Pension Board AGENDA

DATE: Thursday 25 June 2015

TIME: 3.30 pm

VENUE: Committee Room 3, Harrow Civic Centre

MEMBERSHIP (Quorum 3 including at least one Employer representative and one Scheme Member representative)

Chair:

Board Members:

Councillor Kiran Ramchandani	-	Employer Representative - London Borough of Harrow
Gerald Balabanoff	-	Scheme Members' Representative - Pensioners
Sudhi Pathak	-	Employer Representative - Scheduled and Admitted Bodies
John Royle	-	Scheme Members' Representative - Active Members
Richard Harbord	-	Independent Member

Contact: Alison Atherton, Senior Professional Democratic Services tel:020 8424 1266 email:alison.atherton@harrow.gov.uk

Harrow COUNCIL
LONDON

AGENDA - PART I

1. APOLOGIES FOR ABSENCE

2. APPOINTMENT OF CHAIR

To appoint a Chair for the 2015/6 Municipal Year.

3. APPOINTMENT OF VICE CHAIR

To appoint a Vice Chair for the 2015/16 Municipal Year.

4. 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 Committee;
(b) all other Members present.

5. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17.

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, Monday 22 June 2015. 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. BACKGROUND TO BOARD (Pages 5 - 6)

Report of the Director of Finance (Interim)

9. TERMS OF REFERENCE (Pages 7 - 16)

Report of the Director of Finance (Interim)

10. ROLE OF BOARD (Pages 17 - 22)

Report of the Director of Finance (Interim)

11. PENSION FUND COMMITTEE (Pages 23 - 50)

Report of the Director of Finance (Interim)

12. CODE OF CONDUCT (Pages 51 - 64)

Report of the Director of Finance (Interim)

13. KNOWLEDGE AND UNDERSTANDING OF LOCAL GOVERNMENT PENSION SCHEME (Pages 65 - 74)

Report of the Director of Finance (Interim)

14. WORK PROGRAMME FOR 2015/16 (Pages 75 - 78)

Report of the Director of Finance (Interim)

15. KEY DOCUMENTS (Pages 79 - 138)

Report of the Director of Finance (Interim)

16. ANY OTHER BUSINESS

Which the Chairman has decided is urgent and cannot otherwise be dealt with.

17. DATE OF NEXT MEETING

AGENDA - PART II

Nil

* DATA PROTECTION ACT NOTICE

The Council will audio record item 5 (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.]

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REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Background to Board
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Enclosures:	Local Government Pension Scheme (LGPS): Guidance on the creation and operation of Local Pension Boards in England and Wales (This document is available to view on the Council's website – www.harrow.gov.uk)

Section 1

Summary

This report advises the Board of the, then, Shadow Advisory Board's publication *Guidance on the creation and operation of Local Pension Boards in England and Wales.*

For information

Section 2 – Report

1. The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013. According to its website its purpose is to seek to encourage best practice,

Harrow COUNCIL LONDON

increase transparency and co-ordinate technical and standards issues within the Local Government Pension Scheme

2. Up to 1 April 2015 it operated in a “Shadow” capacity and in January 2015 it produced, probably, the most credible guidance to the operation of Local Pension Boards entitled *Local Government Pension Scheme (LGPS): Guidance on the creation and operation of Local Pension Boards in England and Wales.*

   As an introduction for Board Members to the background and operation of Local Pension Boards it is considered to be the most appropriate source. All Members of the Board have been provided with a copy of the document and it is also available to view on the Council’s website.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance (Interim)
Date:	11 June 2015		

Section 4 - Contact Details

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

Background Papers - None

REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Terms of Reference
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Wards Affected:	All
Enclosures:	Terms of Reference

Section 1

Summary
This report sets out the Board's Terms of Reference agreed by the Council and invites their comments.

Recommendation
If it thinks appropriate, the Board recommends to Council amendments to the Terms of Reference of the Board.

Section 2 – Report

Background

1. On 13 November 2014 the Council agreed draft terms of reference for the Pension Board subject to the issue of Regulations and guidance; delegated powers were granted to officers to make necessary amendments following consultation with the Portfolio Holder.

2. On 26 January 2015 Regulations were made effectively putting into place the final statutory arrangements for the establishment of local pension boards.

3. Since the likely content of these regulations had been well signposted they contained only one substantive change to the arrangements that had been assumed ie that only the employer and member representatives on local pension boards would be given voting rights. The legislation itself, therefore, only required a single amendment to the terms agreed by the Council.

4. Closely following the legislation came the *Guidance on the creation and operation of Local Pension Boards in England and Wales* and draft terms of reference from the Shadow Scheme Advisory Board. Other draft terms of reference from, amongst others, the Fund's Actuary, Hymans Robertson and Eversheds, a firm prominent in local government legal circles were also produced.

5. Apart from including definitions and interpretations, none of these drafts included content which was entirely absent from the Council's terms of reference and appropriate amendments were made within the delegated powers.

6. Attached is a copy of the terms of reference.

7. However, it is clear that, in particular, opinions vary as to what should be included as the role of the Board.

8. The Board are asked to consider the terms of reference and to recommend any amendments they may wish to make. Any changes requested will be reported to the Council for consideration.

9. So far as the role of the Board is concerned Members will be invited to consider this further as the next item on the agenda.

Financial implications

10. There are no specific financial implications arising from this report

Risk Management implications

11. There are no specific risk management implications arising from this report

Equalities implications

12. There are no specific equalities implications arising from this report

Council Priorities

13. There is no direct impact on the Council Priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 11 June 2015	✓	Chief Financial Officer
Name: Caroline Eccles Date: 16 June 2015	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

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LONDON BOROUGH OF HARROW PENSION FUND

PENSION BOARD

TERMS OF REFERENCE

1) Introduction

The purpose of this document is to set out the Terms of Reference for the local Pension Board (the Board) of the London Borough Harrow Pension Fund (the Fund).

2) Powers of the Board

The Board will exercise all its powers and duties in accordance with the law and this Terms of Reference.

3) Role of the Board

The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:

- securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
- such other matters the LGPS regulations may specify.

The Administering Authority retains ultimate responsibility for the administration and governance of the scheme. The role of the Board is to support the Administering Authority to fulfil that responsibility.

In its role, The Board will have oversight of the administration of the fund including:

a) The effectiveness of the decision making process

b) The direction of the Fund and its overall objectives

c) The level of transparency in the conduct of the Fund's activities

d) The administration of benefits and contributions

The Board will provide the Scheme Manager with such information as it requires to ensure that any Member of the Board or person to be appointed to the Board does not have a conflict of interest.

The Board will ensure it effectively and efficiently complies with the Code of Practice on the Governance and Administration of Public Service Pension Schemes issued by the Pensions Regulator. It will help to ensure that the Fund is managed in the same way.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

4) Membership

The Board shall consist of 5 members and be constituted as follows:

(i) 2 Employer representatives – Administering Authority (1), other scheduled and admitted bodies [ie organisations other than the Administering Authority who, under the regulations, can participate in the LGPS] (1);

(ii) 2 Scheme Member representatives – active members (1), pensioners (1); and

(iii) 1 independent member

Elected Members and officers involved in the management and administration of the Fund are not permitted to become Board members.

Only the Employer and Scheme Member representatives will have voting rights.

Each member of the Board will serve or a period of three years, subject to compliance with conditions of appointment.

The Chair and Deputy Chair of the Board will be elected by the Board at its first meeting and will serve for a period of three years. Should the elected Chair be an Employer representative the Deputy Chair must be a Scheme Member representative and vice versa.

The Chair will ensure that meetings are properly conducted and the decision of the Chair on all points of procedure and order shall be final.

The Board may, with the approval of the Administering Authority, co-opt persons with sufficient skills and experience to advise and support them. Co-optees are not Board members and do not have voting rights.

Each Board Member should endeavour to attend all Board meetings during the year. In the event of consistent non-attendance by any Board Member the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all other members and with the agreement of the Scheme Manager. Should any member of the Board cease to be a member of the relevant group for which he/she has been appointed he/she will automatically cease to be a member of the Board and the Administering Authority will conduct a replacement process.

5) Appointment of Board members

All Board members will be appointed by Full Council. It is a statutory requirement that the Administering Authority must be satisfied that a person to be appointed as an Employer or Scheme Member representative has the relevant experience and capacity to represent employers or scheme members (as appropriate)

- Administering Authority to nominate one Employer representative
- The second Employer representative to be nominated by the scheduled and admitted bodies. If more than one is nominated, Council will determine who is to be appointed.

(i) Scheme Member representatives to be selected through a process administered by the Administering Authority with a recommendation to Council

(ii) Independent member – applications to be invited by public advertisement with a recommendation by the s151 Officer to Council.

6) Standards of conduct and conflicts of interest

All members of the Board are expected to act in accordance with the Code of Conduct for Councillors where applicable and the Pensions Regulator's Code of Practice. In accordance with s5(5) Public Service Pension Act 2013, a Board member must not have a financial or other interest that could prejudice him/her in carrying out his/her Board duties. This does not include a financial or other interest arising merely by virtue of being a member of the LGPS.

The policy for identifying conflicts of interest is set out in a separate policy document.

7) Knowledge and Skills

Following appointment each member of the Board should be conversant with:

- The legislation and associated guidance of the LGPS
- Any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund

The Administering Authority will provide a training programme which all Board members will be required to attend.

It is for individual Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them, properly, to exercise their functions as a Member of the Board and therefore, must comply with the Board's Knowledge and Understanding and Training Policy.

8) Accountability

The Board will collectively and individually be accountable to the Scheme Manager.

The Board will refer all relevant recommendations and decisions to the Pension Fund Committee of the Administering Authority and, where appropriate, to Full Council. It will present a report on its work to the Full Council once a year.

9) Decision making

Each voting member of the Board will have an individual voting right but it is expected that the Board will, as far as possible, reach a consensus. The Chair of the Board, so long as he/she has voting rights, will have the final deciding vote.

10) Quorum

A quorum will comprise 3 of the 5 members of which at least one shall be an Employer representative and one a Scheme Member representative.

11) Meetings

The Board shall meet twice a year.

The Chair of the Board, in consultation with the Administering Authority will prepare an agenda for each meeting of the Board. The administration of the Board will be in accordance with the normal procedures of the London Borough of Harrow.

An extraordinary meeting will be called when the Chair considers this necessary and/or in circumstances where the Chair receives a request in writing by 50% of the voting membership of the Board

12) Publication of Pension Board Information

The Administering Authority will publish up to date information on the Council's website including:

- The names of the Board member
- The Board's Terms of Reference
- Papers, agendas and minutes of Board meetings.

13) Advice to the Board

The Board will be supported in its role and responsibilities by the Administering Authority through advice and support as appropriate.

14) Expense Reimbursement

Each member of the Board and any co-opted persons, excluding elected Councillors of the London Borough of Harrow and Council Officers will be reimbursed at a rate of £445 per annum (exclusive of VAT if payable). All members of the Board and any co-opted persons will be paid “out-of-pocket” expenses when carrying out the functions of the Board including approved training.

15) Definitions

The undernoted terms shall have the following meaning when used in this document:

Administering Authority	London Borough of Harrow
Board or Pension Board	The local Pension Board for the London Borough of Harrow, Administering Authority for the London Borough of Harrow Pension Fund as required under the Public Service Pensions Act 2013
Board Member	A member of the Board including Employer representatives, Scheme Member representatives and an independent member
Code of Practice	The Pensions Regulator’s [draft] Code of Practice no 14 entitled *“Governance and administration of public service pension schemes.”*
Conflicts of Interest	As defined in the Public Service Pensions Act 2013
Conflicts of Interest Policy	The policy on conflicts of interest as adopted by the Board
Employer Representative	A person appointed to the Board for the purpose of representing employers for the Scheme
Fund	The London Borough of Harrow Pension Fund within the Scheme administered and maintained by the Scheme Employer
Independent Member	A Member of the Board who is neither an Employer Representative nor a Member Representative
Knowledge and Understanding and Training Policy	The training policy as adopted by the Board
LGPS	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
Member Representative	A person appointed to the Board for the purpose of representing members of the Scheme

Scheme	The Local Government Pension Scheme as defined under LGPS.
Scheme Manager	London Borough of Harrow as administering authority of the London Borough of Harrow Pension Fund

16) Interpretation

Any uncertainty or ambiguity or interpretation required relating to any matters contained in this document shall be resolved by reference to the Scheme Manager.

REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Role of Board
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Wards Affected:	All
Enclosures:	None

Section 1

Summary
This report sets out the views of the, then, Shadow Advisory Board on the role of a Local Pension Board and invites the Board's comments on how they wish to see their role defined. Any changes requested will be reported to the Council for consideration.

Recommendation
The Board comments on the way they see their role.

If it thinks appropriate, the Board recommends to Council amendments to their role as included in the Terms of Reference of the Board.

HarrowCOUNCIL
LONDON

Section 2 – Report

Background

1. The previous report on the agenda advised the Board of the terms of reference as agreed by the Council and invited comments.

2. Particular reference was made to the general nature of the terms concerning the role of the Board and the Board was advised as to how opinions vary as to how it should be defined.

3. Several “authorities” have expressed their views on this subject but the most authoritative comment has been received from the, then, Shadow Advisory Board in their publication *Guidance on the creation and operation of Local Pension Boards in England and Wales.*

4. On the subject of the remit of a Local Pension Board they state:

   Administering Authorities should remember that the Local Pension Board does not replace the Administering Authority or make decisions or carry out other duties which are the responsibility of the Administering Authority.

   The first core function of the Board is to assist the Administering Authority in securing 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. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

   a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.

   b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.

   c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.

   d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.

e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.

f) Monitor complaints and performance on the administration and governance of the scheme.

g) Assist with the application of the Internal Dispute Resolution Process.

h) Review the complete and proper exercise of Pensions Ombudsman cases.

i) Review the implementation of revised policies and procedures following changes to the Scheme.

j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.

k) Review the complete and proper exercise of employer and administering authority discretions.

l) Review the outcome of internal and external audit reports.

m) Review draft accounts and scheme annual report.

n) Review the compliance of particular cases, projects or process on request of the Committee.

o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

a) Assist with the development of improved customer services.

b) Monitor performance of administration, governance and investments against key performance targets and indicators.

c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.

d) Monitor investment costs including custodian and transaction costs.

e) Monitor internal and external audit reports.

f) Review the risk register as it relates to the scheme manger function of the authority.

g) Assist with the development of improved management, administration and governance structures and policies.

h) Review the outcome of actuarial reporting and valuations.

i) Assist in the development and monitoring of process improvements on request of Committee.

j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

k) Any other area within the core function (i.e. ensuring effective and efficient governance of the Scheme) the Board deems appropriate.

5. The views of the Board are invited as to how they wish to see their role defined. Any changes requested will be reported to the Council for consideration.

Financial implications

6. There are no specific financial implications arising from this report

Risk Management implications

7. There are no specific risk management implications arising from this report

Equalities implications

8. There are no specific equalities implications arising from this report

Council Priorities

9. There is no direct impact on the Council Priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 11 June 2015	✓	Chief Financial Officer
Name: Caroline Eccles Date: 16 June 2015	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

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REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Pension Fund Committee
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Enclosures:	Agenda of Pension Fund Committee of 26 November 2014 Minutes of Pension Fund Committee of 26 November 2014 Agenda of Pension Fund Committee of 25 March 2015 Minutes of Pension Fund Committee of 25 March 2015

Section 1

Summary

This report advises the Board of the powers and duties of the Council's Pension Fund Committee. To assist the Board in understanding these powers and duties the agendas and minutes of two recent meetings of the Committee are attached.

For information

Section 2 – Report

The Pension Fund Committee has the following 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.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance (Interim)
Date:	11 June 2015		

Section 4 - Contact Details

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

Background Papers - None

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Pension Fund Committee AGENDA

DATE: Wednesday 26 November 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 (VC)

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

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

Reserve Members:

1. Antonio Weiss
2. Nitin Parekh

1. Norman Stevenson
2. Kam Chana

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

Harrow COUNCIL LONDON

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. MINUTES (Pages 1 - 6)

That the minutes of the meeting held on 23 September 2014 be taken as read and signed as a correct record.

4. 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, Friday 21 November. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. 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).

6. DEPUTATIONS

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

7. RE-STRUCTURE OF EQUITIES MANDATES AND TRANSITION MANAGEMENT (Pages 7 - 10)

Report of the Director of Finance and Assurance

8. PRESENTATION ON TRANSITION MANAGEMENT

Presentation by State Street Global Markets

9. STATEMENT OF INVESTMENT PRINCIPLES (Pages 11 - 24)

Report of the Director of Finance and Assurance

10. UPDATE REPORT (Pages 25 - 38)

Report of the Director of Finance and Assurance

11. WORK PROGRAMME FOR 2014-15 AND 2015-16 (Pages 39 - 42)

Report of the Director of Finance and Assurance

12. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

13. 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
14.	Appointment of Diversified Growth Fund Manager	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 - 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).
16.	Information Report - Performance of Fund Managers for Quarter Ended 30 September 2014	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).

17.	Update Report (Item 10) – Confidential Appendices	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

14. APPOINTMENT OF DIVERSIFIED GROWTH FUND MANAGER (Pages 43 - 46)

Report of the Director of Finance and Assurance

15. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 47 - 106)

Report of the Director of Finance and Assurance

16. INFORMATION REPORT - PERFORMANCE OF FUND MANAGERS FOR QUARTER ENDED 30 SEPTEMBER 2014 (Pages 107 - 112)

Report of the Director of Finance and Assurance

17. UPDATE REPORT - CONFIDENTIAL APPENDICES (Pages 113 - 138)

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

26 NOVEMBER 2014

Chairman:	*	Councillor Keith Ferry		
Councillors:	*	Barry Macleod-Cullinane	*	Bharat Thakker
	*	Adam Swersky		
Co-optee (Non-voting):	*	Howard Bluston		Steve Compton
			*	Pamela Belgrave

[Note: Other Attendance:

(1) Colin Robertson and Honorary Alderman Richard Romain attended as Independent Advisers to the Committee

(2) Mr Tony Baily of Aon Hewitt attended in an advisory role, as the Council's Adviser.

* Denotes Member present

32. Attendance by Reserve Members

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

33. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 7 – Re-Structure of Equities Mandates and Transition Management

Mr Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was consulting with State Street Global Markets on behalf of other clients. He would remain in the room whilst the matter was considered.

Agenda Item 10 – Update Report

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he had been an adviser at London Councils when the proposals for the London Collective Investment Vehicle had been drafted. He would remain in the room whilst the matter was considered.

All Agenda Items

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was a member of the Local Government Pension Scheme by virtue of his employment with London Councils.

Mr Howard Bluston, Co-opted member of the Committee, declared a non-pecuniary interest in that he had regular dealings with Aon Hewitt and State Street Global Markets through his work with other clients.

34. Minutes

RESOLVED: That the minutes of the meeting held on 23 September 2014, be taken as read and signed as a correct record, subject to the addition of Colin Robertson and Honorary Alderman Richard Romain in attendance as Independent Advisers to the Committee.

35. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

36. Re-structure of Equities Mandates and Transition Management

The Committee received the report of the Director of Finance and Assurance which set out a summary of decisions taken in respect of the Pension Fund's equities mandates.

RESOLVED: That the report be noted.

37. Presentation on Transition Management

The Committee received a presentation from Paul Gallagher of State Street Global Markets in which he described the rationale, functions and operation of the transition service provided by State Street and explained the explicit and implicit costs of transactions along with the company's charges.

RESOLVED: That

(1) Paul Gallagher of State Street Global Markets be thanked for his informative presentation;

(2) the Treasury and Pension Fund Manager and his team be thanked for their hard work throughout the transition process.

38. Statement of Investment Principles

The Committee received the report of the Director of Finance and Assurance which set out the revision proposed.

RESOLVED: That the Statement of Investment Principles be revised as follows:

Delete paragraph 4.8 and replace it with "Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request."

39. Update Report

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

Pension Board

An officer stated that a Pension Board had been established ahead of the April deadline and it would aim to hold its first meeting in May 2015. The Director of Finance and Assurance and Director of Legal and Governance Services, following consultation with the Portfolio Holder for Finance and Major Contracts had delegated authority to make changes to the draft terms of reference and to the Constitution as required, following the current government consultation. Final regulations informing the role and function of the Board had not yet been passed and progress could not be made until this had been completed. Legislation would be monitored and reviewed, and officers would ensure that Harrow's Pension Board was consistent with the regulations and those of other local authorities.

A Member queried the role and operation of the Board, and the mechanism for reporting back to the Committee. He also suggested that the Chair should be pro-active in pursuing information and action in this matter, and expressed his dissatisfaction when the Chair declined to do so. The Chair stated that the Board was a completely separate entity from the Committee, and that he in turn was disappointed that plans for such bodies were so far advanced without information or legislation in place to support their creation and operation.

London Pensions Collective Investment Vehicle

All mandated actions had now been implemented, and the Chair and Vice-Chair would represent Harrow as lead and reserve members.

Responsible and Ethical Investment

Members discussed the suitability and practicality of adopting a responsible and ethical investment strategy, and whether it was possible to find an optimum balance between the need to achieve the maximum return for the fund and adherence to responsible and ethical investment principles. In response to a suggestion that a policy should be included in the Statement of Investment Principles (SIP), Members noted that the SIP already made reference to this in paragraph 10.1. A Member offered to draft a brief report on the matter for the next meeting of the Committee.

Alternatives to Traditional Fixed Income Investments

Members considered whether a strategy review was necessary, and agreed that the paper on this, circulated approximately 3 years ago, should be circulated. They also discussed the content and timing of training in order to maximise their knowledge and understanding prior to consideration of specific issues.

In response to Members' comments about the style of presentation in this report and the terminology used, Tony Baily of Aon Hewitt explained that this was a generic style and that to customise the information or provide a bespoke report would incur greater costs. He agreed that canvassing the opinions of other authorities could provide an opportunity to tailor reports for laymen and local authorities which might offer economies of scale in costs.

RESOLVED: That the report be noted.

40. Work Programme for 2014-15 and 2015-16

An officer introduced the report and invited the Committee's comments on items for consideration and suggestions for training.

Members considered the optimum programme, timing and content for training, and agreed to hold two half days for meeting fund managers, along with individual sessions for fund managers with specific issues.

Members considered aspects of the Statement of Investment Principles (SIP) including the desirability and practicality of including a strong statement on responsible and ethical investment, and the audit requirements and expectations for the SIP.

RESOLVED: That

(1) the Work Programme be agreed, subject to the following additions and amendments:

- a training session be arranged at 5.30 pm prior to each meeting of the Committee;
- in addition to the report on responsible and ethical investing discussed in minute 39, a full officers report be considered in September 2015;

- the Statement of Investment Principles be reviewed in November 2015;

(2) training prior to the meeting on 25 March 2015 would be on bonds and currency hedging; for subsequent meetings officers will propose three themes for training, with one to be agreed and arranged.

41. 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 item(s) for the reasons set out below:

Item	Title	Reason
14.	Appointment of Diversified Growth Fund Manager	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 – 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).
16.	Information report – Performance of Fund Managers for Quarter Ended 30 September 2014	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
17.	Update Report (Item 10) – Confidential Appendices	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

42. Appointment of Diversified Growth Fund Manager

The Committee received the report of the Director of Finance and Assurance which invited the appointment of Insight Investment Management Ltd to take over the diversified growth fund mandate currently held by Baring Asset Management Ltd.

A Member queried if it would be possible to write to the new manager and advise them in respect of the Committee's expectations in respect of responsible and ethical management. The Chair stated that until the decision was approved and implemented the Committee could not act, but that in any event, this was not part of the current Statement of Investment Principles.

RESOLVED: That

(1) the appointment of Insight Investment Management Ltd be agreed;

(2) officers implement the transfer in the most effective and efficient manner possible.

43. 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, weaknesses and overall ratings.

RESOLVED: That the report be noted.

44. Information Report - Performance of Fund Managers for Quarter Ended 30 September 2014

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 30 September 2014.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.45 pm).

(Signed) COUNCILLOR KEITH FERRY
Chairman

Pension Fund Committee AGENDA

DATE: **Wednesday 25 March 2015**

TIME: **6.30 pm**

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

MEMBERSHIP (Quorum 3)

Chair: Councillor Keith Ferry

Councillors:

Adam Swersky

Barry Macleod-Cullinane
Bharat Thakker (VC)

(Non-voting Co-optee): Mr H Bluston
Trade Union Observer(s): Mr J Royle - UNISON
Ms P Belgrave - GMB

Reserve Members:

1. Antonio Weiss
2. Nitin Parekh

1. Norman Stevenson
2. Kam Chana

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

Harrow COUNCIL
LONDON

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. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 26 November 2014 be taken as read and signed as a correct record.

4. 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, 20 March 2015. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. 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).

6. **DEPUTATIONS**

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

7. **ESTABLISHMENT OF PENSION FUND RISK REGISTER** (Pages 13 - 30)

Report of the Director, Finance and Assurance

8. **LONDON PENSIONS COLLECTIVE INVESTMENT VEHICLE** (Pages 31 - 34)

Report of the Director, Finance and Assurance

9. **WORK PROGRAMME 2015-16** (Pages 35 - 38)

Report of the Director, Finance and Assurance

10. **TRAINING PROGRAMME 2015-16** (Pages 39 - 42)

Report of the Director, Finance and Assurance

11. **INFORMATION REPORT - STRATEGY UPDATE** (Pages 43 - 46)

Report of the Director, Finance and Assurance

12. **INFORMATION REPORT - PENSION BOARD** (Verbal Report)

Verbal Report of the Director, 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.	Presentation by Record Currency Management	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
16.	Presentation by BlackRock	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
17.	HB Public Law	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
18.	Annual Review of Internal Controls at Fund Managers	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person, including the Authority holding that information).
19.	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).
20.	Performance of Fund Managers for Quarter Ended 31 December 2014 and Valuation at 31 January 2015	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. **INFORMATION REPORT - PRESENTATION BY RECORD CURRENCY MANAGEMENT** (Pages 47 - 50)

    Report of the Director, Finance and Assurance

16. **REVIEW OF MANDATE OF BLACKROCK INVESTMENT MANAGEMENT** (Pages 51 - 78)

    Report of the Director, Finance and Assurance

17. **HB PUBLIC LAW - STAFF TRANSFER ARRANGEMENTS** (Pages 79 - 82)

    Report of the Director, Finance and Assurance

18. **INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT FUND MANAGERS** (Pages 83 - 100)

    Report of the Director, Finance and Assurance

19. **INFORMATION REPORT - INVESTMENT MANAGER MONITORING** (Pages 101 - 170)

    Report of the Director, Finance and Assurance

20. **INFORMATION REPORT - PERFORMANCE OF FUND MANAGERS FOR QUARTER ENDED 31 DECEMBER 2014 AND VALUATION AT 31 JANUARY 2015** (Pages 171 - 176)

    Report of the Director, 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

25 MARCH 2015

Chair:	* Councillor Keith Ferry	
Councillors:	* Barry Macleod-Cullinane * Adam Swersky	* Bharat Thakker
Co-optee (Non-voting):	* Howard Bluston	* John Royle Pamela Belgrave

[Note: Other Attendance:

(1) Honorary Alderman Richard Romain and Colin Robertson attended as Independent Advisers to the Committee.

(2) Tony Baily and Gayathri Varatharajan of Aon Hewitt attended in an advisory role, as the Council's Adviser.]

* Denotes Member present

45. Attendance by Reserve Members

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

46. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 8 – London Pensions Collective Investment Vehicle

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he had been an adviser at London Councils when the proposals for the London Collective Investment Vehicle had been drafted. He would remain in the room whilst the matter was considered.

47. Minutes

RESOLVED: That the minutes of the meeting held on 26 November 2015, be taken as read and signed as a correct record, subject to the following amendments:

Page 7, final paragraph: amend to read "Mr Colin Robertson, Independent Adviser to the Committee, declared a non-pecuniary interest in that he was an adviser to State Street Global Markets. He would remain in the room for the presentation and questions.

Page 8, All Agenda Items, paragraph 2: delete 'State Street Global Markets' and replace with 'BlackRock'.

48. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

49. Establishment of Pension Fund Risk Register

The Committee received a report of the Director of Finance and Assurance with a draft risk register appended for Members' information and comment.

The Treasury and Pension Fund Manager introduced this item and advised Members that the risk register had been established for a number of reasons, but in particular that it had been a recommendation within the last two external audit reports, and would sit alongside the Funding Strategy Statement and Statement of Investment Principles.

He informed the Committee that the register was based on a Council-wide template, and, for the Fund, contained nine categories of risk, which were potentially analysed as 'red', 'amber' or 'green'. There were three areas of risk considered 'amber', in the areas of actuarial assumptions and investment strategy. There were no risks identified as 'red'.

An independent adviser suggested that Item 9 be categorised as a 'C2 red risk', rather than a 'D2 amber risk'. The Treasury and Pension Fund Manager agreed to review this and report back to the next meeting.

A Member commented that in Item 17 it would be more accurate to state that asset allocation was 'periodically' reviewed, rather than 'regularly' reviewed. Another Member asked for greater clarity on the definitions of risk and benefit.

It was suggested that the register be shown to the external auditors and the newly formed Pension Board.

RESOLVED: That the Draft Risk Register be agreed.

50. London Pensions Collective Investment Vehicle

The Committee received a report of the Director of Finance and Assurance updating Members on the establishment of the London Pensions Collective Investment Vehicle (CIV).

The Chair informed the Committee that he had attended a cross-borough meeting of the CIV group and gave his opinion that he had little confidence in the process so far. Further funds were being sought, and while it was possible that these amounts would be compensated for through the savings achieved, he thought that the amounts required should have been identified and stated at the outset. He did not think there was sufficient clarity about the process for the selection of fund managers, and felt that meetings requiring the input and agreement of 30 representatives would be unwieldy.

The Vice-Chair had also attended a meeting, at the Chair's suggestion, and concurred with his views about lack of detail and transparency.

The Director of Finance and Assurance reminded the committee that the theory behind the CIV was the potential for saving on fees; research had shown that boroughs were investing in similar products and therefore there was potential for economies of scale. There had also been the intention to divert the introduction of a government led scheme for London boroughs. He believed it was sensible to be a member of the CIV, and suggested inviting the Programme Director of the CIV committee to a future meeting.

Members agreed that the principle of saving on fees was sound. A Member commented that Harrow should only commit to passive investment funds at this stage, and should not relinquish sovereignty.

RESOLVED: That

(1) the report be noted;

(2) the further payment of £50,000 in respect of legal and other costs necessary to establish the London Pensions Collective Investment Vehicle be agreed;

(3) where a further, urgent payment is needed and no meeting of the Pension Fund Committee is scheduled within deadline, delegated authority be given to the Director of Finance and Assurance to make payments of up to £25,000, following consultation with the Chair of the committee;

(4) in respect of (3) above, any such payments are reported to the next meeting of the committee.

51. Work Programme 2015-16

The Committee received a draft work programme for the Municipal Year 2015-16.

Members considered the content, duration and timing of the proposed programme and requested that the meeting with managers be limited to five managers and take place in a single day, and that consideration be given to moving the date of the meeting on 26 November 2015 to 25 November 2015.

RESOLVED: That the work programme be agreed subject to the requested amendments.

52. Training Programme 2015-16

The Committee received an outline training programme for the Municipal Year 2015-16.

Members discussed the timing of content and dates for training in the light of the forthcoming general election and further developments in the London Pensions Collective Investment Vehicle.

RESOLVED: That the training programme be agreed.

53. Information Report - Strategy Update

The Committee received a progress report on their agreed allocation strategy. The Treasury and Pension Fund Manager stated that the strategy as agreed had been followed, and that no re-balancing was required at present.

RESOLVED: That the report be noted.

54. Information Report - Pension Board

The Committee received a verbal progress report from the Treasury and Pension Fund Manager on the establishment of a Pensions Board and considered the following points:

- the Pension Board's terms of reference;
- the purpose and membership of the Pension Board;
- funding of the Pension Board;
- the role of the Pension Board in relation to the Pension Fund Committee;
- the intended outcomes of the Pension Board's work.

RESOLVED: That the verbal progress report be noted.

55. 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 item(s) for the reasons set out below:

Item	Title	Reason
15.	Presentation by Record Currency Management	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
16.	Presentation by BlackRock	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
17.	HB Public Law	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
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19.	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).
20.	Performance of Fund Managers for Quarter Ended 31 December 2014 and Valuation at 31 January 2015	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

56. Information Report - Presentation by Record Currency Management

The Committee received a presentation by Record Currency Management on the currency overlay mandate they manage on behalf of the Council.

RESOLVED: That the presentation be noted.

57. Review of Mandate of BlackRock Investment Management

The Committee received a confidential report of the Director of Finance and Assurance which provided the background to a request by BlackRock Investment Management to adjust their mandate for bonds and index linked gilts.

The Committee considered that a that a further report from the Investment Adviser would be necessary before they could make a decision on the matter

RESOLVED: That

(1) the report be noted;

(2) a further report be brought to the Committee.

58. HB Public Law - Staff Transfer Arrangements

The Committee received a confidential report of the Director of Finance and Assurance which set out the latest position in negotiations with the London Borough of Barnet in respect Pension liabilities arising from the transfer of Legal Services staff.

RESOLVED: That

(1) the report be noted;

(2) it be noted that in the event of no agreement being reached, the matter will be referred to a third actuary for resolution.

59. Information Report - Annual Review of Internal Controls at Fund Managers

The Committee received a confidential report of the Director of Finance and Assurance which summarised the latest internal controls reports for each of the Council's Fund Managers.

RESOLVED: That the report be noted.

60. 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, weaknesses and overall ratings.

RESOLVED: That the report be noted.

61. Information Report - Performance of Fund Managers for Quarter Ended 31 December 2014 and Valuation at 31 January 2015

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 2014.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.35 pm, closed at 9.40 pm).

(Signed) COUNCILLOR KEITH FERRY
Chair

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REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Code of Conduct
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Enclosures:	Harrow Council – Code of Conduct for Councillors

Section 1

Summary
The Board are advised of the Code of Conduct for Councillors and will be asked to confirm that, as Members of the Board, they will abide it.

For information

Section 2 – Report

1. The Board's Terms of Reference state that all Members of the Board are expected to act in accordance with the Council's Code of Conduct for Councillors.

Harrow COUNCIL
LONDON

2. A copy of the Code is attached and Members will be asked to confirm that they will abide by it.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance (Interim)
Date:	11 June 2015		

Section 4 - Contact Details

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

Background Papers - None

HARROW COUNCIL

A. CODE OF CONDUCT FOR COUNCILLORS

Background

The Localism Act 2011 requires the Harrow Council to promote and maintain high standards of conduct by Members and Co-opted Members of the Council. It also requires the Council to adopt a code of the conduct expected of such Members when acting in that capacity.

This Code has been prepared and adopted by Harrow Council

The Council having adopted this Code will, from time to time, revise and replace it as is appropriate but will publicise such changes through its website and otherwise for the information of people living in its area.

PART 1

GENERAL PROVISIONS

Introduction and interpretation

1.1 This Code defines the standards of conduct, which will be required of you and in your relationships with the Council and its Officers. It has been created to embrace the 10 general principles of conduct which are set out in Appendix 1.

1.2 The Code represents the standard against which the public, fellow Councillors, and the Authority's Standards Committee will judge your conduct. A breach of the Code may also constitute a criminal offence.

1.3 You should familiarise yourself with the requirements of this Code. You should regularly review your personal circumstances, particularly when those circumstances change. If in any doubt, you should seek advice from the Authority's Monitoring Officer.

1.4 (1) This Code applies to you as a member of the Council.

(2) You should read this Code together with the general principles set out in Appendix 1.

(3) It is your responsibility to comply with the provisions of this Code.

(4) In this Code –

(a) "the Act" means the Localism Act 2011;

(b) "body in which the relevant person has a beneficial interest" means a firm in which the relevant person is a partner or a body corporate of which the relevant person is a director, or in the securities of which the relevant person has a beneficial interest;

(c) "Co-opted member" means any person who is not a member of the Council but who:

    (i) Is a member of any committee or sub-committee of the council, or

    (ii) Is a member of and represents the council on any joint committee or joint sub-committee of the Council, or

    (iii) Is a non-executive member of Cabinet;

(d) "director" includes a member of the committee of management of an industrial and provident society;

(e) "land" excludes an easement, servitude, interest or right in or over land which does not carry with it a right for the relevant person (alone or jointly with another) to occupy the land or to receive income;

(f) "M" means a member of a relevant authority;

(g) "meeting" means any meeting of -

    (i) the Council ;

    (ii) the Executive of the Council ;

    (i) any of the Council's or its executive's committees, sub-committees, joint committees, joint sub-committees, or area committees;

    (ii) in taking a decision as a Ward Councillor or as a Member of the Executive.

    (v) at any briefing by officers; and

    (vi) at any site visit to do with business of the authority

(h) "member" includes a Co-opted member and an Appointed Member;

(i) "relevant authority" means the authority of which M is a member;

(j) "relevant period" means the period of 12 months ending with the day on which M gives a notification for the purposes of paragraphs 9.2 (a) or 12.1 of this Code.

(k) "relevant person" means M or any other person referred to in paragraph 8.1 (b).

(l) "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

(m)“subject to a pending notification” means a notification made of a disclosable pecuniary interest to the Monitoring Officer which has not yet been entered in the Register of Interests.

Scope

2. (1) You must comply with this Code whenever you are acting in your capacity as a Member of the Council.

General obligations

3. (1) You must treat others with respect.

(2) You must not-

(a) do anything which may cause the Council to breach any of the equality enactments (as defined in section 33 of the Equality Act 2006

(b) bully any person;

(c) intimidate or attempt to intimidate any person who is or is likely to be

(i) a complainant,

(ii) a witness, or

(iii) involved in the administration of any investigation or proceedings,

in relation to an allegation that a Member (including yourself) has failed to comply with the Council’s code of conduct; or

(d) do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, the Council .

(3) In relation to police authorities and the Metropolitan Police Authority, for the purposes of sub-paragraph (2)(d) those who work for, or on behalf of, an authority are deemed to include a police officer.

4. You must not -

(a) disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where -

(i) you have the consent of a person authorised to give it;

(ii) you are required by law to do so;

(iii) the disclosure is made to a third party for the purpose of obtaining professional advice provided that the third party agrees not to disclose the information to any other person; or

(iv) the disclosure is -

(aa) reasonable and in the public interest; and

(bb) made in good faith and in compliance with the reasonable requirements of the authority; or

(b) prevent another person from gaining access to information to which that person is entitled by law.

5. You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Council into disrepute.

6. 1 You:-

(a) must not use or attempt to use your position as a Member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage; and

(b) must, when using or authorising the use by others of the resources of the Council -

(i) act in accordance with the Council's reasonable requirements;

(ii) ensure that such resources are not used improperly for political purposes (including party political purposes); and

(c) must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

6.2 You may have dealings with the Council on a personal level, for instance as a council tax payer, as a tenant, or as an applicant for a grant or a planning permission. You should never seek or accept preferential treatment in those dealings because of your position as a Member. You should also avoid placing yourself in a position that could lead the public to think that you are receiving preferential treatment. Likewise, you should never use your position as a Member to seek preferential treatment for friends or relatives, or any firm or body with which you are personally connected.

6.3 You should always make sure that any facilities (such as transport, stationery, or secretarial services) provided by the Council for your use in your duties as a Councillor or a committee member or member of the Executive are used strictly for those duties and for no other purpose.

7.1 (1) When reaching decisions on any matter you must have regard to any relevant advice provided to you by –

(a) the Council's Chief Finance Officer; or

(b) the Council's Monitoring Officer,

where that officer is acting pursuant to his or her statutory duties.

(2) You must give reasons for all decisions in accordance with any statutory requirements and any reasonable additional requirements imposed by your authority.

7.2 When reaching decisions you should -

(a) not act or cause the Council to act unlawfully, in such a manner as would give rise to a finding of maladministration, in breach of any undertaking to the Court, or for the advantage of any particular person or interest rather than in the public interest; and

(b) take into account all material information of which you are aware and then take the decision on its merits and in the public interest

7.3 No member may be involved in scrutinising a decision in which he/she has been directly involved. In particular, Portfolio Holder Assistants should not participate in or vote on the scrutiny of matters within their identified remit, as approved by Cabinet.

PART 2

INTERESTS

Disclosable Pecuniary Interests

8.1 A pecuniary interest is a "Disclosable Pecuniary Interest" if it is of a description specified in Appendix 2 and either:

(a) it is the interest of you as a Member or

(b) it is an interest of:

(i) the Member's spouse of civil partner
(ii) a person with whom the Member is living as husband and wife, or
(iii) a person with whom the Member is living as if they were civil partners,

and the Member is aware that the other person has that interest.

8.2 If you are in any doubt as to whether you should continue to participate in any matter, you should take advice from the Monitoring Officer at an early stage as to whether your circumstances permit continued participation.

8.3 You, or some firm or body with which you are personally connected may have professional, business or other personal interests within the area for which the Council is responsible. Such interests may be substantial and closely related to the work of the Executive or one or more of the Council's committees.

8.4 You should not seek, or accept, membership of the Executive or any such committee, if that would involve you in disclosing an interest so often that you could be of little value to the Executive or committee, or if it would be likely to weaken public confidence in the duty of the Executive or committee to work solely in the general public interest.

Effect of disclosable pecuniary interests on participation

9.1 Where you are present at a meeting of the Council and you are aware that you have a disclosable pecuniary interest in any matter to be considered, or being considered, then:

(a) if the interest is not entered on the Council's register of interests you must (subject to the provision relating to sensitive interests) disclose the interest to the meeting, and

(b) if the interest is not entered on the Council's register of interests and is not the subject of a pending notification you must notify the Monitoring Officer of that interest before the end of 28 days beginning with the date of disclosure and

(c) (i) (subject to any current dispensation) may not participate (or participate further) in any discussion of the matter at the meeting or

(ii) participate in any vote (or vote further) taken on the matter at the meeting

(iii) and must leave the room in which the meeting is being held

9.2 If a function of the Council may be discharged by you as a single member acting alone and you are aware that you have a disclosable pecuniary interest in any matter to be dealt with, or being dealt with, in the course of discharging that function then

(a) if the interest is not entered on the Council's register of interests and is not the subject of a pending notification you must notify the Monitoring Officer of that interest before the end of 28 days beginning with the date when you became aware of the existence of the interest in relation to the business to be dealt with and

(b) you must not take any steps, (or further steps) in relation to that matter except for the purpose of enabling the matter to be dealt with otherwise than by you.

(c) decision-making by a single executive member is a matter of particular sensitivity, and if you have a disclosable interest in a matter on which you may take a decision you should wherever possible refer the matter to the Executive for a collective decision.

Other Interests

10.1 In addition to the above requirements, if you attend a meeting at which an item of business is to be considered and you are aware that you have a "non-disclosable pecuniary interest or non-pecuniary interest" in that item, you must make verbal declaration of the existence and nature of that interest at or before the consideration of the item of business or as soon as the interest becomes apparent

10.2 You have a "non-disclosable pecuniary interest or non-pecuniary interest" in an item of business of your authority where –

(a) a decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing of you or a member of your family or a person with whom you have a close association to a greater extent than it would affect the majority of the Council Tax payers, ratepayers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the authority's administrative area, or

(b) it relates to or is likely to affect any of the interests listed in the Table in Appendix 2 of this Code, but in respect of a member of your family (other than a "relevant person") or a person with whom you have a close association and

that interest is not a disclosable pecuniary interest.

11.1 Dispensations

In cases where a member has a disclosable pecuniary interest, they may still be able to participate and vote at a meeting if they have obtained a dispensation from the Standards Committee in accordance with the provisions set out below:

There are 5 circumstances in respect of which a dispensation may be granted, namely:

(a) That so many members of the decision-making body have disclosable pecuniary interests in a matter that it would 'impede the transaction of the business';

(b) That, without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;

(c) That the authority considers that the dispensation is in the interests of persons living in the authority's area;

(d) That without a dispensation, no member of the Cabinet would be able to participate in this matter, or

(e) That the authority considers that it is otherwise appropriate to grant a dispensation

11.2 You must make verbal declaration of the existence and nature of any dispensation granted to you at or before the consideration of the item of business or as soon as the interest to which the dispensation relates, becomes apparent. In the event of a blanket dispensation granted to all Members on a particular matter, this should be declared by the Chair at the commencement of the meeting.

Gifts and Hospitality

12.1 You must, within 28 days of receipt, notify the Monitoring Officer in writing of any gift, benefit or hospitality with a value in excess of £100 which you have accepted as a member from any person or body other than the authority.

12.2 The Monitoring Officer will place your notification on a public register of gifts and hospitality.

12.3 This duty to notify the Monitoring Officer does not apply where the gift, benefit or hospitality comes within any description approved by the authority for this purpose.

PART 3

REGISTRATION OF MEMBERS' INTERESTS

Registration of Members' interests

13.1 You must, within 28 days of –

(a) this Code being adopted by the Council or

(b) your election or appointment to office (where that is later):

notify the Council's Monitoring Officer of any disclosable pecuniary interest which you have at the time of notification for registration in the Council's register of members' interests maintained under the Act.

13.2 Where you become a member of the Council as a result of re-election or re-appointment the requirement for notification as mentioned in sub-paragraph (1) above applies only to disclosable pecuniary interests not entered in the register when the notification is given.

13.3 Entries in the register are not required to be retained once you:

(a) no longer have that interest or

(b) have ceased to be a Member of the Council (otherwise than transitorily on re-election or re-appointment).

13.4 Where a Member gives a notification for the purposes of sub-paragraph (1) above the Monitoring Officer must cause the interests notified to be entered on the Register whether or not they are disclosable pecuniary interests.

13.5 Where a Member gives a notification for the purposes of paragraphs 9.1(b) or 9.2 (a) above the Monitoring Officer must cause the interest notified to be entered on the Register whether or not they are disclosable pecuniary interests.

13.6 You must inform the Monitoring Officer within 28 days of any change to your circumstances regarding any existing registration or need for further registration.

Sensitive information

14. Where you have a personal or declarable pecuniary interest and you and the Monitoring Officer consider that it is of such a nature that disclosure of the details of the interest could lead to you or a person connected to you being subject violence or intimidation then:

(a) if the interest is entered on the Council's Register, copies that are made available for inspection and any publishes version of the Register must not include details of the interest but may state that you have an interest details of which are withheld under this provision.

(b) if by virtue of this Code you are required to disclose an interest at a meeting then that requirement shall be amended to only require disclosure that such an interest exists in respect of the matter concerned, but not the terms of that interest.

APPENDIX 1

THE 10 GENERAL PRINCIPLES OF CONDUCT

Members are reminded of the 10 General Principles of Conduct (as set out below), which govern the conduct of members.

1. **Selflessness** - Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.

2. **Honesty and Integrity** - Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly and should on all occasions avoid the appearance of such behaviour.

3. **Objectivity** - Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefits.

4. **Accountability** - Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.

5. **Openness** - Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.

6. **Personal judgement** - Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.

7. **Respect for others** - Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers, and its other employees.

8. **Duty to Uphold the Law** - Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.

9. **Stewardship** - Members should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

10. **Leadership** - Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.

APPENDIX 2

DISCLOSABLE PECUNIARY INTERESTS

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011. For those purposes `Disclosable Pecuniary Interests` are defined as follows –

Interest	*Prescribed description*
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992).
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.

Interest	*Prescribed description*
Securities	Any beneficial interest in securities of a body where— (a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Knowledge and Understanding of Local Government Pension Scheme
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Enclosures:	Extract from *Guidance on the creation and operation of Local Pension Boards in England and Wales.*

Section 1

Summary

The Board are asked to note the requirements in respect of knowledge and understanding of the Local Government Pension Scheme as set out by the, then, Shadow Advisory Board and to consider training opportunities available.

For information

Harrow COUNCIL
LONDON

Section 2 – Report

1. In its publication *Guidance on the creation and operation of Local Pension Boards in England and Wales,* Section 6 the, then, Shadow Advisory Board refers to the Pension Act 2004 and to the requirement that

   An individual to whom this section applies [Member of a Pension Board] must be conversant with—

   (a) the rules of the scheme, and

   (b) any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

   An individual to whom this section applies must have knowledge and understanding of—

   (a) the law relating to pensions, and

   (b) such other matters as may be prescribed.

   The degree of knowledge and understanding required …….. is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.

2. The, then, Shadow Advisory Board, expanded considerably on this legislative requirement and the relevant extract from their publication is attached.

3. Clearly, for all Members of the Board to reach the levels of proficiency envisaged will take some time. However two of the Council's advisers, Hymans Robertson and Aon Hewitt have offered to provide introductory course on various aspects of the Local Government Pension Scheme specifically tailored for Pension Board members. A suitable one-day course could be arranged during the summer.

4. It would probably be appropriate for the Members of the Board to attend such a course and comments are invited.

5. The cost of training will be met from the Pension Fund.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance (Interim)
Date:	11 June 2015		

Section 4 - Contact Details

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

Background Papers - None

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Extract from *Guidance on the creation and operation of Local Pension Boards in England and Wales.*

6. **Board Knowledge and Understanding**

Legal requirements

6.1 In accordance with section 248A of the 2004 Act, every individual who is a member of a Local Pension Board must:
6.1.1 be conversant with:
6.1.1.1 the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations); and
6.1.1.2 any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund, and
6.1.2 have knowledge and understanding of:
6.1.2.1 the law relating to pensions; and
6.1.2.2 such other matters as may be prescribed.

6.2 A Local Pension Board member should be aware that their legal responsibilities begin from the date they take up their role on the Board and so should immediately start to familiarise themselves with the documents as referred to in paragraph 6.1.1 and the law relating to pensions.

6.3 In accordance with section 248A, the knowledge and understanding requirement applies to every individual member of a Local Pension Board rather than to the members of a Local Pension Board as a collective group.

General Principles

6.4 Administering Authorities should also take account of this Guidance to support them in understanding the requirement and to enable them to help members of the Local Pension Board to meet their knowledge and understanding obligations.

6.5 Administering Authorities should make appropriate training available to Local Pension Board members to assist them in undertaking their role and where possible support all members of the Board in undertaking that training. Where Local Pension Board members do not demonstrate their capacity to attend and complete training then the Administering Authority may need to consider whether that Local Pension Board member has the capacity to undertake their role on the Board.

6.6 Knowledge and understanding must be considered in light of the role of a Local Pension Board to assist the Administering Authority in line with the requirements set out at paragraph 3.27.

6.7 However, members of a Local Pension Board clearly need to understand the duties and obligations of the Administering Authority, including funding and investment matters, in order to be able to assist it.

6.8 Once created, a Local Pension Board should establish and maintain a policy and framework to address the knowledge and understanding requirements that apply to its members. Where the Pensions Committee has an existing knowledge and understanding policy already in place, it may be sensible to see if this could be incorporated to cover both the Pensions Committee and the Local Pension Board to avoid unnecessary duplication. However the knowledge and understanding requirements of a Local Pension Board and a Pension Committee may differ, especially given the former's statutory requirements.

6.9 The Local Pension Board may wish to designate a person to take responsibility for ensuring that the knowledge and understanding framework is developed and implemented. This could be a member of the Local Pension Board or an external person, for example an officer of the Administering Authority or a professional adviser.

……………………………………

The Regulator's Code of Practice

6.11 The issue of knowledge and understanding is dealt with in the Regulator's Code of Practice (see paragraphs 34 to 60 of the Code of Practice). This Guidance is intended to reflect the principles of the Code of Practice and apply them in a LGPS context.

Degree of Knowledge and Understanding

6.12 Being conversant with the rules of the LGPS and any document recording policy about the administration of the Fund means having a working knowledge (i.e. a sufficient level of familiarity) of them so that members of a Local Pension Board can use them effectively when carrying out their role of assisting the Administering Authority.

6.13 In particular members of a Local Pension Board should understand the rules and documents in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.

6.14 In order to assist the Administering Authority, it is implicit that members of a Local Pension Board understand the duties and obligations that apply to the Administering Authority as well as to themselves.

6.15 The rules of the LGPS would include
6.15.1 the Regulations;
6.15.2 the Investment Regulations; and

6.15.3 the Transitional Regulations (including any earlier Regulations as defined in the Transitional Regulations to the extent they remain applicable),
and any statutory guidance referred to in these regulations.

6.16 A Local Pension Board should prepare and keep updated a list of the core documents recording policy about the administration of the Fund and make sure that the list and documents (as well as the rules of the LGPS) are accessible to its members.

6.17 Part 1 of Schedule B of this Guidance contains a list of documents which are likely to be regarded as recording policy about the administration of a Fund. This list should not be relied upon as being definitive and actual lists are likely to vary from Fund to Fund. This Schedule has been added to this guidance to assist Administering Authorities and Local Pension Boards to quickly identify documents which record policy about the administration of a Fund.

6.18 Members of a Local Pension Board should also be aware of the range and extent of overriding law which applies to the LGPS and have sufficient knowledge and understanding of the content and effect of that law to recognise when and how it impacts on their role, responsibilities and duties.

6.19 Part 2 of Schedule B of this Guidance contains a summary of some of the key areas of law relating to pensions generally and the LGPS in particular. This summary should not be relied upon as being a definitive list of all the areas of law that members of a Local Pension Board need to know about and understand. This Schedule been added to this guidance to assist Administering Authorities and Local Pension Boards to quickly identify key areas of law that may be relevant.

6.20 Given the role of the Local Pension Board to assist the Administering Authority, members of a Local Pension Board should have sufficient knowledge and understanding to challenge any failure by the Administering Authority to comply with the Regulations and other legislation relating to the governance and administration of the LGPS (which should be interpreted as including the Regulations and other legislation relating to investment and funding matters) and/or any failure to meet the standards and expectations set out the Code of Practice.

6.21 Members of a Local Pension Board should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Local Pension Board is given. Members should be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Local Pension Board’s duty to assist the Administering Authority.

Acquiring, Reviewing and Updating Knowledge and Understanding

6.22 A Local Pension Board’s knowledge and understanding policy and framework should provide for the acquisition and retention of knowledge and understanding for its members.

6.23 Members of the Local Pension Board should commit sufficient time in their learning and development alongside their other duties. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations to assist the Administering Authority.

6.24 Members of the Local Pension Board must be aware that their knowledge and understanding responsibilities technically begin from the date they take up their post. Therefore, members should immediately start to familiarise themselves with the Regulations, key Fund documents and relevant pensions law.

6.25 The Administering Authority should offer high quality induction training and should provide relevant ongoing training for Board members. This could be included in the normal training programme for members of the Pensions Committee as well as a specific training programme for the Local Pension Board.

6.26 It may also be useful for the Local Pension Board to have shared training events with the Pensions Committee and/ or Pension Committees and Local Pension Boards from other Funds to share knowledge and experience.

6.27 There must be a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding (see paragraph 6.1). Consideration should also be given to permitting newly appointed Local Pension Board members to overlap with the outgoing member to allow them to shadow that Board member for at least one Board meeting (where possible) as well as providing them with high quality induction training.

6.28 A Local Pension Board's knowledge and understanding policy and framework should require its members to undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

6.29 Part 2 of Schedule B contains examples of areas of knowledge and understanding that a member of a Local Pension Board might be expected to have. These examples may assist a Board member in undertaking a personal training needs analysis.

6.30 A personalised training plan should then be used to document and address these promptly. This would be supported by any person the Local Pension Board has designated to implement the knowledge and understanding policy and framework.

6.31 Learning programmes should be flexible, allowing members of the Local Pension Board to update particular areas of learning where required and acquire new areas of knowledge in the event of any change. For example, members of the Local Pension Board who take on new responsibilities in their role will need to have knowledge and understanding which is relevant to carry out those new responsibilities.

6.32 Learning programmes should deliver the appropriate level of detail to ensure that Local Pension Board members have the required level of knowledge and understanding specific to the LGPS.

6.33 The Regulator will be providing an e-learning programme which has been developed to meet the needs of all members of public sector scheme pension boards, whether or not they have access to other learning. It is not anticipated that this e-learning module alone would provide the sufficient level of LGPS specific training required for Local Pension Board members.

6.34 Members of a Local Pension Board and the Administering Authority should investigate what other third party learning tools and courses are available both for initial training requirements and any ongoing training needs identified for members of the Local Pension Board. Administering Authorities and Local Pension Boards should contact relevant advisors to identify any training resources being made available. For example the LGPC Secretariat will be providing training events for Local Pension Board members with details available from their website.

6.35 Once a Local Pension Board is in operation and new appointments are made in the future, mentoring by existing members could also be considered. This could also help to ensure that historical and scheme specific knowledge is retained when members of a Local Pension Board change.

Demonstrating Knowledge and Understanding

6.36 The Local Pension Board should keep appropriate records of the learning activities of individual members and the Local Pension Board as a whole. This will assist members in demonstrating their compliance, if necessary, with the legal requirement and how they have mitigated risks associated with knowledge gaps. For example a good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place, which can be provided to the Local Pension Board.

Action Points:

- Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).
- A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.
- The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.
- A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.
- Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

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REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Work Programme for 2015-16
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1

Summary
This report sets out some matters for the Board to consider as regards their work programme for the remainder of 2015-16 and recommends that they agree a programme.

Recommendation
The Board agrees a work programme for the remainder of 2015-16.

Section 2 – Report

Background

1. In the light of their consideration of the remit of the Board, Members are asked to consider what issues they wish to review at the remaining meeting(s) in the year.
2. The example of a possible remit for the Board considered elsewhere on the agenda provides the basis of a work programme and documents provided in other parts of the agenda could lead to specific suggestions. The proposed training session also discussed elsewhere on the agenda will provide further ideas for the Board to consider
3. As a suggestion, for example if the Board meets in the autumn, they will have available:
    - The recently completed 2014-15 Annual Report and Accounts
    - Governance Compliance Statement
    - Communications Policy Statement
    - Statement of Investment Principles
    - Funding Strategy Statement
4. Consideration of these documents, perhaps along with some aspects of scheme administration, could provide the basis of a full agenda.
5. The Board could also ask to see and review any of the policy documents listed in Schedule B Part 1 in the, then, Shadow Advisory Board's publication *Guidance on the creation and operation of Local Pension Boards in England and Wales.*
6. However, the programme of work of the Board must be for the Board alone to decide and they are recommended to agree such a programme.

Financial implications

7. There are no specific financial implications arising from this report

Risk Management implications

8. There are no specific risk management implications arising from this report

Equalities implications

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

Council Priorities

10. There is no direct impact on the Council Priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 11 June 2015	✓	Chief Financial Officer
Name: Caroline Eccles Date: 16 June 2015	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

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REPORT FOR: Pension Board

Date of Meeting:	25 June 2015
Subject:	Key documents
Responsible Officer:	Dawn Calvert, Director of Finance (Interim)
Exempt:	No
Enclosures:	Governance Compliance Statement Statement of Investment Principles Funding Strategy Statement

Section 1

Summary
Attached for information are various key documents on which the Board may wish to comment at future meetings.

For information

Section 2 – Report

1. Attached for information are three key documents as follows:

   - Governance Compliance Statement
   - Statement of Investment Principles
   - Funding Strategy Statement

2. The Board needs to be aware of these documents since it may wish to comment on them at future meetings.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance (Interim)
Date:	11 June 2015		

Section 4 - Contact Details

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

Background Papers - None

Governance Compliance Statement

London Borough of Harrow Pension Fund

September 2014

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 55 of the Local Government Pension Scheme Regulations 2013.

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 functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and, if so, whether those representatives have voting rights;

(c) 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, and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers)."

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) Pension Fund Committee

ii) Officer Sub – Group

iii) Divisional Director HRD & Shared Services

vi) Director of Finance & Assurance

vii) Chief Officers

Pension Fund Committee

The Pension Fund Committee is comprised of four Members representing two different political parties with voting rights and three Independent Advisors 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 Committee meets approximately four times a year and has the following responsibilities:

- 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 certain applications under the Local Government Pension Scheme 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;
- 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;

- to report back to Council for information purposes on all such approved severance packages.

- To determine applications in respect of Chief Officers where the application has been recommended by the Chief Executive in consultation with the Leaders of the political groups.

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.

- 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.

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 all early retirement applications in line with Council Policy

Divisional Director HRD & Shared Services

The Senior HR Officer (currently Divisional Director HRD & Shared Services) has the following responsibility:

- To determine flexible retirement applications where there is no cost to the pension fund.

Director of Finance and Assurance

Pension Fund Investment

In respect of the discretionary management arrangements the Director of Finance and Assurance has the following responsibilities:

- 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 Scheme (Management and Investment of Funds) Regulations 2009 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.

Local Pension Board

A local Pension Board will be in place by April 2015.

Statement of compliance to guidance

Regulation 55(1)(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 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)					NA
d)					NA

* Please use this space to explain the reason for non-compliance. **No formal representation of ex-members with voting rights (pensioners/deferred members).**

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.

No formal representation of ex-members with voting rights (pensioners/deferred members).

<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.

<u>Principle D – Voting</u>

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

<u>Principle E – Training/Facility time/Expenses</u>

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 .

No formal documentation exists on the policy for training, facility time and expenses. No formal training log exists.

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)					NA
c)				√	

* Please use this space to explain the reason for non-compliance.

No formal representation of ex-members with voting rights (pensioners/deferred members).

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.

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.

Principle I – Publicity

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.

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.

LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

CONTENTS

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, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings. The Committee is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government.

1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role

1.5 The Statement is subject to review from time to time and, certainly, within six months of any material change in investment policy or other matters as required by law.

Fund Objectives

2.1 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 optimise performance within risk parameters thereby minimising the level of employer contributions in order to meet the cost of pension benefits as required by statute.

2.2 A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

Investment Objectives

3.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the funding objectives 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

4.1 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 agreed in principle in November 2013 and is being implemented during 2014-15. The majority of the Fund is invested in "growth assets" i.e. those expected to generate 'excess' returns over the long term. These include equities, and private equity. The structure also includes a small allocation to "cash flow matching" assets, mainly corporate bonds. Additionally, the investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

ASSET CLASS	MANAGEMENT APPROACH	ALLOCATION	RANGE
		%	%
Equities			
Global	Passive	31.0	
Global	Active Unconstrained	20.7	
Emerging Markets	Active Unconstrained	10.3	
TOTAL		62.0	58-68
Bonds			
Corporate	Active	10.4	
Index-linked gilts	Active	2.6	
TOTAL		13.0	11-15
Alternative Investments			
Diversified Growth Funds	Active	10.0	
TOTAL		10.0	8-12
Property	Active	10.0	8-12
Private Equity	Active	5.0	4-6
TOTAL		100.0	

4.2 The above allocations, ranges and the management structure comply with the limits set out in 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, prior to the re-structure being completed in a passive UK equities portfolio. This decision will apply until the completion of the re-structure. The decision to increase the limit complies with The Regulations.

4.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. 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.

4.4 The investment strategy is reviewed periodically.

4.5 Cash balances are held in either or both of the two Pension Fund bank accounts, current and call account.

4.6 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.

4.7 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.

4.8 Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request.

Performance

5.1 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 Performance Services who provide independent performance statistics and reports.

5.2 The Council also monitors 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

Types of Investments

6.1 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.

6.2 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

7.1 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 long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund.

7.2 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.

7.3 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity and property. More than 70% of the fund is invested in equities and bonds that are highly liquid.

7.4 The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling.

7.5 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 provided by Club Vita, a “sister” company of the Fund’s Actuary, Hymans Robertson. Club Vita carries out a comprehensive analysis of the Fund’s longevity data to facilitate an understanding which helps to manage this issue in the most effective way.

The realisation of investments

8.1 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.

8.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

Investment advice

9.1 Professional advice on investment matters is taken from the investment practice of Aon Hewitt. Hymans Robertson provides actuarial services.

Social, environmental or ethical considerations

10.1 The extent to which social, environmental and ethical considerations are taken into account in investment decisions is left to the discretion of the fund managers. However, the Council expects that investment return is seen as the priority and that the extent to which these considerations may have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. However, the Council expects the fund managers to engage positively 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

11.1 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.

11.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. 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.

Additional Voluntary Contributions (AVC)

12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical Equitable Life and Prudential.

Compliance with "Myners" Principles

13.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated "Myners" 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 in the United Kingdom 2012." These principles codify best practice in investment decision making

Appendix 1

Compliance with "Myners" Principles

1. Effective decision-making

Administering authorities 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.
- those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

<u>Fund compliance – Full</u>

- The Council has delegated decision making in respect of the Pension Fund to the Pension Fund Committee, comprising four Councillors with full voting rights with representatives from the trade unions invited.
- The Committee, with advice from its Investment Adviser and independent advisers has appropriate skills for, and is run in a way that facilitates, effective decision making.
- Members of the Committee are provided with training opportunities in line with the skills and knowledge framework produced by CIPFA and a training log is maintained.
- There are sufficient internal resources and access to external resources for the Pension Fund Committee to make effective decisions.

2 Clear objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the Administering Authority and scheme employers. These should be clearly communicated to advisers and investment managers.

<u>Fund compliance - Full</u>

- The Fund's Statement of Investment Principles and Funding Strategy Statement set out its investment objectives which are agreed after consultation with the Fund actuary and take into account the Fund's liabilities, the impact on employer contribution rates, future cashflows and the Fund's attitude to risk.
- Asset allocation, benchmarks and risk parameters are set with the aim of achieving these objectives.
- Fund managers have clear written mandates with individual performance targets and benchmarks and their performance is measured and reviewed by the Committee on a quarterly basis.
- Full account is taken of the strength of the sponsor covenant for all non-local authority employers admitted to the fund and contribution rates set accordingly.

3 Risks and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Fund compliance – Full

- The Committee, in setting its investment strategy, has taken account of the form and structure of its liabilities following advice from the Fund's actuary. The strategy aims to achieve the return required to meet its liabilities whilst taking into account stability of contributions and affordability for employers.
- Consideration is given to the payment of a bond by prospective admitted bodies to the Fund to minimise the financial consequences of default.
- A risk assessment and suggestions as to how the risks can be managed is included in the triennial valuation.
- Longevity risk is built into the triennial actuarial and is therefore included when determining the investment strategy
- Investment risk, including that of underperformance is taken into account in the Statement of Investment Principles and the Fund's Annual Report.

4 Performance Assessment

Arrangements should be in place for the formal measurement of the performance of investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Fund compliance – Partial

- In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
- An independent performance measurement company provides quarterly and annual reports detailing the performance of the Fund and its managers and identifying the achievements resulting from asset allocation and manager performance.
- The Committee also receives, annually, data measuring its performance against that of other administering authorities but in reviewing this is conscious of the need to set its own investment strategy based on its own Fund liabilities and other local conditions.
- The performance of actuaries and advisers is informally assessed on an ongoing basis.
- The performance of the Fund is reported annually to all scheme members and is included in the Annual report; the Committee will be considering ways of improving their accountability, particularly in the context of the imminent establishment of the local pension board.

5 Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the Statement of Investment Principles.
- Report periodically to members on the discharge of such responsibilities.

Fund compliance – Partial

- The Fund's policy on the extent to which its investment managers take account of social, environmental and ethical considerations is stated in the Statement of Investment Principles.
- The Fund expects its managers to engage positively and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.
- Where applicable, the Fund expects its managers to have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Whilst the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers the Council encourages its 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.

6 Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to members in the form they consider most appropriate.

Fund compliance – Full

- The Fund publishes a Communications Policy Statement detailing its policy and detailed strategy for communicating information to members, prospective members and their employers, union representatives, elected Members, tax payers and other interested parties. The Fund makes available a range of documents including:
    - Annual Report including Statement of Accounts.
    - Governance Compliance Statement which includes level of compliance.
    - Communications Policy Statement.
    - Statement of Investment Principles.
    - Funding Strategy Statement.
    - Triennial Actuarial Valuation.
    - Agenda and Minutes of Pension Fund Committee.
    - Annual Statement of Benefits to all active and deferred members.
    - Newsletter to pensioners once a year.
    - Newsletters to active members at least once a year.

- The Communications Policy Statement details the methods of communication available for each "target" group which include:
    - The Council's website
    - Hard copy
    - Annual employers meeting
    - Quarterly employers focus groups
    - DVD

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		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.

	principles applied would be as per Note (j).		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
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;

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;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

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

- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is

Risk	Summary of Control Mechanisms
	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 valuation for a departing Admission Body.	The Administering Authority requires employers with relevant contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps

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

Appendix D – The calculation of employer contributions

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

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

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

Employer contributions are normally made up of two elements:

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

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

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], 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[2]. 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).

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.

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

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.

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**

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

	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.