 and in the Statement of the Consulting Actuary.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee continuously reviews the Fund's investment strategy to improve returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the scheme to meet future liabilities.

During 2013-14, overall, equity markets continued to perform strongly with most developed markets producing returns approaching 20% in local currency, though some of this return was eroded for UK investors in the US and Japan by the relative strength of Sterling against the Dollar and the Yen. UK equities were below the overseas average but still returned 11% for the year. UK bonds realised only their third year of negative results in the last twenty whilst, on the other hand, property returned 11% for the year.

The market value of the Fund as at 31 March 2014 was £590.8m compared to £552.2m as at 31 March 2013. The Fund was ranked 19th in the local authority annual league table of investment returns for the year.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance
30 June 2014

DRAFT

2. Audit Opinion and Certificate

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3. Scheme Management and Advisors

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Richard Romain (Chairman) Councillor Keith Ferry (Vice Chairman) Councillor Sachin Shah Councillor Tony Ferrari
Co-optees	Howard Bluston Stephen Compton – UNISON Pamela Belgrave - GMB
Officer	Simon George, Director of Finance and Assurance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon Hewitt
Investment Managers	Aviva Investors Global Services Limited Baring Asset Management BlackRock Investment Management (UK) Limited Fidelity Worldwide Investments Longview Partners Pantheon Ventures Record Currency Management Limited Standard Life Investments State Street Global Advisors Limited Wellington Management Company.
AVC Providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan and Bank of New York Mellon
Auditor	Deloitte LLP
Performance Measurement	WM Company
Bankers	The Royal Bank of Scotland

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4. Scheme Overview

The London Borough of Harrow Pension Fund is part of the Local Government Pension Scheme (LGPS) which is governed by various regulations. Its benefits are therefore defined and guaranteed in law. The LGPS is contracted out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

The London Borough of Harrow Pension Fund is a funded pension scheme which means that contributions into the Fund are made by employers and employees which are then used to make investments upon which a return is anticipated. Benefits are paid using the Fund's cash flow.

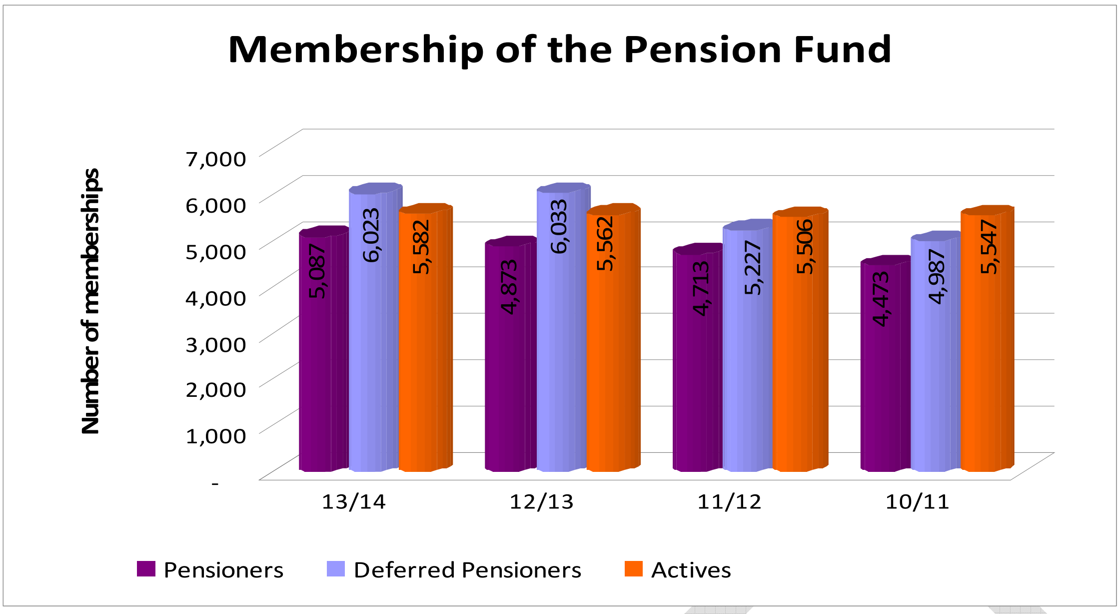
The purpose of the Fund is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria.

Scheduled Employer : This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

Admitted Employer : There are two types of admission body:
Community Admission Body – These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the administering employer to be regarded as having a community of interest.

Transferee Admission Body – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

Membership of the Fund is voluntary. Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.



Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow Council	Scheduled	4,272	5,297	4,804	14,373	86.12
Alexandra School	Scheduled	32	1	0	33	0.20
Avanti Free School	Scheduled	15	1	0	16	0.10
Bentley Wood School	Scheduled	53	35	6	94	0.56
Canons High School	Scheduled	86	23	5	114	0.68
Harrow College	Scheduled	176	235	128	539	3.23
Harrow High School	Scheduled	91	19	3	113	0.68
Hatch End High School	Scheduled	81	110	6	197	1.18
Jubilee Academy	Scheduled	16	2	0	18	0.11
Krishna Avanti Primary School	Scheduled	19	0	0	19	0.11
North London Collegiate School	Scheduled	71	19	26	116	0.69
Nower Hill High School	Scheduled	145	57	2	204	1.22
Park High School	Scheduled	67	26	2	95	0.57
Rooks Heath College	Scheduled	113	21	2	136	0.81
St Dominics 6th Form College	Scheduled	50	20	30	100	0.60
Salvatorian College	Scheduled	57	26	3	86	0.51
Stanmore College	Scheduled	102	116	60	278	1.66
Capita Business Services Ltd	Admitted	11	4	5	20	0.12
Carillion Services	Admitted	87	4	4	95	0.57
Family Action	Admitted	2	0	0	2	0.01
Granary Kids	Admitted	2	1	0	3	0.02
Govindas	Admitted	5	0	0	5	0.03
Harrisons Catering	Admitted	22	3	0	25	0.15
Julius Rutherfoord & Co	Admitted	1	2	1	4	0.03
Linbrook Services Ltd	Admitted	4	1	0	5	0.03
Temco Facilities Services Ltd	Admitted	2	0	0	2	0.01
	Total	**5,582**	**6,023**	**5,087**	**16,692**	**100**

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay and the employee also pays lower National Insurance contributions between the Lower and Upper Earnings Limits, unless the employee has opted to pay the married woman's reduced rate.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2013 and showed that the fund was 70% funded. The deficit is to be funded by additional employer contributions over the course of 20 years.

From April 2008 the payment of a pension is calculated at 1/60th of the final year's pay multiplied by the number of years of service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable service is based on the accrual rate of 1/80th of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active member's number of years of service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.

New LGPS regulations are due to come into force from 1 April 2014. The changes are summarised below:

- Basis of pension to become career average revalued earnings rather than final salary
- Accrual rate (rate at which pension is earned) to be changed to 1/49th from 1/60th
- Revaluation rate to be based on Consumer Prices Index (CPI) rather than final salary
- Pensionable pay now to include non-contractual overtime and additional hours for part time staff
- Members can now pay 50% contributions for 50% of pension benefit
- Normal pension age to be equal to the individual member's state pension age rather than the age of 65
- Death in service survivor benefits and ill health provision to reflect the change in normal pension age

The investment objective of the Pension Fund is to ensure that the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns within acceptable risk tolerances.

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5. Governance Arrangements

The London Borough of Harrow is the Administering Authority for the Pension Fund. Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee convenes approximately six times a year and contains four Councillors with full voting rights. Representatives from the trade unions are able to participate as members of the Committee but do not have voting rights..

The Pension Fund Committee has the following terms of reference:

- to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- to establish a strategy for the disposition of the pension investment portfolio;
- to appoint and determine the investment managers' delegation of powers of management of the Fund;
- to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended), subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
- to apply the arrangements to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;
- to approve any severance packages for officers of £100,000 or over irrespective of the grade of officer. The definition of severance package is in accordance with the DCLG supplementary statutory guidance 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act 2011' issued in February 2013; and
- to report back to Council for information purposes on all such approved severance packages.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

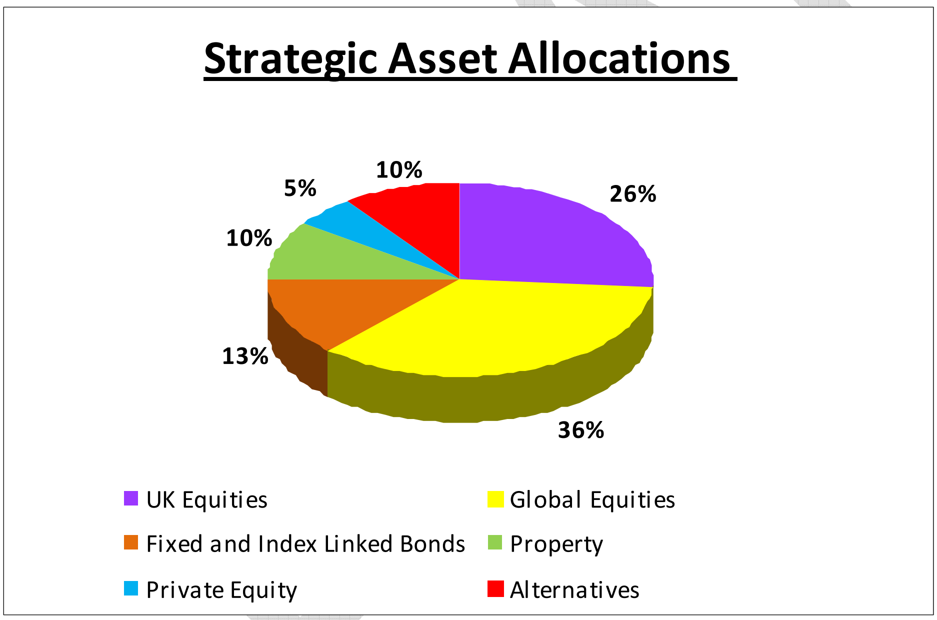
6. Investment Policy and Performance

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The Fund Statement of Investment Principles specifies that the Fund may invest in accordance with the Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

To support the Fund's objective of achieving a return that is sufficient to meet the cost of benefits and achieving this within acceptable risk parameters the Committee, in conjunction with the Fund's investment advisor, set the following strategic asset allocation in March 2013:



The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

Following the strategy review concluded in March 2013 cash balances and realisations from listed equities managed by Fidelity were used to invest 10% of the Fund in two multi-asset class mandates managed by Barings and Standard Life.

The following table compares the actual asset allocation as at 31 March 2014 to the benchmark:

Asset (%)	Actual	Target
UK Equities	26	26
Global Equities	39	36
Fixed and Index Linked Bonds	12	13
Property	8	10
Private Equity	4	5
Alternatives	10	10
Cash	1	**0**
Total	**100**	**100**

The Committee believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Fund managers are set risk parameters to provide them with some flexibility in achieving the asset allocation to allow them to make the most of market conditions. They must seek approval for any positions that go beyond the agreed risk parameters set for their strategies. Following the manager changes discussed above, the Fund has ten investment managers to give diversification of investment style and spread of risk. The Committee will continue to monitor the ability of the investment managers to achieve their target returns.

Investments held by Fund Managers

	2013-14 £000	2013-14 %	**2012-13 £000**	2012-13 %	
Aviva	**45,051**	**8**	41,905	8	UK Property
State Street	**155,512**	**27**	142,591	27	UK Equities Passive
BlackRock	**72,035**	**12**	72,059	14	Corporate and Index-linked bonds
Fidelity	**68,381**	**12**	98,872	18	Global Equities
Longview	**49,507**	**8**	40,109	7	Global Equities
Wellington	**113,911**	**19**	109,156	21	Global Equities
Barings	**26,630**	**5**	0	0	Alternatives
Standard Life	**27,890**	**5**	0	0	Alternatives
Pantheon	**24,648**	**4**	26,328	5	Private Equity
Record	**1,113**	**0**	-2,274	0	Passive currency
Total Fund	**584,678**	**100**	528,746	100	

Market commentary

The Federal Reserve (Fed) continued its open-ended quantitative easing (QE) programme to support the US economy. However, investors became anxious in May as Fed Chairman Bernanke signalled a reduction in QE sooner than expected, possibly in September. In the event, the Fed actually initiated its withdrawal of QE in December. As the Fed continued to wind down its asset purchases, Bernanke's successor Janet Yellen emphasised her commitment to maintain accommodative monetary policy in order to support continuing economic growth.

Both Janet Yellen and Bank of England Governor Mark Carney changed course on their respective forward guidance policies, playing down dependence on the unemployment rate, which had been falling faster than anticipated in both the US and UK.

Tensions in the Ukraine surfaced in early 2014, sparking a fresh bout of volatility in equity markets, after which Russia's president Vladimir Putin calmed investors by saying that he wanted to rebuild ties with independent Ukraine.

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The Eurozone emerged from recession in Q2 2013, led by stronger German growth, although many peripheral countries continued to struggle. Deflationary concerns caused the European Central Bank to lower its policy rate to 0.25%.

For many developed economies, economic data picked up over the year, with a string of strong Purchasing Managers' Index (PMI) releases globally in the second half of 2013. Growth in emerging economies slowed however, with the larger economies, such as China, particularly disappointing investors.

Equities

Markets brushed aside concerns over a reduction in QE, and despite various economic and political difficulties, global equity returns were strong over the 12 months to 31 March 2014, and the MSCI All Country World Index returned 17.4% in local currency terms. However, sterling strength over the year eroded the majority of these returns, and the sterling return on the index was 6.7%.

Despite some encouraging economic data and having the fastest developed market GDP growth, UK equity market returns over the past 12 months were overshadowed by other developed markets. The UK equity market returned 8.8%.

Over the past 12 months, US equities provided the highest return in local currency terms (22.2%) whilst returning 11.3% in sterling terms due to sterling strength. Despite investors having to adjust to the prospect of a return to normal monetary policy, equities were able to sustain gains over the period.

Continental European equities returned 21.2% in local currency terms, which equated to 17.3% in sterling terms, higher than in any other region.

Japanese equities performed exceptionally well in 2013 as new government and central bank leadership led to an aggressive stimulus package in an attempt to jumpstart growth and end years of deflation. However, Japanese equities lost their momentum at the start of 2014 as investors became worried about the implications of a weaker Chinese economy on Japanese exports and the stalling progress of reforms. Japanese equities returned 18.4% in yen terms, but the combination of sterling strength and yen weakness meant that the return to sterling investors was -1.6%.

Emerging Markets lagged developed markets and were the worst performers in both local currency (3.8%) and sterling (-9.9%) terms. This poor performance was due to a slowdown in emerging market growth and weaker commodity prices. Investors also grew concerned about the impact of Fed monetary policy on the region.

Gilts

UK fixed interest gilts provided negative return over the year as better economic data and speculation over an end to QE in the US put upward pressure on UK bond yields.

UK corporate bonds returned 1.6% over the year as the narrowing of credit spreads offset the rise in gilt yields.

UK Property

UK property returns were positive, with the IPD Monthly Index rising 14.0% over the period, its highest 12-month return since December 2010.

Currencies and interest rates

Bank of England (BoE) policy rates remained at 0.5%, unchanged since March 2009. New BoE Governor Mark Carney, who started in July, issued forward guidance that interest rates would stay low until unemployment falls. After falling faster than anticipated, the unemployment rate was dropped as the main trigger for allowing interest rates to rise. Improving UK economic data caused sterling to appreciate against most major currencies over the year. Sterling ended the year up 7.2% on a trade-weighted basis.

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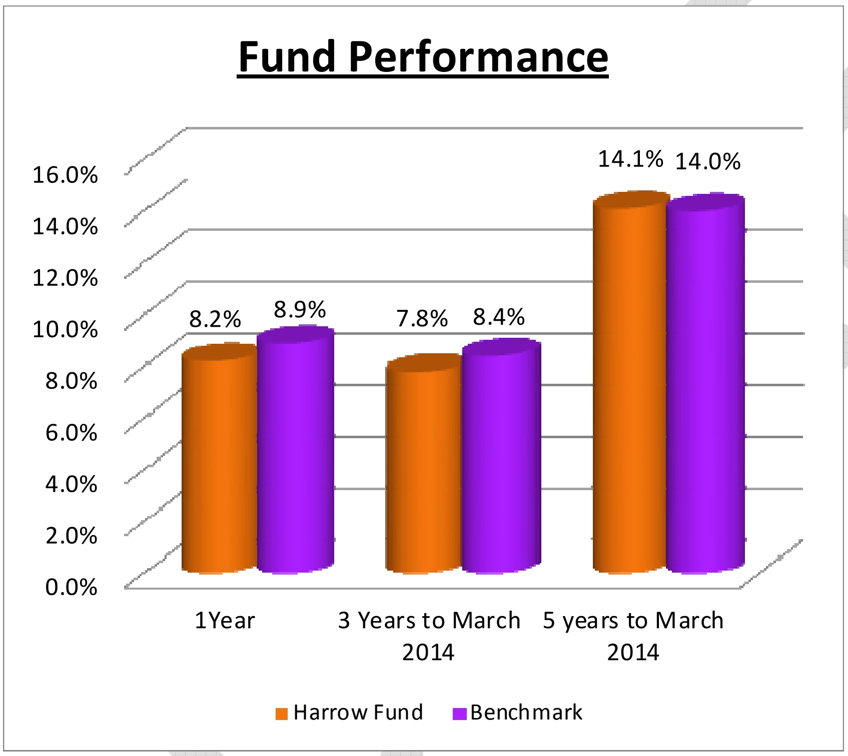
The Federal Funds rate remained between 0% and 0.25%. QE3 continued throughout the year with $85bn a month of asset purchases. However, in December, the Fed started to wind down its asset purchases, which now stand at $55bn per month. The US dollar appreciated on a trade-weighted basis by 1.8%, though this was largely a result of the hefty devaluation of the Japanese yen. The US dollar depreciated by 8.9% against sterling.

The ECB cut rates by 25 basis points to 0.5% in May 2013, after which weak inflation data and a reduction in growth forecasts prompted the ECB to further cut their policy rate to 0.25% in November. The euro depreciated by 2.2% against sterling over the year.

The Bank of Japan (BoJ) left rates at between 0 and 0.1%, unchanged since December 2008. In April the new BoJ Governor announced a massive escalation in monetary easing to boost growth and tackle deflation. The yen depreciated by 16.8% against sterling over the year as a result.

Fund performance

The Committee uses WM Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years are shown below.



Source: WM Performance Services

The Fund had a good year with equities, property and private equity all providing returns in excess of 10%. Returns over all three time periods were strong, reflecting recovery from the significantly lower returns achieved at the height of the financial crisis in 2008. The Fund has moderately underperformed against its benchmark over the last three years due primarily to the significant underperformance of one of the equity managers.

The average local authority fund (as measured by WM Performance Services) returned 6.4% on its assets during the year. The Fund was ranked 19th in the local authority annual league table of investment returns for the year. The Council's asset allocation added 0.2% to the return relative to the local authority universe whilst the successful stock selection by some of the managers realised a relative outperformance of 1.6%.

7. Statements and Publications

Governance Compliance Statement
The Local Government Pension Scheme (Administration) Regulations 2008 Regulation 31 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and if so what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement can be found in Appendix 1.

Communications Policy Statement
The Local Government Pension Scheme (Administration) Regulations 2008 require all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The latest Statement can be found in Appendix 2.

Local Government Pension Scheme Guide
A brief guide to the Local Government Pension Scheme can be found in Appendix 3

Statement of Investment Principles
Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to publish a Statement of Investment Principles. This Statement provides details of the Fund's investment policies including
• The types of investment to be held
• The balance between different types of investment
• Risk measurement and management

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.
The current version can be found in Appendix 4.

Funding Strategy Statement
Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:
• How the costs of the benefits provided under the LGPS are met through the Fund
• The objectives in setting employer contribution rates
• The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Statement of Investment Principles. The current full Statement can be found in Appendix 5.

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8. Risk Management

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and operating effectively. The aim of risk management is to limit risk to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

a. Governance and Regulatory Risks

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Regular reviews of the Statement of Investment Principles and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved.
- Tailored training for members.
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department.

b. Sponsor Risk

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are received from Admitted employers.

c. Investment Risk

The Fund is invested in a range of asset classes as detailed in paragraphs 12.7 and 12.9. This is done in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of a Statement of Investment Principles which sets out the Fund's approach to investment including the management of risk. The predominant asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

<u>Pricing Risk</u>
The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund fell by 31% in the 15 months to March 2009 before increasing by 54% in the next 21 months to December 2010. During the last year the net assets of the Fund have increased by 7%. Most of the price changes relate to the global value of equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The proportion of the Fund invested in listed equities is 65%, which remains a high allocation to one asset class. The investment strategy is reviewed at least once every three years by the Pension Fund Committee and market conditions are reviewed at each meeting to determine if any strategic or tactical action is required.
- Global equities are managed by three active managers to reduce the risk of underperformance against benchmarks. The Investment Advisor provides quarterly reports on the performance and skills of each fund manager to the Pension Fund Committee.
- The benefit liabilities are all sterling based and to reduce the currency risk from non sterling investments, 50% of the overseas currency exposures are hedged to sterling.

Liquidity Risk
Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 12% of Harrow's fund is in illiquid assets. This is deemed low for a scheme that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all are currently on overnight deposit and readily accessible.

Counterparty Risk
The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

d. Actuarial risks

The value of the liability for future benefits is impacted by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Recent changes to the benefit structure will reduce some of these risks. All are monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

e. Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each investment fund together with annual assessments of the control environment including reviews of internal controls reports certified by reporting accountants.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

9. Communications

Registered Address	London Borough of Harrow Civic Centre Station Road Harrow HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8424 1186.
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Website: www.pensionsadvisoryservice.org.uk
The Office of the Pensions Ombudsman	The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB Tel No. 0207 630 2200 Fax No. 0207 821 0065 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk

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10. Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Chief Financial Officer, i.e., the Director of Finance and Assurance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the statement of accounts.

The Director of Finance and Assurance's Responsibilities

The Director of Finance and Assurance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance and Assurance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2014 and its income and expenditure for the year then ended.

Simon George BA(HONS) ACMA ACMT

Director of Finance and Assurance
30 June 2014

11. London Borough of Harrow Pension Fund Account

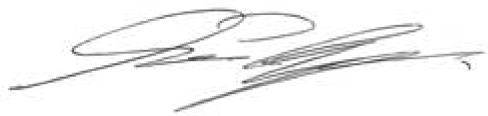
Pension Fund Account for the year ended 31st March 2014

2012-13 £000		Notes	2013-14 £000
	Contributions and Benefits		
-25,351	Contributions receivable	12.2	**-25,458**
-1,279	Individual transfers in from other schemes		**-2,874**
24	Other income		**-306**
	Less:		
26,716	Benefits payable	12.3	**31,259**
1,062	Payments to and on account of leavers	12.4	**1,074**
827	Administrative expenses	12.5	**981**
1,999	**Net additions from dealings with members**		**4,676**
	Returns on Investments		
-4,833	Investment income	12.6	**-7,468**
-60,112	Change in market value of investments	12.7	**-35,562**
-339	Investment management expenses	12.5	**-236**
-65,284	**Net Returns on Investments**		**-43,266**
-63,285	Net (Increase)/decrease in Fund during the year		**-38,590**
-488,942	Net assets at start of year		**-552,227**
-552,227	**Net assets at end of year**		**-590,817**

Net Assets Statement

2012-13 £000		Notes	2013-14 £000
	Investment Assets		
531,020	Pooled investment vehicles	12.9	**583,565**
865	Derivative contracts	12.10	**1,351**
531,885			**584,916**
	Investment Liabilities		
-3,139	Derivative contracts	12.10	**-238**
528,746			**584,678**
20,117	Cash deposits	12.7	**4,873**
548,863	**Net Investment Assets**		**589,551**
3,974	Current assets	12.12	**2,000**
-610	Current liabilities	12.12	**-734**
552,227	**Net assets of the Fund available to fund benefits at 31 March 2014**		**590,817**

The accounts summarise the transactions of the Fund and deal with the net assets. The Net Assets Statement does not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 26 and 27 and these accounts should be read in conjunction with it.



Simon George BA(HONS) ACMA ACMT
Director of Finance and Assurance
30 June 2014

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12. Notes to the Pension Fund Accounts

12.1 Accounting Policies, Judgements and Uncertainties

Accounting Policies

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and following guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007).

Basis of Preparation - Except where otherwise stated, the accounts have been prepared on an accruals basis.

Investments - These are shown in the accounts at market value which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2014;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers;
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date; and
- There are no published price quotations available to determine the value of the Fund's private equity holdings. The value of these holdings is therefore assessed by the manager as at 31 December 2013 and adjusted for drawdowns paid and distributions received in the period 1 January 2014 to 31 March 2014.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the Fund and fees and expenses charged to the Fund.
Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year.

Benefits, Refunds of Contributions and Transfer Values - Benefits payable and refunds of contributions are accounted for in the period in which they are payable. Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

Investment Income - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into Sterling at the date of the transaction.

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Investment Management and Administration - Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

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

The items in the Net Assets Statement as at 31 March 2014 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	**Effect if actual results differ from assumptions**
Unquoted property & private equity investments	There are no publicly listed prices for the Fund's investments in property and private equity and therefore there is a degree of estimation and judgement involved in the valuations used based on recognised professional guidance.	Total property and private equity investments disclosed in the accounts amount to £69.7m. A 10% change in value will result in a change in value of +/- £7 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The effects of changes in individual assumptions can be measured.	A decrease of 0.5% in the discount rate assumption would increase the pension liability by approximately £76m. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £19m and £56m respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £26m.

Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

<u>Unquoted private equity investments</u>

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in, using guidelines issued by the Private Equity Industry Guidelines Group in the USA (known as the Private Equity Valuation Guidelines) and the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by almost all venture capital associations, including the BVCA.

<u>Actuarial present value of promised retirement benefits</u>

The actuarial present value of promised retirement benefits, as disclosed in note 12.14, is prepared by the Fund's actuary, adopting prescribed assumptions as set out in IAS19. These assumptions may differ from those used by the actuary at formal triennial valuations to determine the level of contributions payable by employers. The liability disclosed in note 12.14 is subject to significant variances depending on the assumptions adopted.

12.2 Contributions

2012-13 £000		2013-14 £000
	Employers - normal	
-15,161	London Borough of Harrow	**-15,042**
-3,330	Scheduled Bodies	**-3,756**
-494	Admitted Bodies	**-344**
	Members - normal	
-5,225	London Borough of Harrow	**-5,094**
-1,024	Scheduled Bodies	**-1,137**
-117	Admitted Bodies	**-85**
-25,351		**-25,458**

12.3 Benefits

2012-13 £000		2013-14 £000
	Pensions	
21,085	London Borough of Harrow	**22,359**
709	Scheduled Bodies	**868**
141	Admitted Bodies	**69**
21,935		**23,296**
	Commutation of Pensions and Lump Sum Retirement Benefits and Commitments	
3,840	London Borough of Harrow	**5,909**
288	Scheduled Bodies	**625**
24	Admitted Bodies	**423**
4,152		**6,957**
	Lump Sum Death Benefits	
611	London Borough of Harrow	**841**
18	Scheduled Bodies	**135**
	Admitted Bodies	**30**
629		**1,006**
26,716		**31,259**

12.4 Payments to and on Account of Leavers

2012-13 £000		2013-14 £000
2	Refunds to members	**17**
1,060	Individual transfers to other schemes	**1,057**
1,062		**1,074**

12.5 Investment Management and Administration Expenses

2012-13 £000		2013-14 £000
-339	Investment management expenses	**-236**
	Scheme administration	
682	London Borough of Harrow	**778**
145	Miscellaneous (including Actuary Fees)	**203**
827	**Total Administration Expenses**	**981**
488	**Total Expenses**	**745**

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External audit fees of £21,000, the same as in the previous year, were charged.

12.6 Investment Income

2012-13 £000		2013-14 £000
-4,628	Income from pooled investment	**-7,407**
-205	Interest on cash deposits	**-61**
-4,833		**-7,468**

All investments other than cash are held in pooled investments and only the income that is distributed is included above. Income retained within pooled funds is reflected within the change in market value of investments.

12.7 Investments

	Value at 01-Apr-13 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-14 £000
Pooled Investment Vehicles					
Property	41,905	0	0	3,146	**45,051**
Other	489,115	57,804	-35,202	26,797	**538,514**
Derivatives	-2,274	1,508	-3,740	5,619	**1,113**
	528,746	**59,312**	**-38,942**	**35,562**	**584,678**
Cash Deposits	20,117				4,873
	548,863				**589,551**

The change in market value reflects higher valuations for equities partly offset by a fall in the value of the bond holdings.
Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.
All fund managers operating the pooled investment vehicles are registered in the United Kingdom.
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Derivative receipts (£3.7m) are in respect of realised profits on forward foreign exchange trades settled during the period.

12.8 Investments Exceeding 5% of the Total Value of Net Assets

2012-13 £m		2013-14 £m
142.6	SSGA MPF UK Equity Index Sub-Fund	**155.5**
109.2	Wellington Global Pooled Value Equity Portfolio	**113.9**
86.8	Fidelity Institutional Select Global Pooled Equities	**61.2**
57.5	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**57.6**
40.1	Longview Partners Invest - Global Pooled Equities FD K Class	**49.5**
41.9	Aviva Investors UK Real Estate Fund of Funds Open Ended	**45.1**
478.1		**482.8**

12.9 Pooled Investment Vehicles

2012-13 £000		2013-14 £000
	UNITED KINGDOM	
	Managed funds - Property	
41,905	Unit Trusts	**45,051**
	Managed funds - Other	
142,592	Unitised Insurance Policy	**155,513**
	Fixed interest securities	
57,527	Corporate	**57,566**
	Index linked securities	
14,532	Public Sector	**14,468**
	GLOBAL	
	Managed funds - Other	
149,265	Unit Trusts	**191,308**
125,199	Other	**119,659**
531,020	**TOTAL**	**583,565**

12.10 Derivatives

2012-13 £000		2013-14 £000
	Investment Assets	
865	Forward foreign exchange contracts	**1,351**
	Investment Liabilities	
-3,139	Forward foreign exchange contracts	**-238**
-2,274	**Net Derivatives**	**1,113**

Counterparty	**Duration**	**No. of Contracts**	**Value at 31-Mar-14 Assets £000**	**Liabilities £000**
Barclays Bank - London	7 days - 7 mths	**5**	**377**	**-41**
Deutsche Bank - London	7 days - 6 mths	**4**	**567**	**-17**
Northern Trust	7 days - 6 mths	**6**	**246**	**-6**
Royal Bank of Canada - London	7 days - 6 mths	**9**	**48**	**-8**
Standard Chartered	7 days - 3 mths	**7**	**10**	**-11**
State Street - London	3 mths - 6 mths	**5**	**6**	**-42**
Toronto Dominion - Toronto	7 days - 6 mths	**5**	**49**	**-60**
Westpac - Sydney	7 days - 6 mths	**5**	**48**	**-53**
		46	**1,351**	**-238**

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk arising from developed market currencies. Exposures to currencies that have a higher bid offer spread e.g. emerging markets, are not hedged. Non sterling currency exposure hedged at the year end is £105m. The main currency exposures before hedging in sterling are US$ £55m, Yen £17m and Euro £13m.

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12.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefits through the payment of AVCs, which are invested outside the Fund with insurance companies. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. However, the note below details the change in value of AVCs during the year.

2012-13		2013-14
2,099	Value of AVC Fund at 1 April	**2,211**
356	Employee contributions	**371**
107	Investment income and change in market value	**86**
0	Transfer values in	**10**
-351	Benefits paid and transfers out	**-268**
2,211	**Value of AVC Fund at 31 March**	**2,410**

12.12 Current Assets & Liabilities

2012-13 £000		2013-14 £000
	Current Liabilities	
-149	Unpaid benefits	**-154**
-461	Other unpaid liabilities	**-580**
-610		**-734**
	Current Assets	
3,778	Cash balances held by London Borough of Harrow	**1,678**
177	Contributions due from employers	**283**
19	Other current assets	**39**
3,974		**2,000**
3,364	**Net Current Assets**	**1,266**

12.13 Related Party Transactions

2012-13 £000		2013-14 £000
-15,161	Employer's pension contribution to the Fund	**-15,042**
682	Administration expenses paid to the Council	**778**
3,778	Cash held by Council	**1,678**

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. The Pension Fund has operated a separate bank account since April 2011. However, due to the ease of administration and to avoid any undue cost to the Fund some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

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12.14 Actuarial Value of Retirement Benefits

Disclosure of the year end actuarial value of benefits calculated under IAS 19 assumptions is required by CIPFA's Code of Practice on Local Authority Accounting 2013/14. The IAS 19 valuation is based on prescribed assumptions that differ from those used in the triennial valuation that determines the required level of contributions.

The actuarial value of benefits and the main assumptions used by the actuary are set out below.

Assumption	
Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2013. The liability at 31 March 2014 (£824m) has been estimated by the actuary as comprising £314m in respect of employee members, £148m in respect of deferred pensioners and £362m in respect of pensioners. The actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises.

The value of the Fund as at 31 March 2014 represents 71.7% of the value of benefits determined under IAS19 assumptions. The deficit is expected to be addressed through a combination of investment returns in excess of the discount rate and additional deficit contributions from Employers.

12.15 Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £552m and the total accrued liabilities of the Fund were £786m. The Fund deficit was therefore £234m, producing a funding level of 70.3% (compared to 73.5% at 31 March 2010).
To reach the funding level of 100% over a period of 20 years, the common employer's contribution rate is 34.4% of pensionable pay. Projected Unit Method is used to determine this rate. Adjustments have been made to the common rate of employer's contribution to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used in the 2013 actuarial valuation are detailed below:

Assumption	
Price inflation (CPI)	2.5%
Pay increases	3.8%
Gilt based discount rate	3.0%
Funding basis discount rate	4.6%
Longevity at 65 for current pensioners:	
Male	22.1 years
Female	24.4 years
Longevity at 65 for future pensioners:	
Male	24.5 years
Female	26.9 years

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13. Statement of the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

• to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

• to ensure that employer contribution rates are reasonably stable where appropriate;

• to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

• to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

• to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £552 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £234 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

Method

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

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Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.80%	1.30%
Pension increases	2.50%	-

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	24.5 years	26.9 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Harrow , the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been a little better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

Associate of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 May 2014

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APPENDIX 1

Governance Compliance Statement

London Borough of Harrow Pension Fund

June 2009

Introduction

This is the Governance Compliance Statement of The London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority. The statement provides an overview of Harrow's approach towards the governance of the Pension Fund.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Linda D'Souza (Service Manager – Shared Services)
Harrow Council London
Shared Services
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF
TEL: 020 8424 1426
Fax: 0208 424 1196
Email: linda.d'souza@harrow.gov.uk

Regulatory Framework

This compliance statement is required by the provision of regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008.

The provision requires Harrow Council as the Administering Authority to prepare a written statement setting out: -

"… (a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

if it does so—

the terms, structure and operational procedures of the delegation,

the frequency of any committee or sub-committee meetings,

whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying".

This statement will be revised and republished following any material change on any of the matters set out above. A current version of the compliance statement will always be available either through the pensions unit at the address on page three, on the intranet under – 'Employment with the Council' – 'Employees Pension' – 'Policy Statements' – 'Governance Compliance Statement'.

Delegated Functions

Harrow Council has delegated its functions to the following:

i) Licensing and General Purposes Committee

ii) Pension Fund Investments Panel

iii) Early Retirement Sub-Committee

iv) Officer Sub – Group

v) Divisional Director Shared Services

vi) Assistant Chief Executive

vii) Chief Officers

Licensing and General Purposes Committee

The Licensing and General Purposes Committee is comprised of fifteen Members representing two different political parties with voting rights. Council Senior Officers attend each meeting.

The Committee meets approximately four times a year and, inter alia, has the following responsibilities:

- Functions relating to local government pensions, etc (Regulations under Sections 7, 12 or 24 of the Superannuation Act 1972 (c.11)[52]).

- The determination of applications under the Local Government Pension Scheme Regulations.

Within its Terms of Reference, the Committee therefore carries out functions such as:

- provide a response to any draft LGPS amendment regulations or other discussion paper relating to the LGPS.

- In some instances, decide to whom a death grant is paid.

- consider policy matters in relation to the pension scheme and the Council's early retirement policy.

Pension Fund Investments Panel

The Pension Fund Investments Panel is comprised of four Members representing two different political parties with voting rights and one Co-optee Member without voting rights. Council Senior Officers attend each meeting and Trade Union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Panel meets four times a year and have the following responsibilities:

- To administer all matters concerning the Council's pension investments in accordance with the law and Council Compliance.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the managers' delegation of powers of management of the fund.

Within its Terms of Reference, the Panel therefore carries out functions such as:

- at least once every three months, review the investments made by the Fund Managers and from time to time consider the desirability of continuing or terminating the appointment of the Fund Managers.
- receive actuarial valuations of the Fund.

Early Retirement Sub-Committee

The Early Retirement Sub-Committee is comprised of three Members representing two different political parties with voting rights. Council Senior Officers attend each meeting.

The Sub-Committee meets on an ad-hoc basis and have the following responsibilities:

- To determine applications in respect of Chief Officers where the application has been recommended by the Chief Executive, under regulation 18, regulation 30 and also regulation 19 (on the grounds of redundancy, or in the interests of the efficiency of the service), and where the application was instigated by the Chief Executive in consultation with the Leaders of the political groups.
- To determine all other applications, for early retirements under regulation 18 (Flexible Retirement) & 30 (Early payment of pension) where there is a cost to the pension fund.

Officer Sub – Group

The Officer Sub – Group is comprised of three Officers representing Finance, Legal and HR. Council Senior Officers attend each meeting.

The Sub-Group meets on an ad-hoc basis and have the following responsibilities:

- To determine applications, for early retirements under regulation 19 (redundancy or in the interest of the efficiency of the service). The release of pension benefits must be signed off by the Corporate Director of Finance.

Divisional Director Shared Services

The Divisional Director Shared Services has the following responsibility:

- To determine applications, for early retirements under regulation 18 and regulation 30 where there is no cost to the pension fund.

Assistant Chief Executive

Pension Fund Investment

In respect of the discretionary management arrangements the Assistant Chief Executive has the following responsibilities which in turn have been delegated to the Corporate Director of Finance:

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.

- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.

- To enter into under-writing agreements.

- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension (Investment) Regulations 1999 to ensure the need for diversification and stability of investments

Chief Officers

Chief Officers are specifically authorised to take decisions on behalf of the Council or its non-Executive Committees in cases of urgency, using the procedure for non-executive decisions on minor matters or the procedure for urgent non-executive decisions.

Urgent Non-Executive Decisions and Minor Matters

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the two other main political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Chief Executive who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

Safeguards

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

Statement of compliance to guidance

Regulation 31(3)(c) requires LGPS administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement under Regulation 31(3)(c) to give, in their governance compliance statement, the reasons for not complying.

Principle A – Structure

a. **The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**

b. **That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.**

c) **That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.**

d) **That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.**

	Not Compliant*				**Fully Compliant**
a)					√
b)				√	
c)					√
d)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle B – Representation

a) **That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-**

- **i) employing authorities (including non-scheme employers, eg, admitted bodies);**
- **ii) scheme members (including deferred and pensioner scheme members),**
- **iii) where appropriate, independent professional observers, and**
- **iv) expert advisors (on an ad-hoc basis).**

b) **That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.**

	Not Compliant*				**Fully Compliant**
a)				√	
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

<u>Principle C – Selection and role of lay members</u>

a) **That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*				**Fully Compliant**
a)					√
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle D – Voting

a) **The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.**

	Not Compliant*				Fully Compliant
a)			√		

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) **No formal documentation providing justification for not extending voting rights exists.**

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle E – Training/Facility time/Expenses

a) **That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Not Compliant*				Fully Compliant
a)			√		
b)					√
c)			√		

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal documentation exists on the policy for training, facility time and expenses.
No formal training log exists.

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle F – Meetings (frequency/quorum)

a) **That an administering authority's main committee or committees meet at least quarterly.**

b) **That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.**

c) **That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented**

	Not Compliant*				**Fully Compliant**
a)					√
b)					√
c)				√	

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

No formal representation of ex-members (pensioners/deferred members).

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle G – Access

a) **That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above

Principle H – Scope

a) **That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements**

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above **All key scheme issues (e.g. the exercise of discretions under the scheme's regulations) are subject to the rigorous supervision and oversight of the main committee.**

<u>Principle I – Publicity</u>

a) **That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.**

	Not Compliant*				Fully Compliant
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above

The statement is published in various formats to LGPS employers, all types of scheme membership (i.e. actives/pensioners/deferreds), unions and non – LGPS employers.

APPENDIX 2

Communications Policy Statement

London Borough of Harrow Pension Fund

September 2009

Contents

Introduction

This is the Communications Policy Statement of the Harrow Council Pension Fund, administered by Harrow Council, the Administering Authority.

The Fund liaises with a number of employers, namely:-

- **Harrow Weald Conservators**
- **North London Collegiate School**
- **St. Dominic's VI Form College**
- **Harrow College**
- **Stanmore College**
- **Supporta Care**
- **Care UK**
- **Harrisons**
- **Hughes Gardner Cleaning and Support Services Ltd.**
- **Kier Group**
- **Hayward Services Ltd**

and approximately 14,350 scheme members (5600 active members, 4550 deferred members and 4200 pensioner members) in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 September 2009.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Linda D'Souza - Service Manager – Shared Services
Harrow Council
Shared Services
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

TEL: 020 8424 1186 Fax: 0208 424 1196

email: linda.d'souza@harrow.gov.uk

Regulatory Framework

This policy statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) and subsequently by Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008. The provision requires Harrow Council as the Administering Authority to:

"*….prepare, maintain and publish a written statement setting out their policy concerning communications with:*

(a) members.

(b) representatives of members.

(c) prospective members.

(d) employing authorities."

In addition it specifies that the statement must include information relating to:

"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, Harrow Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

[1] Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

Responsibilities and Resources

The legal duty for the proper administration of the Harrow Council Pension Fund lies with Harrow Council. Communication material is raised through the Shared Services Pension's Team and validated through the Harrow Communications Unit. The Shared Services Pension's Team write all communications including information published on the Internet/Intranet. The team is also responsible for arranging all forums, pension surgeries, workshops and meetings covered within this statement. The Shared Services Pension's Team report through the recognised organisational unit hierarchical structure, ultimate responsibility for ensuring compliance lies with the Divisional Director – Shared Services.

Printing documentation is either carried out internally through Shared Services or through Harrow's appointed printing contractor.

Communication with key audience groups

Our audience

The Shared Services Pension's Team communicates with a number of stakeholders on an on-going basis. For the purpose of this communication policy statement, the team are considering engagement with the following audience groups:

active members;

deferred members;

pensioner members;

debit / credit members;

prospective members;

scheme employers and admission bodies;

union representatives;

Elected Members;

chief officers

Shared Services pensions administration staff

In addition there are a number of other stakeholders with whom Harrow Council communicate on a regular basis, such as Her Majesty's Revenue and Customs, Communities & Local Government, Department of Works and Pensions, Pensions Advisory Service, Solicitors, actuaries and other pension providers. Harrow Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

How we communicate

General communication

Harrow Council has set in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. Pension information, for the most part, is delivered through paper based communications. Harrow has put in place alternative communication mediums (e.g. documents in Braille, large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally Harrow utilises Internet/Intranet mediums and is currently investigating, in consultation with Harrow's Audit unit, both email and internet self-service as mediums that will facilitate a gradual move away from paper communications and reduce communication costs.

Within the pension team, staff are responsible for all administration of the Local Government Pension Scheme. Any member of staff within the team can deal with general telephone calls, written correspondence or visitors. Communications of more complicated pension issues are managed amongst the pension's senior management.

Telephony feed is either through a dedicated direct dial number or alternatively directly to the main Harrow Council switchboard and then onward transfer to one of the pension teams' extensions.

Branding

As the Pension Fund is administered by Harrow Council, all literature and communications will conform to the Council's branding policy.

Accessibility

Harrow Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request. All publications include details of how a request for alternative communication format is requested.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

Key communication objectives will, over and above individual communications with members (e.g. notification of scheme benefits, response to an individual enquiries, etc), be managed as detailed below:

- for the LGPS to be used as a tool in the recruitment and retention of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that all stakeholders, whether they be active members, pensioners or Elected Members have sufficient material to hand to inform pension-related judgements.

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group (Active, Deferred, Pensioner or All)***
Scheme Guide	Paper based and through Harrow's Internet/Intranet	At joining and major scheme changes	Post to home address/via scheme employers & online	Active
Newsletters	Paper based and through Harrow's Internet/Intranet	Annually and ad hoc to reflect timely notification of major scheme changes	Post to home address & online	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and through Harrow's Internet/Intranet	Annually	Hard copy on request & online	All
Pension Fund Accounts – Summary	Paper based and through Harrow's Internet/Intranet	Annually	Post to home address.& online	Separately for active and deferred

Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred
Factsheets	Paper based and through Harrow's Internet/Intranet	Topic specific information sheets .	Post to home address & online	Active and deferred
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All
Pension Surgeries	Face to face	On request	On request	Active
One to one education sessions	Personal interview	On request	On request	All
Question and Answer sessions	Paper based, Harrow Intranet & seminars	Quarterly	Various	Active

Explanation of communications

Scheme Guide - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as European / British pension matters, payroll pay dates/deadlines, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Annual Benefit Statements – For active members these include the current value of benefits to 31 March as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. The annual benefit statement is a combined publication and includes the members state benefits as advised through the Department for Works and Pensions.

For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Fact sheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, death benefits and pension rights on divorce etc.

Harrow Intranet – The Intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Harrow website – The website also provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Pension Surgeries – Pension surgeries provide the opportunity for groups of staff (i.e. 6 or more) to arrange a personal visit, at their place of work, from a member of the team.

One to one education sessions – These sessions offer the individual a confidential interview with a member of the team.

Question and Answer Sessions – Organised on a quarterly basis this gives pension scheme member’s the opportunity to quiz the Harrow Pension team on all pension specific matters.

Policy on promotion of the scheme to Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- for the LGPS to be used as a tool in the recruitment of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Shared Services Pension's Office does not have immediate access to prospective members, however, the benefits of a final salary defined benefit scheme is referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Overview of the LGPS - Guide	Paper based, DVD and Internet	On commencing employment	Via employers	New employees
Promotional Brochure	Paper based	Annually	Via employers	Existing/New employees
Membership Specific Reminder	Paper based	Annually	Post to home address	Current Non LGPS Harrow Council employees

Explanation of communications

Overview of the LGPS – Guide - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so. A DVD has also been produced which is sent out with the joining packs. All this information is available on Harrow's Internet pages.

Promotional Brochure – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Membership Specific Reminder – Through a combination of individual letter and promotional brochure provide current Harrow Council employees, who have not joined the LGPS, with sufficient information to revisit their earlier decision.

Policy on communication with Employing Bodies

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- Given the increased costings associated with funding a final salary defined benefit scheme, provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide a database infrastructure that will assist in maintaining an accurate database.
- To provide literature and processes around starters, changes during employment, leavers, retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure they understand the benefits of being an LGPS employer.
- to assist the employing body in the development of their discretionary policy.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group***
Employers' Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and via data storage medium	Main contact for all employers
Newsletters	Paper based	Annually	Post & email	Main contact for all employers
Annual employers meeting	Annual meeting with key employing body personnel	Annually	Meeting	Employing body management
Employers' focus groups	Quarterly seminars	Quarterly	Attendance at seminars	All LGPS employees
Harrow Pension Fund Report and Accounts	Paper based	Annually	Post	Employing body
FRS17 report	Paper based and electronic file format.	Annually	Hard copy post and data storage medium.	Employing Body.

Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at contract renewal.	Hard copy post and data storage medium	Admitted Body

Explanation of communications

Employers' Guide - A detailed communication that provides guidance on the employer's duties responsibilities. Assists employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).

Newsletters – A technical briefing document that will include recent changes to the scheme, the impact on Pension Section administration and other relevant information.

Annual Employer's Meeting – A formal seminar style event where the Harrow Pension team provide an annual update and the employing body get to question all aspects of the support arrangements.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS with representatives of all employing bodies.

Harrow Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

FRS17 Report – This is a national accounting standard that all authorities administering pension funds must follow. FRS17 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come.

Service Level Agreement – Document that sets out, alongside the admission agreement, the duties and responsibilities of both parties for the duration of the service contract.

Policy on communication with Union Representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to union members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme and to ensure that Union representatives have full vision and opportunity to respond on all CLG and HMRC consultations

- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members

- to liaise with unions and provide every assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives will be met by providing the following communications:

Method of communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Briefing papers	Paper based and electronic	As and when there are scheme changes	Email or hard copy	All union members of the LGPS
Education sessions	Paper based and electronic	On request or following suggestion of Harrow's Pension's Team	Various	Union representatives
Pension Panel meetings	Reports & Meeting	In line with published Panel meeting cycle	Notification through Committee Services	Named union representatives

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Education sessions – these are education sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies]

Pension Panel meetings – a formal meeting of Elected Members, attended by Council Senior Officers, Investment Managers, invited Pension specialists and union members.

Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members:

- to ensure that Elected Members receive sufficient briefings/training to allow them to carry out their statutory duties and responsibilities in line with HMRC and LGPS legislation.

- to seek Elected Member approval to the development or amendment of discretionary policies,

- to seek Elected Members approval to formal responses to government consultation in relation to the scheme

- to ensure that Elected Members have sufficient detail in order to make an informed judgement in relation to early retirement cases

- to ensure that Elected Members have full vision of actuarial reports, particularly those that impact on the Harrow Pension Fund.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following member elections or timely briefings to ensure Elected Members are aware of scheme changes.	LGPS specific seminar	All Elected Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members
Pension Meetings	Meeting	In line with the published Committee / Panel meeting cycle.	Members elected onto Licensing & General Purposes Committee and Pension Panel	All members of the Pension Committee/Panel
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	Cabinet
Early Retirement Pension Panel	Meeting or Urgent Action	As and when required.	Report	Panel members

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Elected Member's key duties and responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS .

Pension Meetings – Reports submitted to the Licensing & General Purposes Committee and Pensions Investment Panel.

Report and Verbal Briefing – Occasions when The Cabinet require vision of forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

Early Retirement Pension Panel meetings - a formal meeting of elected members, attended by Council Senior officers where Elected Members consider and mage judgement on presented cases.

Policy on communication with Shared Services Pensions Team

Our objectives with regard to communication with pension administration staff are:

- ensure they are aware of changes and proposed changes to the LGPS scheme.
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management and re-engineering service processes continuously monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Identify training/development needs as part of IPAD	IPAD documentation	Annual exercise, reviewed at 6 months. Informal bi-monthly meetings	IPAD process	All pensions staff
Staff meetings	Informal briefings	As and when required	By arrangement	All pensions staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All pensions staff

Explanation of communications

IPAD – Formal staff review process where future training/development needs are identified in relation to the team's strategic priorities.

Staff meetings - Informal training sessions – which provide new and established staff with timely update on changes to pension legislation or processes and an opportunity to discuss such amendments with senior members

Attendance at external courses – to provide more tailored training where it is cost-effective to use external trainers

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Reports/written response/electronic postings	Various	Reports published annually and 'As and When required' in relation to general enquiries	Various	All Harrow constituents and other interested parties.

Explanation of communications

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council's Intranet site. Other ad hoc requests are responded to in light of the specific information request and utilising the most appropriate communications medium.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

Method of	***Media***	***Frequency of***	***Method of***	***Audience Group***

Communication		Issue	Distribution	
Pension Fund valuation reports • Revenue & Adjustment (R&A) certificate • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Communities & Local Government (CLG), Her Majesty's Revenue and Customs HMRC)/all scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	CLG/HMRC
Formal resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Via email or post	CLG/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a statutory report issued every three years by the scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

New admission agreements – a legal requirement to notify both the Secretary of State and the HMRC of new admitted bodies.

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – Annual Survey

Performance Measurement

The Shared Services Pension's Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	*Audience*	*Statutory delivery period*	*Target delivery period*
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 days of joining the LGPS
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All phone calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Retirement benefits to be issued within 3 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within working 8 days of relevant paperwork
Transfers in	Joiners/active members	Within two months of request	Within 5 days of receiving relevant paperwork
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

Quality

Audience	***Method***	***To consider***	***Notes***
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Scheduled / Admitted body specific issues	Regular feedback sessions.

Results

The Pensions office publish, annually, performance against client-agreed targets. Elected Members receive copy of all performance reports through the Committee / Panel reporting cycle.

Review Process

Our communication policy will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the policy statement will always be available either through the pension's office, at:-

Shared Services

Harrow Council

3rd Floor South Wing

Civic Centre Station Road

Harrow Middlesex HA1 2XF

or on our Internet site under www.harrow.gov.uk – Advice & Benefits – Local Government Pension Scheme

A brief guide to the Local Government Pension Scheme (LGPS)

Employees in England and Wales – April 2014

Highlights of the LGPS

The LGPS gives you:

Secure benefits –
the scheme provides you with a future income, independent of share prices and stock market fluctuations.

At a low cost to you –
with tax-efficient savings and lower National Insurance contributions for most people under ***State Pension Age***.

And your employer pays in too –
the scheme is provided by your employer who meets the balance of the cost of providing your benefits in the LGPS.

You can look forward to your retirement with the LGPS with:

A secure pension –
worked out every ***scheme year*** and added to your ***pension account***. The pension added to your account is equal to a 49th of your pay in that year. At the end of every ***scheme year*** the value of the pension in your account is adjusted to take into account the cost of living (as currently measured by the ***Consumer Prices Index (CPI)***).

Flexibility to pay more or less contributions –
you have the option in the LGPS to pay half your normal contributions in return for half your normal pension. This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme when times are financially tough. You can also boost your pension by paying more contributions, which you would get tax relief on.

Tax-free cash –
you have the option when you draw your pension to exchange part of it for some tax-free cash.

Peace of mind –
your family enjoys financial security, with immediate life cover and a pension for your spouse, ***civil partner*** or ***eligible cohabiting partner*** and ***eligible children*** in the event of your death in service and, if you ever become seriously ill and you've met the 2 years ***vesting period***, you could receive immediate ill health benefits.

Freedom to choose when to take your pension –
you do not need to have reached your ***Normal Pension Age*** in order to take your pension as, once you've met the 2 years ***vesting period***, you can choose to retire and draw your pension at any time between age 55 and 75. Your ***Normal Pension Age*** is simply the age you can retire and take the pension you've built up in full. However, if you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

Redundancy and Efficiency Retirement –
if you are made redundant or retired in the interests of business efficiency at or after age 55 you will, provided you've met the 2 years ***vesting period***, receive immediate payment of the benefits you've built up.

Flexible retirement –
if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, and you've met the 2 years ***vesting period***, draw some or all of the benefits you have built up, helping you ease into retirement, although your benefits may be reduced for early payment.

The scheme

This guide is a short description of the conditions of membership and main scheme benefits that apply if you pay into the LGPS on or after 1 April 2014.

What kind of scheme is it?
The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972 (in the future scheme rules will be made under the Public Service Pension Schemes Act 2013) and is contracted out of the State Second Pension scheme (S2P). The LGPS is a qualifying scheme under the automatic enrolment provisions of the Pensions Act 2008. Your pension is worked out every year and added to your ***pension account***. The amount in your ***pension account*** is revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living.
The LGPS is very secure because the benefits are set out in law.

Who can join?
The LGPS covers employees working in local government and for other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and work for an employer that offers membership of the scheme. If you are employed by a designating body, such as a town or parish council, or by a non-local government organisation which participates in the LGPS (an ***admission body***), you can only join if your employer nominates you for membership of the scheme. Police officers, operational firefighters and, in general, teachers and employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

If you start a job in which you are eligible for membership of the LGPS you will be brought into the scheme (unless your contract of employment is for less than 3 months and you are not an ***Eligible Jobholder***, but even then you can opt to join by completing an application form).

If you are brought into the scheme you have the right to opt out. You cannot complete an opt out form until you have started your employment.

How do I ensure that I have become a member of the LGPS?
On joining the LGPS relevant records and a ***pension account*** (for each employment if you have more than one employment) will be set up and an official notification of your membership of the LGPS will be sent to you. **You should check your pay slip to make sure that pension contributions are being deducted.**

Can I opt-out of the LGPS and re-join at a later date?
Yes you can opt-out of the scheme but if you are thinking of opting out you might want to first consider an alternative option which is to elect to move to the 50/50 section of the scheme. The 50/50 section allows you to pay half your normal contributions in return for half your normal pension build up. To find out more, see the section on **flexibility to pay less**.

If having considered the 50/50 option you still decide the LGPS is not for you, you can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing. You might, however, want to take independent financial advice before making the final decision to opt out.

If you opt out of the LGPS before completing 3 months membership you will be treated as never having been a member and your employer will refund the contributions to you through your pay.

If you opt out of the LGPS with 3 or more months membership and before completing the 2 years ***vesting period*** you can take a refund of your contributions (less any statutory deductions) or transfer out your pension to another scheme.

If you opt out of the LGPS after meeting the 2 years ***vesting period*** you will have deferred benefits in the scheme and will generally have the same options as anyone leaving their job before retirement.

If you opt-out, you can, provided you are otherwise eligible to join the scheme, opt back into the scheme at any time before age 75.

If you opt out of the LGPS then:

- on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will automatically enrol you back into the LGPS if you are an ***Eligible Jobholder*** at that time in the job you've opted out from, or
- if on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008 you are not an ***Eligible Jobholder*** at that time in the job you opted out from your employer will, if you subsequently become an ***Eligible Jobholder*** in that job, automatically enrol you back into the LGPS from the ***automatic enrolment date***.

Your employer must notify you if this happens. You would then have the right to again opt out of the LGPS.

If you stay opted out your employer will normally automatically enrol you back into the LGPS approximately every 3 years from the date they have to comply with the automatic enrolment provisions.

What do I pay?
Your contribution rate depends on how much you are paid but it's currently between 5.5% and 12.5% of your ***pensionable pay***. If you elect for the 50/50 section of the scheme you would pay half the rates listed below. The rate you pay depends on which pay band you fall into.

Here are the pay bands and the rates that apply from April 2014.

Contribution table 2014/15	
If your Pay is:	**You pay a contribution rate of:**
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
Over £150,000	12.5%

The intention is that contribution rates and / or pay bands will be reviewed on a regular basis and may change in the future.

Do I get tax relief?
As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your ***pay*** and you will be contracted out of the State Second Pension scheme (S2P). There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the annual allowance of £40,000 you may have to pay a tax charge. Most people will not be affected by the annual allowance.

What about my National Insurance contributions?
Whilst you are a member of the LGPS you will currently, prior to ***State Pension Age***, pay reduced National Insurance contributions.

Does my employer contribute?
Your employer pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the scheme.

Is there flexibility to pay less contributions?
Yes, in the scheme there is an option known as 50/50 which provides members with the facility to pay half the normal contributions and to build up half the normal pension during the time the reduced contributions are being paid - see the section on **flexibility to pay less**.

Can I make extra contributions to increase my benefits?
You can increase your benefits by paying additional contributions (known as Additional Pension Contributions, APCs) to buy extra LGPS pension, or by making payments to the scheme's ***Additional Voluntary Contribution***s ***(AVC)*** arrangement. Your pension fund can give you more information on these options. Contact details are at the end of this guide.

You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

What if I've been a member before and can now re-join the LGPS?
If you rejoin the LGPS and you have deferred benefits in an LGPS fund in England and Wales your deferred benefits will normally be automatically joined with your new active ***pension account***. If you want to retain separate deferred benefits then you must make such an election within 12 months of rejoining the scheme. If you rejoin the LGPS in England and Wales and have a deferred refund this **must** be joined with your new active ***pension account***.

What about any non-LGPS pension rights I have?
If you have paid into another non-LGPS pension arrangement, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer and pension fund allows you longer.

What if I'm already receiving an LGPS pension – will it be affected?
If you are already drawing a pension from the scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. They will let you know whether your pension in payment is affected in any way.

If you are drawing a pension from the scheme, all of which you built up after 31 March 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment. The only exception to this is if you are in receipt of an ill-health pension that is stopped if you are in any gainful employment, in which case you must inform the employer who awarded you that pension and they will let you know whether your pension in payment should be stopped.

Contribution Flexibility

Flexibility to pay less
When you join the scheme you will be placed in the main section of the scheme. However, once you are a member of the scheme you will be able to elect in writing, at any time, to move to the 50/50 section if you wish.

The 50/50 section gives you the ability to pay half your normal contributions. This flexibility may be useful during times of financial hardship as it allows you to remain in the scheme, building up valuable pension benefits, as an alternative to opting out of the scheme.

A 50/50 option form is available from your employer. If you have more than one job in which you contribute to the scheme you would need to specify in which of the jobs you wish to be moved to the 50/50 section.

If you elect for 50/50 you would be moved to that section from the next available pay period. You would then start paying half your normal contributions and build up half your normal pension during the time you are in that section. When you make an election for the 50/50 section your employer must provide you with information on the effect this will have on your benefits in the scheme.

If you were to die in service whilst in the 50/50 section of the scheme the lump sum death grant and any survivor pensions would be worked out as if you were in the main section of the scheme. If you are awarded an ill-health pension which includes enhanced membership, the enhanced membership is added to your ***pension account*** as if you were in the main section of the scheme.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the main section of the scheme approximately three years from the date they first have to comply with the automatic enrolment provisions of the Pensions Act 2008 (and approximately every three years thereafter). If you wished to continue in the 50/50 section at that point you would need to make another election to remain in the 50/50 section.

There is no limit to the number of times you can elect to move between the main and the 50/50 section, and vice versa.

Flexibility to pay more
There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by paying:

- Additional Pension Contributions (APCs) to buy extra LGPS pension,
- ***Additional Voluntary Contributions (AVCs)*** arranged through the LGPS (in-house AVCs),
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,
- Contributions to a stakeholder or personal pension plan.

Your pension fund can give you more information on the first two of these options. Contact details are at the end of this guide.

Your Pension

Your LGPS benefits are made up of:

- An annual pension that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- The option to exchange part of your pension for a tax-free lump sum paid when you draw your pension benefits.

How is my pension worked out?
Every year, you will build up a pension at a rate of 1/49th of the amount of ***pensionable pay*** you received in that ***scheme year*** if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). If during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is based on your ***assumed pensionable pay***. The amount of pension built up during the ***scheme year*** is then added to your ***pension account*** and revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living.

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently using your membership built up to 31 March 2014 and your final year's pay.

The examples below show how benefits based on membership in the LGPS built up after 31 March 2014 are worked out.

If you are nearing retirement and you were a member of the scheme before 1 April 2014 there is an additional protection in place to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on the 1 April 2014. This protection is known as the **underpin.**

The **underpin** applies to you if you were:

- an active member on 31 March 2012, and
- you are within 10 years of your protected ***Normal Pension Age*** on 1 April 2012, and
- you haven't had a continuous break in active membership of a public service pension scheme of more than 5 years (after 31 March 2012), and
- you've not drawn any benefits in the LGPS before protected ***Normal Pension Age***, and
- you leave with an immediate entitlement to benefits.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your protected ***Normal Pension Age*** if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section of the scheme at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2014. If it isn't, the difference will be added into your ***pension account*** when you draw your benefits.

What pensionable pay is used to work out my pension?
Your pension for membership in the LGPS built up after 31 March 2014 is worked out using your ***pensionable pay*** which is the amount of pay on which you pay your pension contributions.

However if during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is worked out based on your ***assumed pensionable pay***.

Can I exchange part of my pension for a lump sum?
You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

How is my pension worked out - an example

Let's look at the build-up in a member's ***pension account*** for 5 years in the scheme.

Let's assume that the member joins the scheme on 1 April 2014, that their ***pensionable pay*** is £24,500 in ***scheme year*** 1 and their ***pensionable pay*** increases by 1% each year. Let's also assume that the cost of living (revaluation adjustment) is 3% each year.

Scheme Year	Opening Balance	Pension Build up in Scheme year Pay/ Build up rate = Pension	Total Account 31 March	Cost of living Revaluation adjustment	Update Total Account
1	£0.00	£24,500/49 = **£500.00**	£500.00	3% = £15.00	£500.00 + £15.00 = **£515.00**
2	£515.00	£24,745/49 = **£505.00**	£1,020.00	3% = £30.60	£1,020.00 + £30.60 = **£1,050.60**
3	£1,050.60	£24,992.45/49 = **£510.05**	£1,560.65	3% = £46.82	£1,560.65 + £46.82 = **£1,607.47**
4	£1,607.47	£25,242.37/49= **£515.15**	£2,122.62	3% = £63.68	£2,122.62 + £63.68 = **£2,186.30**
5	£2,186.30	£25,494.79/49 = **£520.30**	£2,706.60	3% = £81.20	£2,706.60 + £81.20 = **£2,787.80**

If you joined the LGPS before 1 April 2014
Your benefits for membership before 1 April 2014 are calculated differently.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your ***final pay*** plus an automatic tax-free lump sum of 3 times your pension.

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your ***final pay***. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

Taking AVCs as cash
If you pay ***Additional Voluntary Contributions (AVCs)*** via the LGPS you may elect to take up to 25% of your AVC fund as a tax-free lump sum provided the lump sum doesn't exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment.

If your election to start paying AVCs was made before 1 April 2014 you can elect to take up to 100% of your AVC account as a tax-free lump sum if you draw it at the same time as your main LGPS pension benefits **provided,** when added to any LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £312,500 (2014/15 figure) less the value of any other pension rights you have in payment.

Details of this option will be given to you shortly before your retirement.

Retirement

When can I retire and draw my LGPS pension?
You can choose to retire and draw your pension from the LGPS at any time from age 55 to 75, provided you have met the 2 years ***vesting period*** in the scheme.

The ***Normal Pension Age*** in the LGPS is linked to your ***State Pension Age*** (but with a minimum of age 65). If the ***State Pension Age*** changes in the future then this change will also apply to your ***Normal Pension Age*** for benefits built up after 31 March 2014.

If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later. You must draw your benefits in the LGPS before your 75th birthday.

You may have to retire at your employer's instigation, perhaps because of redundancy, business efficiency or permanent ill health. Your LGPS benefits, even in these circumstances can, provided you have met the 2 years ***vesting period*** in the scheme provide you with an immediate retirement pension, which may even be enhanced.

If you voluntarily choose to retire before, on or after your ***Normal Pension Age*** you can defer drawing your benefits but you must draw them before age 75. If you draw your pension after your ***Normal Pension Age***, your benefits will be paid at an increased rate to reflect late payment.

If you built up membership in the LGPS before 1 April 2014 then you will have membership in the final salary scheme. These benefits have a different ***Normal Pension Age***, which for most is age 65.

Will my pension be reduced if I voluntarily retire before my Normal Pension Age?
If you choose to retire before your ***Normal Pension Age*** your benefits will normally be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed under the heading **How is my pension worked out?** and are then reduced. How much your benefits are reduced by depends on how early you draw them.

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

What if I lose my job through redundancy or business efficiency?
If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits, provided, you have met the 2 years ***vesting period*** in the scheme. However, any additional pension paid for by Additional Pension Contributions (APCs) or Shared Cost Additional Pension Contributions (SCAPCs) would be paid at a reduced rate if the retirement occurred before your ***Normal Pension Age*** (to take account of the additional pension being paid for longer). Also if you have bought additional pension by Additional Regular Contributions (ARCs), that additional pension would be paid at a reduced rate if the retirement occurred before your pre 1 April 2014 ***Normal Pension Age*** which, for most, is age 65.

What happens if I have to retire early due to ill health?
If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you have to have met the 2 years ***vesting period*** in the scheme and your employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that you will be permanently unable to do your own job until your ***Normal Pension Age*** and that you are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement if you are unlikely to be capable of gainful employment within 3 years of leaving.

What if I want to have a gradual move into retirement?
This is known as flexible retirement. From age 55, if you reduce your hours or move to a less senior position, and provided you have met the 2 years ***vesting period*** in the scheme and your employer agrees, you can draw some or all of the pension benefits you have built up – helping you ease into retirement. If you take flexible retirement before your ***Normal Pension Age*** your benefits may be reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part.If your employer agrees to flexible retirement you can still draw your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the scheme. Flexible retirement is at the discretion of your employer and they must set out their policy on this in a published statement.

What if I carry on working after my Normal Pension Age?
If you carry on working after your ***Normal Pension Age*** you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay drawing it. You must draw your pension by no later than age 75. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

How does my pension keep its value?
On retiring on or after age 55 your LGPS pension increases in line with the cost of living every year throughout your retirement. As the cost of living increases, so will your pension. If you are retired on ill health grounds, your pension is increased each year regardless of your age.

Protection for your family

What benefits will be paid if I die?
If you die in service as a member of the LGPS the following benefits are payable:

- A lump sum death grant of three times your ***assumed pensionable pay***.
- Pensions for ***eligible children***.
- A spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension, equal to 1/160th of your ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your pension account following a transfer of pension rights into the scheme, plus an amount equal to 1/160th of your ***assumed pensionable pay*** for each year of membership you would have built up from your date of death to your ***Normal Pension Age***. For membership built up **before** 1 April 2014 the pension payable is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's***

pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

If you are in the 50/50 section of the scheme when you die this does not impact on the value of any pension for your **spouse, *civil partner, eligible cohabiting partner*** or ***eligible children*.**

If you die after retiring on pension, a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's*** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's pension***).

A lump sum death grant will be paid if you die and less than 10 years pension has been paid and you are under age 75. The amount payable would be 10 times the level of your annual pension prior to giving up any pension for a tax-free cash lump sum, reduced by any pension already paid to you and the amount of any tax-free cash lump sum you chose to take when you drew your pension at retirement. If you are receiving a pension and are also an active member of the scheme, or have a separate deferred benefit when you die this may impact on the death grant you receive.

What conditions need to be met for an eligible cohabiting partner's survivor's pension to be payable?

If you have a cohabiting partner, of either opposite or same sex, they will be entitled to receive a survivor's pension on your death if they meet the criteria to be considered to be an ***eligible cohabiting partner***.

For an ***eligible cohabiting partner's*** survivor's pension to be payable, all of the following conditions must have applied for a continuous period of at least 2 years on the date of your death:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies the pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

Who is the lump sum death grant paid to?
The LGPS allows you to say who you would like any death grant to be paid to by completing and returning an expression of wish form. This form is available from Harrow pension fund. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to. You can find out how to contact the pension fund at the end of this guide.

Leavers without an immediate entitlement to benefits

If you leave your job before retirement and have met the 2 years *vesting period* you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave your job before retirement and <u>have not</u> met the 2 years *vesting period* you will have three options:

- you will normally be able to claim a refund of your contribution, or
- you may be able to transfer your benefits to a new pension arrangement, or
- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must, in any event, be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Refunds of Contributions
If you leave, or opt out of the scheme after 3 months' membership, and you've not met the 2 years ***vesting period*** you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P). A refund of contributions must be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Deferred benefits
If you leave before your ***Normal Pension Age*** and you meet the 2 years ***vesting period*** you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in the **How is my pension worked out** section using the length of your membership up to the date that you left the scheme. During the period your pension benefits are deferred they will be increased each year in line with the cost of living.

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your ***Normal Pension Age***, but:
- they may be put into payment earlier and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be capable of undertaking any gainful employment within 3 years of applying for the benefit or by your ***Normal Pension Age***, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 55 onwards, or
- you can, if you wish, elect not to draw your deferred benefits at your ***Normal Pension Age*** and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid earlier than your ***Normal Pension Age***, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after your ***Normal Pension Age*** will be increased.

If you leave with deferred benefits and you die before they come into payment, a lump sum death grant equal to 5 years' pension will be paid. If you have deferred benefits and are also an active member of the scheme when you die this may impact on the death grant you receive. The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from Harrow pension fund. You can find out how to contact the pension fund at the end of this guide. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

If you leave with deferred benefits and die before they come into payment a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's pension*** and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160ths of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For membership built up **before** 1 April 2014 the pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry after retiring in which case it could be less. For a ***civil partner*** or an ***eligible cohabiting partner*** this pension is based on the period of membership after 5 April 1988 (plus, in the case of an ***eligible cohabiting partner's*** pension, any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

What if I have two or more LGPS jobs?

If you have two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all of them, and you are entitled to deferred benefits from the job (or jobs) you have left, your deferred benefits from the job that has ended are automatically transferred to the active ***pension account*** for the job you are continuing in, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you are not entitled to deferred benefits from the job (or jobs) you have left, you cannot have a refund of your contributions and you must transfer your benefits to the ***pension account*** for the job you are continuing in.

Transferring your benefits

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into another pension arrangement or a new employer's pension scheme. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions. You cannot transfer your benefits if you leave less than one year before your ***Normal Pension Age***. An option to transfer must be made at least 12 months before your ***Normal Pension Age*** or, if later, within 6 months of leaving.

Your new pension provider will require a transfer value quotation which, under the provisions introduced by the Pensions Act 1995, your pension fund will guarantee for a period of three months from the date of calculation.

Alternatively, if you return to employment with an employer participating in the LGPS and rejoin the LGPS after having previously built up LGPS pension rights (i.e. you previously left an LGPS employment with deferred benefits) then these deferred benefits will automatically be transferred to the active ***pension account*** for your new job, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you rejoin the LGPS after having previously left an LGPS employment without building up pension rights but you deferred taking a refund of contributions (normally where you have less than two years membership) then this deferred refund **must** be joined with your new active ***pension account*** in the scheme.

Keep in touch – remember to let the pension fund know if you move house.

Help with pension problems

Who can help me if I have a query or complaint?
If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact your pension fund**.** They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If your query is about your contribution rate, please contact your employer's personnel/HR or payroll section so they can explain how they have decided which contribution band you are in.

If you are still dissatisfied with any decision made in relation to the scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the scheme is well regulated. There are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**
  In the first instance you should write to the adjudicator appointed by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer period as the adjudicator considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The adjudicator will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the scheme's administering authority to have it reconsidered.

  A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the pension fund.

- **The Pensions Advisory Service (TPAS)**
  TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

  11 Belgrave Road
  London
  SW1V 1RB   Telephone 0845 601 2923
  Website www.pensionsadvisoryservice.org.uk

- **Pensions Ombudsman**
  In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

  11 Belgrave Road
  London
  SW1V 1RB Telephone 0207 630 2200
  Website www.pensions-ombudsman.org.uk

- **The Pensions Regulator**
  This is the regulator of work based pension schemes. The Pensions Regulator has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

  Napier House
  Trafalgar Place
  Brighton
  BN1 4DW Telephone 0870 6063636
  Website www.thepensionsregulator.gov.uk

How can I trace my pension rights?
The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to:

The Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA Telephone 0845 6002 537
Website www.gov.uk/find-lost-pension

Don't forget to keep your pension providers up to date with any change in your home address.

Some terms we use

Additional Voluntary Contributions (AVCs)
These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Admission Body
An admission body is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.

Assumed Pensionable Pay
This provides a notional ***pensionable pay*** figure to ensure your pension is not affected by any reduction in ***pensionable pay*** due to a period of sickness or injury on reduced contractual pay or no pay, or ***relevant child related leave*** or ***reserve forces service leave***.

If you have a period of reduced contractual or no pay due to sickness or injury or you have a period of ***relevant child related leave*** or ***reserve forces service leave*** then your employer needs to provide the pension fund with the ***assumed pensionable pay*** you would have received during that time. This requires a calculation to be carried out by your employer to determine what your pay would have been for the period when you were on reduced contractual pay or no pay due to sickness or the period of ***relevant child related leave*** or ***reserve forces service leave***.

The ***assumed pensionable pay*** is calculated as the average of the ***pensionable pay*** you received for the 12 weeks (or 3 months if monthly paid) before the period of reduced pay or no pay for sickness or injury or before the start of the ***relevant child related leave*** or ***reserve forces service leave***. This figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on ***relevant child related leave*** or ***reserve forces service leave.***

Automatic enrolment date
This is the earlier of:
- the day you reach age 22 provided you are earning more than £10,000 a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 in the job, on an annualised basis, provided you are aged 22 or more and under ***State Pension Age*** at that time.

Civil Partnership (Civil Partner)
A ***Civil Partnership*** is a relationship between two people of the same sex (***civil partners***) which is formed when they register as civil partners of each other.

Consumer Prices Index (CPI)
The ***Consumer Price Index (CPI)*** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your ***pension account*** at the end of every ***scheme year*** when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

Eligible children
Eligible children are your children. They must, at the date of your death:
- be your natural child (who must be born within 12 months of your death), or
- be your adopted child, or
- be your step-child or a child accepted by you as being a member of your family (this doesn't include a child you sponsor for charity) and be dependent on you.

Eligible children must meet the following conditions:
- be under age 18, or
- be aged 18 or over and under 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
  - has not reached the age of 23, or
  - the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

Eligible cohabiting partner
An ***eligible cohabiting partner*** is a partner you are living with who, at the date of your death, has met all of the following conditions for a continuous period of at least 2 years:
- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were husband and wife, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were husband and wife or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your cohabiting partner if:
- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies your pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

You are not required to complete a form to nominate a cohabiting partner for entitlement to a cohabiting partner's pension. However, you can provide your pension fund with your cohabiting partner's details. Your pension fund will require evidence upon your death to check that the conditions for a cohabiting partner's pension are met.

Eligible Jobholder
An ***eligible jobholder*** is a worker who is aged a least 22 and under ***State Pension Age*** and who earns more than the annual amount of £10,000.

Final pay
This is usually the pay in respect of your final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your normal pay, contractual shift allowance, bonus, contractual overtime (but not non-contractual overtime), Maternity Pay, Paternity Pay, Adoption Pay, and any other taxable benefit specified in your contract as being pensionable.

Normal Pension Age

Normal Pension Age is linked to your ***State Pension Age*** for benefits built up from April 2014 (but with a minimum of age 65) and is the age at which you can take the pension you have built up in full. If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

You can use the Government's ***State Pension Age*** calculator (www.gov.uk/calculate-state-pension) to find out your ***State Pension Age***. Please note that this calculator does not include proposed changes to ***State Pension Age***.

Remember that your ***State Pension Age*** may change in the future and this would also change your ***Normal Pension Age*** in the LGPS for benefits built up from April 2014. Once you start drawing your pension any subsequent change to your ***State Pension Age*** will not affect your ***Normal Pension Age*** in the LGPS.

If you were paying into the LGPS before 1 April 2014 your final salary benefits retain their protected ***Normal Pension Age*** - which for most is age 65. However all pension benefits drawn on normal retirement must be taken at the same date i.e. you cannot separately draw your final salary benefits (built up before April 2014) at age 65 and your benefits built up in your ***pension account*** (built up from April 2014) at your ***Normal Pension Age*** (which for your benefits built up from April 2014 is linked to your ***State Pension Age***).

Pension Account
Each ***scheme year*** the amount of pension you have built up during the year is worked out and this amount is added into your active ***pension account***. Adjustments may be made to your account during the ***scheme year*** to take account of any transfer of pension rights into the account during the year, any additional pension you may have decided to purchase during the year or which is granted to you by your employer, any reduction due to a Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and any reduction due to an Annual Allowance tax charge that you have asked the scheme to pay on your behalf. Your account is then revalued to take account of the cost of living. This adjustment is carried out in line with the Treasury Revaluation Order index which, currently, is the rate of the ***Consumer Prices Index (CPI).***

You will have a separate ***pension account*** for each employment. That ***pension account*** will hold the entire pension built-up for that employment.

In addition to an active member's **pension account** there are also:
- a deferred member's ***pension account***;
- a deferred refund account;
- a retirement ***pension account***;
- a flexible retirement ***pension account***;
- a deferred pensioner member's account;
- a pension credit account; and
- a survivor member's account.

These accounts will be adjusted by any debits for any Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and for any Annual Allowance tax charge that you have asked the scheme to pay on your behalf.

Pensionable Pay
The pay on which you normally pay contributions is your normal salary or wages plus any shift allowance, bonuses, overtime (both contractual and non-contractual), Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being

pensionable.

You do not pay contributions on any travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay, pay relating to loss of future pensionable payments or benefits, any pay paid by your employer if you go on ***reserve forces service leave*** nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

Relevant Child Related Leave
Relevant child related leave includes periods of Ordinary Maternity, Adoption or Paternity Leave (normally first 26 weeks) and any periods of paid Additional Maternity, Adoption or Paternity Leave (normally after week 26 weeks up week 39).

Reserve Forces Service Leave
This occurs when a Reservist is mobilised and called upon to take part in military operations. The period of mobilisation can range from three months or less and up to a maximum of 12 months. During a period of ***reserve forces service leave*** you will continue to build up a pension based on the rate of ***assumed pensionable pay*** you would have received had you not been on ***reserve forces service leave***.

Scheme Year
The scheme year runs from 1 April to 31 March each year.

State Pension Age
This is the earliest age you can receive the state basic pension. ***State Pension Age*** is currently age 65 for men. ***State Pension Age*** for women is currently being increased to be equalised with that for men and will reach 65 by November 2018.

State Pension Age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

The ***State Pension Age*** will then increase to 66 for both men and women from December 2018 to October 2020.

Increase in State Pension Age from 65 to 66 for men and women

Date of Birth	New State Pension Age
6 December 1953 - 5 October 1954	In the range 65 - 66
After 5 October 1954	66

Under current legislation the ***State Pension Age*** is due to rise to 67 between 2034 and 2036 and to 68 between 2044 and 2046. However, the government has announced plans to revise the legislation so that the date when the ***State Pension Age*** rises to 67 is between 2026 and 2028 and that rises above age 67 will be linked to increases in life expectancy. To find out your ***State Pension Age*** please visit https://www.gov.uk/calculate-state-pension.

Vesting Period
The ***vesting period*** in the LGPS is 2 years. You will meet the 2 years ***vesting period*** if:

- you have been a member of the LGPS in England and Wales for 2 years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was 2 or more years or, when added to the period of time you have been a member of the LGPS is, in aggregate, 2 or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (i.e. to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation from 1 April 2014.

The national web site for members of the LGPS who contribute to the scheme on or after 1 April 2014 can be found at www.lgps2014.org.

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1.25 million in 2014/15), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2014/15), those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the scheme is available from:

Harrow Pension Fund
Shared Services – Pensions, 3rd Floor South Wing, Civic Centre,
Station Road, Harrow, HA1 2XF.
Tel: 020 8424 1186 Fax: 020 8424 7520
Email: pension@harrow.gov.uk
Website: Harrowpensionfund.org

Version 1 - 17 March 2014

Appendix 4

LONDON BOROUGH OF HARROW

PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

CONTENTS

This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers and investment advisor. Fund members and other employing authorities will be given the opportunity to comment on the Statement and the Council will consider their views.

Approved by Harrow Council:

Date June 2013

Introduction

1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role it has responsibility to ensure the proper management of the Fund.

1.2 This SIP meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations") and has been prepared after taking appropriate advice.

1.3 The Council, as administering authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Committee. The Committee monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and the professional advisers. In addition, the Committee requires managers to periodically attend its meeting. The Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government. No exceptions have been identified.

1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Board is satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role

1.5 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to maximise performance and so minimise the level of employer contributions in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

Investment Objectives

2.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Investment Style

3.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure as set out in the table below was implemented following the DGF manager selection day on 11th February 2013. A decision was made at the most recent Pension Fund Committee meeting on 6th March 2013, to invest 10% of the Fund in two DGFs amounting to £27 million in each of Barings and Standard Life., to be funded by a reduction in Equities together with the use of cash. The assets of the fund are mostly in "growth assets" i.e. those expected to generate additional ('excess') returns over the long term. These include equity, and private equity. The asset allocation also has a small allocation to "cash flow matching" assets, mainly index linked bonds. Corporate bonds, property and active currency provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

Asset Class	Allocation	Range	Approach
UK Equities	26%		Passive
Overseas Equities	36%		Active Global Strategy
Total Equities	62%	58-68%	
Bonds	13% Corporate bonds 10.4% Index Linked gilts 2.6%	11-15%	Active Sterling aggregate benchmark plus gilts
Alternatives:-	10%	8-12%	
Property	10%	8-12%	Active Management
Private Equity	5%	N/A	Active Management
Currency	0%	N/A	
Total	**100%**		

3.2 The above allocations, ranges and the management structure comply with the limits set out in table 1 of The Regulations with the exception that the limit on single insurance contracts has been increased from 25% to the upper limit of 35% to permit investment in a passive UK equity portfolio. This decision will apply until the completion of the next strategic review or if earlier 31st March 2014. The decision to increase the limit complies with The Regulations.

3.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

3.4 The investment strategy is reviewed periodically, with a major review taking place following each triennial actuarial review.

3.5 As of April 2012 cash balances are held in either or both of the two Pension Fund bank accounts; Current and Call account.

3.6 Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Section 151 officer has delegated authority to undertake a quarterly rebalancing of the equity and bond portfolios should they breach the above ranges. Any rebalancing activity authorised by the Section 151 officer will be reported to the next meeting of the Pension Fund Committee. Rebalancing within the bond portfolio is delegated to the fund manager.

3.7 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.

3.8 A currency hedge equal to 50% on the non sterling equity exposure is maintained.

3.9 The Council does not engage in stock lending activities.

Performance

4.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by the WM Company who provides independent performance statistics.

Types of Investments

5.1 A management agreement is in place for each fund manager, setting out where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with the Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

5.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the whole fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

Investment Risk

6.1 Whilst the objective of the Council is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Council acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The longer term nature of the fund and the expected higher longer term returns expected of equity investments over bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund. Total risk arising from the investment strategy and its implementation is monitored as part of the triennial strategy review. Control ranges have been set to aid the monitoring of return and risk targets.

6.2 A policy of diversification for its investments and investment managers helps the Council to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the fund. Manager performance is monitored quarterly with investigation of any significant deviations from intended strategy.

6.3 The fund has a positive cash flow that enables investment in illiquid asset class's e.g. private equity and property. More than 70% of the fund is invested in equities and bonds that are highly liquid.

6.4 The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling.

6.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service (Club Vita) which provides a comprehensive analysis of the Fund's longevity data to enable them to understand and manage this issue in the most effective way.

The Realisation of Investments

7.1 A realisable (liquid) investment is one that can be readily converted into cash, for example to satisfy payments out of the Fund. The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

7.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

Investment Advice

8.1 Professional advice on investment matters is taken from the investment practice of Aon Hewitt. Hymans Robertson provides actuarial services.

Social, Environmental or Ethical

9.1 The extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the fund managers. However, the Council expects that the extent to which social, environmental and ethical issues may have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. The Council expects the fund managers to positively engage and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.

Exercise of the Rights (including voting rights) attaching to investments

10.1 The Council is an active shareholder and will exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

10.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by the fund manager. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

Myners

11.1 The Myners principles codify best practice in investment decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they used them. The Regulations require administering authorities to publish in their Statement of Investment Principles the extent to which they comply with the six new investment principles set out in the Myners report on Institutional Investment. The principles and best practice guidance are attached in Appendix 1.

11.2 The Council do broadly comply with the principles but will continue to examine the requirements of the Myners principles with a view to ensuring greater compliance. Any changes will be reflected in updated versions of the Statement of Investment Principles

Additional Voluntary Contributions (AVC)

12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical and Prudential.

Compliance

13.1 The Council is responsible for monitoring the Fund's overall investment performance and the performance of each manager.

13.2 The Council is responsible for monitoring the qualitative performance of the fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

13.3 The Council will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least every three years and in addition a revised version is issued in the event of significant change occurring.

Appendix 1

Myners Principles:
Defined Benefit Pension Schemes

1 Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

<u>Best Principle Guidance</u>

• The board has appropriate skills for, and is run in a way that facilitates, effective decision making.

• There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.

• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.

• There is an investment business plan and progress is regularly evaluated.

• Consider remuneration of trustees.

• Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

2 Clear objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme’s liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

<u>Best Practice Guidance</u>

• Benchmarks and objectives are in place for the funding and investment of the scheme.

• Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.

• Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.

• Consider the strength of the sponsor covenant.

3 Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

• Trustees have a clear policy on willingness to accept underperformance due to market conditions.

• Trustees take into account the risks associated with their liabilities' valuation and management.

• Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.

• Trustees have a legal requirement to establish and operate internal controls.

• Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

4 Performance Assessment

Trustees should arrange for the formal measurement of the performance of investments, investment mangers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

• There is a formal policy and process for assessing individual performance of trustees and managers.

• Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).

• The chairman addresses the results of the performance evaluation.

• State how performance evaluations have been conducted.

• When selecting external advisers take into account relevant factors, including past performance and price.

5 Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

• Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.

• Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.

• Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.

• Trustees ensure that Investment consultants adopt the ISC's Statement of Practice relating to consultants.

6 Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

• Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

APPENDIX 5

LONDON BOROUGH OF HARROW

PENSION FUND

FUNDING STRATEGY STATEMENT

MARCH 2014

Contents

1. Introduction

1.1 What is this document?

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

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

1.2 What is the London Borough of Harrow Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

In the Appendices we cover various issues in more detail:

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact

Hasina.Shah@harrow.gov.uk.

Linda.D'Souza@harrow.gov.uk

2. Basic funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

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

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

2.2 How is a deficit (or surplus) calculated?

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

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

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

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

2.3 How are contribution rates calculated for different employers?

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

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

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

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

2.4 What else might affect the employer's contribution?

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

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

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

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

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

2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which Council Tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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

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

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

3. Calculating contributions for individual employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

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

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

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

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

3.3 The different approaches used for different employers

Type of Employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Council Pool**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)		Projected Unit Credit approach if open (see Appendix D – D.2)	Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach if open, Attained Age otherwise (see Appendix D – D.2)
Stabilised rate?	Yes - see Note(b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	Note (h)		Notes (h)& (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for

			future deficits and contributions arising.

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Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

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

Type of employer	Council Pool	Academies

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Max cont increase	+0.5% of pay	+1.0% of pay
Max cont decrease	-0.5% of pay	

The stabilisation criteria and limits will be reviewed at 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account employer membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

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

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

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three years' period until the next valuation will be set as monetary amounts.

Note (e) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

Note (g) (New academy employers)

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

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

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

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

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data,all as at the day prior to conversion.

e) For the current valuation period (1 April 2014 to 31 March 2017) the maximum percentage increase in employer's contribution will be limited to 1.0%

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn't responsible for, however, note all parties should take their own professional advice. For example the contractor should typically be responsible for pension costs that arise from;

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

Note (j) (Admission Bodies Ceasing)

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

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

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

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

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

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

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

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

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

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

Schools generally are also pooled with their funding council. However there may be exceptions for specialist or independent schools.

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

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

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

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

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

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

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pension Fund Committee meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

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

b) Comments were requested within 14 days;

c) There was an Employers Forum on 23 January at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.harrow.gov.uk

- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

In any event, changes to the FSS would need agreement by the Pensions Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;

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- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

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B4 Other parties:-

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

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Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

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

C3 Demographic risks

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

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

C4 Regulatory risks

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

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination	The Administering Authority requires employers with relevant contractors to inform it of forthcoming

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

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Appendix D – The calculation of employer contributions

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

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

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

Employer contributions are normally made up of two elements:

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

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

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[2], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[3]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

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

D2 How is the Future Service Rate calculated?

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

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

[2] See LGPS (Administration) Regulations 36(5).
[3] See LGPS (Administration) Regulations 36(7).

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

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a) Employers which admit new entrants

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

b) Employers which do not admit new entrants

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

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

D3 How is the Solvency / Funding Level calculated?

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

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

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

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

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

D4 What affects a given employer's valuation results?

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;

- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

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

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

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

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

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum.This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum.

c) Pension increases

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

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

e) General

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

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

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14. Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are**members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial**

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	assumptions.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still

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	require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

DRAFT

REPORT FOR: Pension Fund Committee

Date of Meeting:	29 July 2014
Subject:	**Information Report** - Update Report
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No.
Wards affected:	All
Enclosures:	Appendix 1 – Pension Fund Committee - Membership and Powers and Duties Appendix 2 - Advice from Aon Hewitt in respect of GMO

Section 1 – Summary and Recommendations

This report sets out an update of actions taken and other developments since the last meeting of the Committee.

FOR INFORMATION

Harrow COUNCIL
LONDON

Section 2 – Report

Lead Member roles

1. At their meeting on 18 September 2013 the Committee agreed that they would appoint Lead Members for specific topics within the purview of the Committee who would lead the debate when the topic was discussed.

2. The Committee agreed that the specific topics would be as follows:

   - Committee Governance – Membership and remit
   - Regulation
   - Training
   - Monitoring and feedback for advisers and officers
   - Business plans, objectives, risk management and meeting agenda
   - Actuarial and Member / Employer related issues.
   - Strategy
   - Manager appointments and monitoring (could be split between equity, bond, property and alternatives).
   - Ethical investing and voting

3. Officers were asked to canvass all Members and Reserve Members of the Committee on the topics for which they would like to be considered as Lead Member with officers suggesting a "best fit" for the Committee to consider.

4. On 25 November 2013 Lead Members were allocated to each of the topics.

5. With the major changes which have taken place in the Committee's membership officers will canvass all Members and Reserve Members of the Committee as to their preferences and report the results to the next meeting of the Committee.

Equities allocation strategy

6. On 25 November 2013 the Committee agreed to re-structure its existing equities portfolio as follows:

	Existing structure	Revised structure
	% of equities portfolio	% of equities portfolio
UK Passive (State Street)	41	0
Global Active (Fidelity)	18	0
Global Active (Wellington)	29	0
Global Active (Longview)	12	17
Developed World Unconstrained (new manager)	0	17
Emerging Markets Unconstrained (new manager)	0	16
Global Passive (State Street)	0	50
	100	100

7. After an exhaustive selection process, on 19 March 2014 the Committee agreed to:
   - the appointment of Oldfield Partners as the Unconstrained Equities Manager for Developed Markets and
   - The appointment of GMO UK Ltd as the Unconstrained Equities Manager for Emerging Markets

8. Following the decision by the Committee the Council has received further advice from Aon Hewitt as regards being an early investor in one of the GMO funds. This advice is attached as Appendix 2. Aon Hewitt have undertaken to work with GMO to mitigate any issues and it is not considered necessary for the Committee to review its decision.

9. Officers have subsequently been in discussion with all the managers affected and with the Council's transition manager, State Street. The draft investment management agreements and other legal documentation are currently being reviewed and the new arrangements should be in place within the next few months.

Training

10. Since the appointment of the Committee and the Reserve Members the Members have been offered:

    - A generic course run by Aon Hewitt in three separate afternoon sessions covering Governance and Key Legislation, Funding and Actuarial Matters and Investment has been offered to all Members of the Committee and two Members have been able to attend
    - An evening session covering all the important aspects of the Local Government Pension Scheme and the Harrow Fund has been offered to all eight Members and Reserve Members and five were able to attend.

- All Members and Reserve Members have been provided with a considerable amount of relevant documentation.

LGPS Governance Regulations

11. The draft regulations have now been issued with a consultation deadline of 15 August 2014. The most significant parts of the draft directly relevant to the Council are as follows:

    - By 1 April 2015 each administering authority is required to establish a local pension board responsible for assisting it to secure compliance with the regulations, any other legislation relating to the governance and administration of the scheme and requirements imposed by the Pensions Regulator in relation to the scheme. The local pension board is also to be responsible for assisting the administering authority to ensure the effective and efficient governance and administration of the scheme.
    - Should an administering authority wish the local pension board to be the same as its pensions committee it would need the approval of the Secretary of State.
    - Suggested alternative ways in which an administering authority can establish its local pensions board
    - It is for the administering authority to determine the membership of the local pension board but it must have an equal number of employer and member representatives with relevant experience and the capacity to represent, with a total of at least 4 and must together form the majority of the membership. A member of the local authority may not be appointed as an employer or member representative

12. Clearly there is a considerable amount of work necessary to implement the regulations by 1 April 2015. Under the leadership of the Director of Finance and Assurance and Director of Legal and Governance Services an informal group of finance and legal officers has already met and this group will shortly meet again to establish appropriate membership and terms of reference. It will, of course, establish its own work programme and timetable but will at least cover the steps identified by the Fund's Actuary, Hymans Robertson as follows:

    - Establish that any proposed arrangements comply with the Pension Regulator's code of practice
    - Consider and, if necessary, refresh the scheme of delegations, including the power to implement the regulations
    - Review current pension committee activities to establish the statutory and non-statutory nature of the activities and determine which ones can be passed to a newly formed local pension board
    - Consider a revised governance structure to meet the aims of the Harrow Fund bearing in mind the knowledge and understanding requirements needed for good decision-making
    - Draw up local pension board terms of reference and job descriptions for the chair and its members
    - Review the need for any changes to the Borough's constitution

- Establish procedures for the selection / election of local pension board members
- Set up a working group of current pension committee members, officers and advisers to deal with the implementation of the regulations
- Consider appointing an independent governance adviser to the local pension board

13. In view of the limited number of times in the year that the Committee meets it is likely that a report on progress will be presented to it at each of its meetings for the next nine months.

Financial Implications

14. There are no financial implications arising from this report.

Risk Management Implications

15. Risk included on Directorate risk register? No

16. Separate risk register in place? No but risks are extensively discussed in the Pension Fund Statement of Investment Principles and Annual Report

Equalities implications

17. Was an Equality Impact Assessment carried out? Yes

18. There are no direct equalities implications arising from this report.

Council Priorities

19. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name Simon George Date: 17 July 2014	√	Director of Finance and Assurance
Name: Caroline Eccles Date: 17 July 2014	√	on behalf of the Monitoring Officer

Ward Councillors notified:	NO

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

APPENDIX 1

Pension Fund Committee – Membership and Powers and Duties

Members

Councillor Keith Ferry (Chair) (Labour)
Councillor Adam Swersky (Labour)
Councillor Barry Macleod – Cullinane (Conservative)
Councillor Bharat Thakker (Conservative)

Reserve members

Councillor Antonio Weiss (Labour)
Councillor Nitin Parekh (Labour)
Councillor Norman Stevenson (Conservative)
Councillor Kamaljit Chana (Conservative)

Co-opted members (non-voting)

Stephen Compton – UNISON
Pamela Belgrave – GMB
Howard Bluston

Powers and Duties

1. to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;

2. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3. to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4. to establish a strategy for the disposition of the pension investment portfolio; and

5 to appoint and determine the investment managers' delegation of powers of management of the fund;

6. to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary

Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7. to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

8. to approve any severance packages for Officers of £100,000 or over irrespective of the grade of Officer. The definition of severance package is in accordance with the DCLG supplementary statutory guidance 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act 2011' issued in February 2013;

9. to report back to Council for information purposes on all such approved severance packages.

London Borough of Harrow
Date: 3 April 2014
Prepared for: The Pensions Committee
Prepared by: Global Investment Management

Investing in a small vehicle (public equities)

Introduction

This short document highlights the issues that clients should consider when investing in a vehicle that has a low AUM.

Note that this note does not focus on the broader discussion regarding the relative merits of pooled versus segregated investing.

GMO Domestic Opportunities

The GMO Domestic Opportunities strategy has two pooled vehicles – a US Mutual Fund for its US-based investors and a Irish-domiciled UCITS ICVC. The strategy also has a handful of segregated accounts.

In total, the strategy has £1.7bn in AUM (as of 31 December 2013). The majority of this AUM is managed within the US mutual fund. At the time of writing, this strategy has not yet seeded its ICVC with client money. We understand from GMO that they have two clients who have indicated their intention to invest in this vehicle, although are not expected to fund until later this year. Both clients are intending to allocate circa £50m in AUM.

Despite being currently unseeded, we believe that the ICVC vehicle is the most suitable for the London Borough of Harrow.

Potential risks and costs of investing in a vehicle with low AUM

- **Increased costs (as a percentage of assets invested)**

  Investors in pooled vehicles are subject to transaction, custody, administration and non reoccurring costs which are typically borne by investors. These costs can be charged to the fund regardless of the size of AUM invested and consequently will have a larger percentage impact on small funds.

  Managers should be asked to cap non-management fees as a percentage of invested AUM, particularly in the early stages of a vehicle lifecycle.

  GMO has capped admin and expenses at 10bps p.a. for the lifetime of the fund, which we think is reasonable.

- **The cost of reduced flexibility**

  The opportunity to optimise disinvestment is limited in a smaller fund. If the manager is required to find short-term liquidity, then they may be forced to disinvest from illiquid positions or suffer opportunity costs from disinvesting from their best ideas.

  We recommend extra caution seeding vehicles where the manager is investing large proportions of the portfolio in illiquid positions.

  We do not believe that illiquid holdings are a concern for this strategy.

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- **Inability to scale trading costs**

  One of the advantages of investing in pooled vehicles is the ability to scale transaction costs. Smaller vehicles (within smaller strategies) do not have this benefit and so trading becomes a more expensive exercise. This assumes the Portfolio Manager is unable to consistently combine trades with other vehicles, separate accounts and even across the firm.

  We recommend extra caution seeding vehicles where the manager is executing a higher turnover strategy.

  This is not a buy-and-hold / low turnover strategy, however it is not a trading strategy. There is some overlap with GMO's other larger emerging market strategies which could provide some scale benefits.

- **Commitment to the strategy**

  If the parent strategy has low AUM (as well as the specific vehicle), there is a risk that the manager may terminate the product on the grounds of commerciality. This would trigger costs to the investor through re-allocating proceeds.

  We recommend that where strategy AUM is low, clients familiarise themselves with the rationale that the manager has for continuing to offer the strategy and consider the likelihood that the strategy will be able to raise new assets.

  We believe that this product is a core offering within GMO's Emerging Markets platform and we have conviction that it will gain traction with investors over time.

- **The impact of future investors on seed investors**

  Future investor capital will be used to replicate assets in the fund, for which the fund will incur costs. If the manager does not have a strategy in place to shield existing investors from being impacted by these costs, AUM growth could be detrimental to returns experienced by seed investors.

  We recommend that clients confirm that the manager has a mechanism in place for fairly distributing entry (and exit) costs between new and existing investors.

  GMO charges dilution costs which are high relative to the market (80bps on both entry and exit) which are paid into the fund. This should provide protection to seed investors.

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